GSB CO-OPERATIVE CREDIT UNION LIMITED

YEAR ENDED DECEMBER 31, 2011

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Registrar of Co-operative Societies

RE: GSB CO-OPERATIVE CREDIT UNION LIMITED

(A Society registered under the Co-operative Societies Act, Cap. 75)

Report on the financial statements

We have audited the financial statements of GSB Co-operative Credit Union Limited (the Society), set out on pages 2 to 62 which comprise the statement of financial position as at December 31, 2011, the statement of comprehensive income, the statement of changes in members' equity and the 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 of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Co-operative Societies Act, Cap. 75, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the 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 about 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 auditors' 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 auditors consider internal control relevant to the Society's preparation of the financial statements that give a true and fair view 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 Society's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Report on the financial statements (Cont'd)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Society as at December 31, 2011, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on additional requirements of the Co-operatives Societies Act, Cap. 75

We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been maintained and the financial statements are in agreement therewith and give the information required in the manner so required.

Deloitte & Touche
Chartered Accountants

Kingston, Jamaica
February 29, 2012

GSB CO-OPERATIVE CREDIT UNION LIMITED

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2011

	Notes	2011 $'000	2010 $'000
ASSETS			
Earning assets			
Cash resources	5	298,700	258,200
Other assets	6	38,501	29,864
Securities purchased under resale agreements	7	71,602	205,026
Investment securities	8	112,460	173,537
Loans to members (net of allowance for impairment)	9	2,382,650	1,716,717
Investment property	10	5,500	4,500
Non-earning assets			
Cash resources	5	4,679	8,057
Other assets	6	7,755	10,167
Intangible assets	11	8,196	14,206
Property, plant and equipment	12	91,702	91,833
Retirement benefit asset	13	45,100	41,349
Total assets		3,066,845	2,553,456
LIABILITIES			
Interest bearing			
Members' deposits	14	2,249,298	2,039,741
Other borrowed funds	15	267,171	16,521
Non-interest bearing			
Other liabilities	16	45,757	41,584
Provisions	17	8,536	7,014
Total liabilities		2,570,762	2,104,860
CAPITAL			
Share capital	18	54,183	48,923
Institutional capital			
Statutory reserves	19	185,930	176,893
Other reserves	20	154,510	148,800
Non-institutional capital			
Loan loss reserves	21	413	-
Retirement benefit reserve	22	45,100	41,349
Fair value reserves	23	4,729	1,633
Share transfer fund	24	10,000	10,000
Other reserves	20	2,233	2,696
Undistributed surplus		38,985	18,302
Total equity		496,083	448,596
Total liabilities and equity		3,066,845	2,553,456

The Notes on Pages 6 to 62 form an integral part of the Financial Statements.

The Financial Statements on Pages 2 to 62 were approved and authorized for issue by the Board of Directors on February 29, 2012 and are signed on its behalf by:

Michael Roofe
President – Michael Roofe

Treasurer – Michael Parker

GSB CO-OPERATIVE CREDIT UNION LIMITED

STATEMENT OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2011

	Notes	2011	2010
		$'000	$'000
INTEREST INCOME			
Cash resources and investment securities		35,568	58,832
Loans to members		356,980	307,032
	29(b)	392,548	365,864
INTEREST EXPENSE			
Members' deposits and savings		43,470	73,421
Borrowed funds		4,106	1,646
		47,576	75,067
Net interest income		344,972	290,797
Charge - provision for loan impairment	9(a)(iii)	(12,604)	(18,435)
Net interest income after provision for loan impairment		332,368	272,362
NON-INTEREST INCOME			
Rental income		5,103	5,177
Fee income	25	52,741	30,640
Other income	26	13,194	6,271
		71,038	42,088
Gross income		403,406	314,450
OPERATING EXPENSES			
Staff costs	27	183,381	154,216
Depreciation and amortisation		16,553	13,574
Other expenses	28	158,886	120,763
		358,820	288,553
NET INCOME BEFORE HONORARIA		44,586	25,897
Honoraria payment		(50)	(65)
NET INCOME AFTER HONORARIA	29	44,536	25,832
OTHER COMPREHENSIVE INCOME			
Increase in fair value on available-for-sale financial assets	23	2,789	1,633
Realised losses on disposal of available-for-sale financial assets	23	307	413
Other comprehensive income for the year		3,096	2,046
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		47,632	27,878

The Notes on Pages 6 to 62 form an integral part of the Financial Statements.

GSB CO-OPERATIVE CREDIT UNION LIMITED

STATEMENT OF CHANGES IN MEMBERS' EQUITY

YEAR ENDED DECEMBER 31, 2011

			Institutional Capital		Non-Institutional Capital						
	Notes	Share Capital	Statutory Reserves	Other Reserves	Loan Loss Reserves	Retirement Benefit Reserves	Fair Value Reserves	Share Transfer Fund	Other Reserves	Undistributed Surplus	Total
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at January 1, 2010		35,676	171,714	121,967	-	32,873	(413)	-	1,780	50,595	414,192
Net income (after honoraria) for the year		-	-	-	-	-	-	-	-	25,832	25,832
Other comprehensive income for the year	23	-	-	-	-	-	2,046	-	-	-	2,046
Total comprehensive income for the year		-	-	-	-	-	2,046	-	-	25,832	27,878
Shares issued	18	11,083	-	-	-	-	-	-	-	-	11,083
Transfers to/(from) other reserves	20	-	-	28,997	-	-	-	-	916	(29,913)	-
Transfer to permanent shares	18,20	2,164	-	(2,164)	-	-	-	-	-	-	-
Transfer to statutory reserves	19	-	5,179	-	-	-	-	-	-	(5,179)	-
Transfer to retirement benefit reserves	22	-	-	-	-	8,476	-	-	-	(8,476)	-
Transfer to share transfer fund reserves	24	-	-	-	-	-	-	10,000	-	(10,000)	-
Appropriations	30	-	-	-	-	-	-	-	-	(4,557)	(4,557)
Balance at December 31, 2010		48,923	176,893	148,800	-	41,349	1,633	10,000	2,696	18,302	448,596
Net income (after honoraria) for the year		-	-	-	-	-	-	-	-	44,536	44,536
Other comprehensive income for the year	23	-	-	-	-	-	3,096	-	-	-	3,096
Total comprehensive income for the year		-	-	-	-	-	3,096	-	-	44,536	47,632
Shares issued	18	5,260	-	-	-	-	-	-	-	-	5,260
Entrance fees	19	-	120	-	-	-	-	-	-	-	120
Transfers to/(from) other reserves	20	-	-	5,710	-	-	-	-	(1,174)	(4,536)	-
Mortgage indemnity fees	20	-	-	-	-	-	-	-	711	-	711
Transfer to statutory reserves	19	-	8,917	-	-	-	-	-	-	(8,917)	-
Transfer to loan loss reserves	21	-	-	-	413	-	-	-	-	(413)	-
Transfer to retirement benefit reserves	22	-	-	-	-	3,751	-	-	-	(3,751)	-
Appropriations	30	-	-	-	-	-	-	-	-	(6,236)	(6,236)
Balance at December 31, 2011		54,183	185,930	154,510	413	45,100	4,729	10,000	2,233	38,985	496,083

The Notes on Pages 6 to 62 form an integral part of the Financial Statements.

GSB CO-OPERATIVE CREDIT UNION LIMITED

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2010

	Notes	2011 $'000	2010 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		44,536	25,832
Adjustments to reconcile income to cash flow provided by operating activities and changes in operating assets/liabilities	31	(445,642)	49,688
Net cash (used in) provided by operating activities		(401,106)	75,520
CASH FLOWS FROM INVESTING ACTIVITIES			
Dividend received		1,523	582
Proceeds on disposal of property, plant and equipment		429	6
Purchase of property, plant and equipment		(11,270)	(35,587)
Purchase of available-for-sale securities		(11,172)	(22,903)
Proceeds on disposal of available-for-sale securities		50,683	35,642
Securities purchased under resale agreements		(78,700)	(1,049,267)
Proceeds on disposal of securities purchased under resale agreements		210,252	1,014,137
Purchase of FVTPL investment		(2,835)	(15,830)
Proceeds on disposal of FVTPL investment		10,160	8,901
Purchase of loans and receivables investment securities		(1,252)	(274,490)
Proceeds on disposal of loans and receivables investment securities		19,575	262,909
Purchase of intangible assets		(100)	(11,969)
Net cash provided by (used in) investing activities		187,293	(87,869)
CASH FLOWS FROM FINANCING ACTIVITIES			
Mortgage indemnity fees		711	-
Entrance fees		120	-
Long-term loans received		250,000	-
Repayment of long-term loans		(183)	(1,126)
Members' share capital		5,260	11,084
Donations		(167)	(474)
Scholarships		(1,224)	(450)
Dividend paid		(4,845)	(3,633)
Net cash provided by financing activities		249,672	5,401
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		35,859	(6,948)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		93,680	100,665
Effect of foreign exchange rate changes on the balance of cash held in foreign currencies		11	(37)
CASH AND CASH EQUIVALENTS AT END OF YEAR	33	129,550	93,680

The Notes on Pages 6 to 62 form an integral part of the Financial Statements.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

1 IDENTIFICATION

The GSB Co-operative Credit Union Limited (the Society) is registered as a credit union in Jamaica under the Co-operative Societies Act. The Society's registered office is located at 10 East Avenue, Kingston 4, Jamaica and operates from three locations in Kingston and a sub-branch in Clarendon. Prior to 2009, membership of the Society was limited to employees of Central Government, the Society, Government companies and their relatives. In 2009, the membership was amended to include career professionals and their relatives as approved by the Board of Directors, and whose professions are subject to regulatory authority and/or registered by the Government of Jamaica.

Its main business activities are to:

(a) promote thrift,
(b) provide loans to members,
(c) receive savings from members.

The Society is exempt from Income Tax under Section 59 (1) of the Co-operative Societies Act and Section 12 of the Income Tax Act.

The Society is regulated by the Jamaica Co-operative Credit Union League.

These financial statements are expressed in Jamaican dollars.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

2.1 *New and revised Standards and Interpretations affecting the reported financial performance and/or financial position or disclosure*

There were no standards or interpretations effective in the current year that affected the presentations or disclosures in the financial statements or the reported financial performance or position.

Details of other new and revised Standards and Interpretations applied in these financial statements but which had no effect on the amounts reported are set out in Note 2.2.

2.2 *New and revised Standards and Interpretations applied with no material effect on the financial statements*

- Amendments to IAS 1 *Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)* - The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. No note was used for the items of other comprehensive income as the information was included in the statement.

- IAS 24 *Related Party Disclosures* - The amendments to the standard clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The application of the amendments had no effect on the Society's financial statements.

- IAS 27 Consolidated and Separate Financial Statements – The amendment clarifies that the amendments made to IAS 21 The Effects of Changes in Foreign Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures as a result of IAS 27(2008) should be applied prospectively (with the exception of paragraph 35 of IAS 28 and paragraph 46 of IAS 31, which should be applied retrospectively). The application of the amendments has had no effect on the Society's financial statements.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

2.2 New and revised Standards and Interpretations applied with no material effect on the financial statements (Cont'd)

- Amendments to IAS 32 *Classification of Rights Issues* - The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

  The application of the amendments has had no effect on the amounts reported in the current and prior years because the Society has not issued instruments of this nature.

- Amendments to IAS 34 *Interim Financial Reporting* - The amendment place greater emphasis on the disclosure principles to include additional examples relating to more recent disclosure requirements, i.e., fair value measurements and changes in the classification of financial assets. The application of the amendments had no effect on the Society's financial statements.

- Improvements to IFRS: Amendments resulting from May 2010 Annual Improvements. The application of the improvements has had no effect on the Society's financial statements.

- Amendments to IFRS 3 Business Combinations - As part of *Improvements to IFRSs* issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date ('market-based measure'). This has not resulted in any change in the statements of the Society.

- IFRS 7 Financial Instruments: Disclosures – The amendment encourages qualitative disclosures in the context of the quantitative disclosure required to help users to form an overall picture of the nature and extent of risks arising from financial instruments. It also clarifies the required level of disclosure around credit risk and collateral held and provides relief from disclosure of renegotiated loans. The application of the amendments has had no effect on the Society's financial statements.

- *IFRIC 13 Customer Loyalty Programmes* – The amendment Clarifies that the 'fair value' of award credits should take into account the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale and any expected forfeitures. The application of the amendments had no effect on the Society's financial statements.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

2.2 ***New and revised Standards and Interpretations applied with no material effect on the financial statements (Cont'd)***

- Amendments to *IFRIC 14 Prepayments of a Minimum Funding Requirement* - IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendments had no effect on the Society's financial statements.

- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*. The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss.

  The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the Society has not entered into any transactions of this nature.

2.3 ***New and revised Standards and Interpretations in issue but not yet effective***

At the date of authorisation of these financial statements, the following new Standards and Interpretations and amendments to those in issue were not yet effective or early adopted for the financial period being reported upon:

		Effective for annual periods beginning on or after
IAS 1 (Revised)	Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented	July 1, 2012
IAS 12 (Revised)	Income taxes – Limited scope amendment (recovery of underlying assets)	January 1, 2012
IAS 19 (Revised)	Employee Benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects	January 1, 2013
IAS 27 (Revised)	Consolidated and Separate Financial Statements - Reissued as IAS 27 *Separate Financial Statements* (as amended in 2011)	January 1, 2013
IAS 28 (Revised)	Investments in Associates - Reissued as IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2011)	January 1, 2013
IAS 32 (Revised)	Financial Instruments: Presentation - Amendments to application guidance on the offsetting of financial assets and financial liabilities	January 1, 2014

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

2.3 *New and revised Standards and Interpretations in issue but not yet effective (Cont'd)*

		Effective for annual periods beginning on or after
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards:	
	- Replacement of "fixed dates" for certain exceptions with the "date of transition to IFRS"	July 1, 2011
	- Additional exemption for entities ceasing to suffer from severe hyperinflation	July 1, 2011
IFRS 7 (Revised)	Financial Instruments: Disclosures	
	- Amendments enhancing disclosures about transfers of financial assets	July 1, 2011
	- Amendments enhancing disclosures about offsetting financial assets and financial liabilities	January 1, 2013
	- Amendments requiring disclosures about the initial application of IFRS 9	January 1, 2015 (or otherwise when IFRS 9 is first applied)
IFRS 9 (Revised)	Financial Instruments:	
	- Classification and Measurement of financial assets	January 1, 2015
	- Accounting for financial liabilities and derecognition	January 1, 2015
IFRS 10)	Consolidated Financial Statements	January 1, 2013
IFRS 11)	Joint Arrangements	January 1, 2013
IFRS 12) New	Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13)	Fair Value Measurement	January 1, 2013
IFRIC 20)	Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

The Board of Directors and management have assessed the impact of all new and revised Standards and Interpretations in issue not yet effective and have concluded that the following are relevant to the operations of the Society:

2.4 New and Revised Standards Standards and Interpretations in Issue not yet effective that are relevant

- The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

  The amendments to IAS 1 are effective for annual periods beginning on or after July 1, 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

2 APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Cont'd)

2.4 New and Revised Standards Standards and Interpretations in Issue not yet effective that are relevant (Cont'd)

- *Amendment to IFRS 7 – Enhanced Derecognition Disclosure Requirements* – The IASB introduced enhanced disclosure requirements to IFRS 7 as part of its comprehensive review of off-balance sheet activities. The amendments are designed to ensure that users of financial statements are able to more readily understand transaction involving the transfer of financial assets (for example, securitisations), including the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. Disclosures are not required for comparative periods before the date of initial application of the amendments. The application of the amendment will result in enhanced disclosures in the financial statements to the extent applicable.

- *IFRS* 9 *Financial Instruments* - The Standard introduces new requirements for the classification and measurement of financial assets and is effective from January 1, 2013 with early adoption permitted. Under the new standards all recognised financial assets that are currently in the scope of IAS 39 will be measured at either amortised cost or fair value. A debt instrument (e.g. loan receivable) that (1) is held within a business model whose objective is to collect the contractual cash flows and (2) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding generally must be measured at amortised cost. All other debt instruments must be measured at fair value through profit or loss (FVTPL). A fair value option is available (provided that certain specified conditions are met) as an alternative to amortised cost measurement. For debt instruments not designated at FVTPL under the fair value option, reclassification is required between FVTPL and amortised cost, or vice versa, if the entity's business model objective for its financial assets changes so that its previous model no longer applies.

  The standard is likely to have a significant impact on the Society's financial results as gain or loss on a financial asset or financial liability that is measured at fair value and is not part of a hedging relationship shall be presented in profit or loss unless the financial asset is an investment in an equity instrument and the entity elects to present gains and losses on that investment in other comprehensive income.

- IFRS 12 - Disclosure of interests in Other Entities: requires standard disclosure about both consolidated and unconsolidated entities in which the Society has involvement. Management has not yet assessed the impact of this IFRS on the financial statements.

- IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

  IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

  The directors anticipate that IFRS 13 will be adopted in the Society's financial statements for the annual period beginning January 1, 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The Society's financial statements have been prepared in accordance and comply with International Financial Reporting Standards (IFRS) and the relevant requirements of the Co-operative Societies Act, Cap. 75.

Basis of preparation

The financial statements have been prepared under the historical cost basis except for the revaluation of investment properties, fair value through profit or loss financial assets and available-for-sale financial assets.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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

Financial instruments

Financial assets and financial liabilities are recognised when the Society becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

Financial assets are classified into the following specified categories: 'fair value through profit or loss' (FVTPL), 'loans and receivables', and 'available-for-sale' (AFS) financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

<u>Effective interest method</u>
The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instrument other than those assets classified as FVTPL.

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Financial instruments (Cont'd)

Financial assets (Cont'd)

(a) Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition, it is a part of a portfolio of identified financial instruments that the Society manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Society's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are recognised at fair value based on quoted bid prices with any gain or loss arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial assets.

The Society's portfolio of FVTPL investments comprises quoted equity securities.

(b) Loans and receivables

Loans and receivables, are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including other assets, securities purchased under resale agreements, debt securities and loans to members) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

<u>Other assets</u>
These are measured at initial recognition at their fair values. Interest is not charged on outstanding balances as they are expected to be settled within a short period during which recognition of interest would be immaterial. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

(b) Loans and receivables (Cont'd)

Securities purchased under resale agreements
Securities purchased under agreements to resell (reverse repurchase agreements) are treated as collateralised lending transactions. The difference between the purchase and resale price is treated as interest income and is accrued over the life of the resale agreements using the effective yield method.

Debt securities
These are initially measured at fair value, which is the cash given to originate the debt plus transaction costs, and subsequently re-measured at amortised cost using the effective interest rate method less any impairment. Interest income is recognised by applying the effective interest rate.

(c) Available-for-sale *(*AFS) financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loan and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss.

Securities held by the Society that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. Fair value of such assets that are traded in an active market are determined with reference to quoted bid prices. Where there are no quoted bid prices in an active market, fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions. The Society also has investments in unlisted shares that are not traded on an active market but that are also classified as AFS financial assets and are stated at cost less provision for impairment (because the directors consider that fair value cannot be reliably measured). Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the fair value reserve, with the exception of impairment losses. Interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets are recognised in profit or loss. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Society's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

The Society's portfolio of AFS securities comprises unquoted equities and debt securities.

(d) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity instruments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Financial instruments (Cont'd)

Financial assets (Cont'd)

(d) Impairment of financial assets (Cont'd)

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as loans to members, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Society's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average payment period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on loan receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans to members and other assets, where the carrying amount is reduced through the use of an allowance account. When a loan to a member or other assets is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously provided for reduce the amount of the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. Recoveries of amounts written off are credited to income.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through income are not reversed through income. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated under the heading of fair value reserve.

In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the financial instrument can be objectively related to an event occurring after the recognition of the impairment loss.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

(d) Impairment of financial assets (Cont'd)

Loans to members net of allowance for impairment
Loans are recognised when cash is advanced to members. They are initially recorded at cost, which is the cash given to originate the loan including any origination fees and transaction costs, and subsequently measured at amortised cost using the effective interest method, less any impairment. Interest is recognised by applying the effective interest rate.

A loan is classified as non-performing 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. Loan repayments outstanding for over 30 days are considered past due. Loans are classified as non-current if they are non-performing in excess of 90 days. In accordance with regulations, when a loan is classified as non-current, recognition of interest in accordance with the terms of the original loan agreement ceases, and interest is taken into account when received. IFRS require that interest income on non-performing loans be accrued, to the extent collectible, and that the increase in the present value of impaired loans due to the passage of time be reported as interest income. The difference between the Jamaican regulatory basis and IFRS was assessed to be immaterial.

A provision for impairment is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that all amounts due according to the original contractual terms will not be collected. When a loan has been identified as impaired, the carrying amount of the loan is reduced by recording specific provisions for credit losses to its estimated recoverable amount, which is the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

The provision for impairment also covers situations where there is objective evidence that probable losses are present in components of the loan portfolio at the end of the reporting period. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to members and the current economic climate in which the borrowers operate.

Statutory and other regulatory loan loss reserve requirements that exceed the provisions above are reflected in a non-distributable loan loss reserve as an appropriation of undistributed surplus.

Loans are recommended for write off after 360 days when all or part of a loan is deemed uncollectible, and are charged against previously established provisions for impairment. Recoveries in part or in full, of amounts previously written off are credited to income.

Derecognition of financial assets

The Society derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another entity. If the Society neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Society recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Society retains substantially all the risks and rewards of ownership of a transferred financial asset, the Society continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Derecognition of financial assets (Cont'd)

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g., when the Society retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Society retains control), the Society allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments issued by the Society

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Society are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Society's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Society's own equity instruments.

Financial liabilities

Financial liabilities of the Society are classified as "other financial liabilities."

Other financial liabilities (including borrowings) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments issued by the Society (Cont'd)

Financial liabilities (Cont'd)

Derecognition of financial liabilities

The Society derecognises financial liability when, and only when, the Society's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss for the period.

Investment properties

Investment properties are properties held to earn rental and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. The fair value is determined annually by an independent registered valuator or the directors. Any gains or losses arising from changes in the fair values of investment properties are included in income in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimates accounted for on a prospective basis.

Derecognition of intangible assets
An intangible asset is derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Property, plant and equipment

Property, plant and equipment, held for use in the supply of goods or services, or for administrative purposes, are stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Land is not depreciated.

Depreciation is recognised so as to write off the cost of assets (other than land) less their residual values over the estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

Property in the course of construction for supply or administrative purposes, is carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Society's accounting policy. Such property is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Repairs and renewals are charged to profit or loss when the expenditure is incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible and intangible assets

At the end of each reporting period, the Society reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Society estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Employee benefits

Pension obligations
The Society participates in a multi-employer defined benefits plan administered by Jamaica Co-operative Credit Union League (JCCUL) on behalf of its employees. The plan is funded by contributions from the employees and the Society. The employees contribute at the rate of 5% of pensionable salaries (with the option of contributing an additional 5%). The Society contributes at an initial rate of 8% of pensionable salaries, but may be required to make additional contributions in order to address any shortfall in funds to settle future pension obligations determined by an independent actuary.

3 **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Employee benefits (Cont'd)

Pension obligations (Cont'd)
The cost of providing benefits is determined using the Projected Unit Credit Method with independent actuarial valuations being carried out at the end of the reporting period. Actuarial gains and losses that exceed 10% of the greater of the present value of the Society's defined benefit obligation and the fair value of plan assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to the unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

Termination obligations
Termination benefits are payable whenever an employee's service is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Society recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after the end of the reporting period are discounted to present value.

Leave entitlements
Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave for services rendered by employees up to the end of the reporting period.

Provisions

Provisions are recognised when the Society has a present obligation (legal or constructive) as a result of a past event, it is probable that the Society will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Institutional capital

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

(a) *Statutory*

The Co-operative Societies Act and Regulation, as amended in 1977, requires the Society to set aside at least twenty per cent (20%) of its net surplus of income over expenditure to reserve each year. Up to 2009, members' entrance fees were credited to these reserves.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Institutional capital (Cont'd)

(b) *Other*

Transfers to other reserves are made on the basis of decisions taken at the Annual General Meetings of members.

Non-institutional capital

(a) *Loan loss reserve*

This represents the excess of the Society's internally assessed provision for loan impairment, over that which is required under IFRS. This is an appropriation from undistributed surplus.

(b) *Retirement benefit*

This reserve was created to match the value of the retirement benefit asset of the Society. Transfers are made of the unrealised amounts in respect of the recognised retirement benefit asset to a non-distributable reserve.

(c) *Fair value reserve*

This represents accumulated gains or losses arising from changes in the fair value of available-for-sale financial assets.

(d) *Share transfer fund*

This represents funds to be used to purchase permanent shares for resigning and deceased members.

(e) *Mortgage indemnity reserves*

This reserve represents a one-off payment by the borrower representing 7.5% of the excess of the amounts over 70% of the lower of purchase price or appraised value of the property being mortgaged.

Related party identification

A party is related to the Society if:

(a) directly, or indirectly through one or more intermediaries, the party:
   (i) controls, is controlled by, or is under common control with the Society (this includes parent, subsidiaries and fellow subsidiaries);
   (ii) has an interest in the entity that gives it significant influence over the Society; or
   (iii) has joint control over the Society;
(b) the party is an associate of the Society;
(c) the party is a joint venture in which the Society is a venturer;
(d) the party is a member of the key management personnel of the Society or its parent;
(e) the party is a close member of the family of any individual referred to in (a) or (d);
(f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
(g) the party is a post-employment benefit plan for the benefit of employees of the Society, or of any entity that is a related party of the Society.

Related party transactions are recorded at the normal terms set by the Society.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts for services provided in the normal course of business. Revenue is reduced for consumption taxes as applicable.

<u>Interest income</u>
Interest revenue is recognised when it is probable that the economic benefits will flow to the Society and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

<u>Dividend revenue</u>
Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Society and the amount of revenue can be measured reliably).

<u>Rental income</u>
The Society's policy for recognition of revenue from operating lease is described under "Leasing" below.

<u>Fee and commission income</u>
Fee and commission income is generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective interest rate on the loan.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Foreign currencies

The financial statements are presented in Jamaican dollars, the currency of the primary economic environment in which the Society operates (its functional currency).

In preparing the financial statements of the Society, transactions in currencies other than the Society's functional currency, are recorded at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing at that date. Non-monetary items carried at fair values that are denominated in foreign currencies are re-translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences are recognised in profit or loss in the period in which they arise.

3 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Society as a lessee
Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals, if any, arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Society as a lessor
Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease terms.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Society's accounting policies, which are described in Note 3, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The directors and management believe there were no judgements that had a significant effect on the amounts recognised in the financial statements or could cause material adjustments to the carrying amounts of assets and liabilities.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Fair value of financial assets
As described in Note 37(f), management uses its judgment in selecting appropriate valuation techniques to determine fair values of financial assets. Valuation techniques commonly used by market practitioners supported by appropriate assumptions are applied by the Society.

The financial assets of the Society at the end of the reporting period stated at fair value determined in this manner amounted to $77.78 million (2010: $115.07 million). (See Note 8).

Note 37(c) details sensitivity to changes in interest rates.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Key sources of estimation uncertainty (Cont'd)

Employee benefit – pension obligation
As disclosed in Note 13, the Society participates in a multi-employer defined benefit pension plan. The amount shown in the statement of financial position of an asset of approximately $45.1 million (2010: $41.349 million) in respect of the defined benefits plan is subject to estimates in respect of periodic costs which costs are dependent on returns on assets, future discount rates, rates of salary increases and the inflation rate. Actuaries are contracted in this regard.

The estimated return on pension assets assumption is determined by considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The Society, on advice of actuaries, estimates the appropriate discount rate annually which rate is used to determine the present value of estimated cash outflows expected to be required to settle any future pension obligation.

To determine the appropriate discount rate in the absence of high quality corporate bonds, the interest rate on government bonds that have maturities approximating the related pension liabilities were considered.

Judgement is also exercised in determining the proportionate share of the defined benefit obligation, plan assets and cost as well as the extent that the surplus or deficit in the plan may affect the future contributions for each individual employer in the plan.

Note 13 details some history of experience adjustments in the plan.

Impairment losses on loans
The Society reviews its loan portfolio to assess impairment on a monthly basis. A provision for impairment is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that all amounts due according to the original contractual terms will not be collected. When a loan has been identified as impaired, the carrying amount of the loan is reduced by recording specific provisions for credit losses to its estimated recoverable amount, which is the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan. Past experience and judgement are used in estimating the timing of the expected cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to minimise any differences between loss estimates and actual loss experience. To the extent that the expected future cash flows differs by +/- 1 percent during the period of expected realisation, the resulting provision for impairment would be estimated $0.102 million lower or $0.102 million greater.

5 CASH RESOURCES

Cash resources comprise the following:

	2011	2010
	$'000	$'000
Earning assets		
Cash and bank balances (Note 5(a))	7,312	3,191
Cash reserves (Note 5(b))	173,829	172,577
JCCUL term deposits (Note 5(c))	117,559	82,432
	298,700	258,200
Non-earning assets		
Cash in hand	4,679	8,057
Total	303,379	266,257

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

5 CASH RESOURCES (Cont'd)

(a) These include funds held in a foreign currency bank account amounting to approximately $1.51 million (US$17,351) (2010: approximately $0.899million (US$9,859)) at an interest rate of 0.45% (2010: 0.6%) per annum.

(b) Cash reserves include the following:

(i) JCCUL Mortgage fund deposits totalling $55.35 million (2010: $57.64 million) held which form security for loans received by the Society from JCCUL for on-lending to members (Note 15(a)). These deposits are not available for investment or other use and bear interests range between 4% and 4.25% per annum (2010: 7%).

(ii) JCCUL CuCash and CuPremium deposits totalling $118.48 million (2010: $114.94 million) are held partially to satisfy the requirements that balances held for liquidity reserves be at least 10% of members' deposits. Interest rates range between 4% and 6.30% per annum (2010: 4.95% and 7.75% per annum).

(c) These deposits have an original maturity of three months or less from the date of acquisition with an interest rate of 5.45% (2010: 6.55%) per annum maturing within two months of year end (2010: maturing within one month of year end). As at December 31, 2011, interest receivable included in these deposits amounted to approximately $0.041 million (2010: $0.142 million). The deposits are held partially to satisfy the requirements that balances held for liquidity reserves be at least 15% of members' deposits.

6 OTHER ASSETS

Other assets consist of the following:

	2011 $'000	2010 $'000
Earning assets		
CUETS – Settlement deposits (Note 6(a))	2,504	2,398
P2P Settlement account (Note 6(b))	35,997	27,466
	38,501	29,864
Non-earning assets		
Receivable and prepayments	7,140	7,586
Withholding tax recoverable	-	1,830
Other	615	751
	7,755	10,167
	46,256	40,031

(a) This represents funds held at JCCUL as security for Automatic Teller Machine settlements at an interest rate of 4% (2010: 4.95%) per annum.

(b) These funds held at the JCCUL represents funds reimbursed to the Society's account after payments were made in advance for remittance services. These are at an interest rate of 4% (2010: 4.95%) per annum.

7 SECURITIES PURCHASED UNDER RESALE AGREEMENTS

The Society entered into reverse repurchase agreements collateralised by Government of Jamaica securities. These agreements may result in credit exposure in the event that the counter party to the transaction is unable to fulfill its contractual obligations.

Deposits at the following institutions are backed by:

	2011	2010
	$'000	$'000
Investment Debentures (Note 7(a)):		
- Jamaica Money Market Brokers Limited	26,332	67,003
Bank of Jamaica Special Deposit (Note 7(b)):		
- NCB Capital Markets Ltd.	16,846	8,027
- First Global Financial Services Limited	-	28,563
- Proven Investments Ltd. (Formerly Guardian Asset Management Ltd.)	-	24,392
- Barita Investments Ltd.	28,424	77,041
	45,270	138,023
	71,602	205,026

(a) This deposit matures within three months after year-end, with interest at a rate of 6.2% (2010: 13.25% and 15%) per annum. As at December 31, 2011, interest receivable included in these deposits amounted to approximately $0.247 million (2010: $0.822 million).

(b) These deposits mature within one to three months of year end, with interest at rates between 5.55% to 6.25% (2010: 6.95% to 9.35%) per annum. At December 31, 2011, interest receivable included in these deposits amounted to approximately $0.161 million (2010: $1.394 million).

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

8 INVESTMENT SECURITIES

Investment securities consist of the following:

	2011	2010
	$'000	$'000
Fair value through profit or loss:		
- Quoted equities (Note 8(a))	14,384	17,173
Loans and receivables – At amortised cost:		
- US$ Fixed deposits US$Nil (2010: US$228,963) (Note 8(b))	-	19,739
Available-for-sale securities – At fair value:		
Government of Jamaica securities (Note 8(c))		
- Fixed Rate GOJ BMI Notes (Formerly Au) at an interest rate of 12.25% per annum maturing 2013	16,453	17,283
- Fixed Rate GOJ BMI Notes (Formerly Ca) at an interest rate of 12.25% per annum maturing 2013	10,969	10,433
- Fixed Rate GOJ BMI Notes (Formerly H) at an interest rate of 12.25% per annum maturing 2013	16,454	15,649
- Fixed Rate GOJ BMI Notes (Formerly Bw) at an interest rate of 12.25% per annum maturing 2013	10,969	10,433
- Fixed Rate GOJ BMI Notes (Formerly Az) at an interest rate of 12.50% per annum maturing 2014	11,466	10,442
- Fixed Rate GOJ BMI Notes (Formerly BOJ Al) at an interest rate of 12.50% per annum maturing 2014	11,466	10,442
- Variable Rate GOJ BMI Notes (Formerly Bx) at an interest rate of 8.98% per annum maturing 2015	-	10,097
- Variable Rate GOJ BMI Notes (Formerly BY) at an interest rate of 8.98% per annum maturing 2015	-	20,195
- Variable Rate GOJ BMI Notes at an interest rate of 9.105% per annum maturing 2018	-	10,096
	77,777	115,070
Available-for-sale securities – At cost: Unquoted equities (Note 8(d))	20,299	21,555
	98,076	136,625
Total	112,460	173,537

(a) This comprises investments in equities listed on the Jamaica Stock Exchange.

(b) These deposits at interest rates of 3.25% to 4.15% per annum matured in 2011. At December 31, 2010, interest receivable included in these deposits amounted to $0.164 million.

(c) These debt securities are held as security for loans received from JCCUL for liquidity support (Note 15(c)). At December 31, 2011, interest receivable amounted to $3.408 million (2010: $3.6 million).

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

8 INVESTMENT SECURITIES (Cont'd)

(d) Unquoted Equities

	2011 $'000	2010 $'000
JCCUL (Note 8(d)(i))	13,523	13,340
Quality Network Cooperative Limited (QNET) (Note 8(d)(ii))	6,012	6,012
Credit Union Fund Management Company (Note 8(d)(iii))	9,000	9,000
	28,535	28,352
Less: Provision for impairment (QNET) (Note 8(d)(ii))	(6,012)	(6,012)
Provision for impairment (Credit Union Fund Management Company) (Note 8(d)(ii))	(2,224)	(785)
	20,299	21,555

(i) These represent shares in the League and are used to retain membership status.

(ii) This represents the total allotment of approximately 7.1% of shares in the above company that was established to supply the information technology needs of the members of the JCCUL. Based on the reduction of the net capital of QNET, the Board of Directors considered it prudent to fully provide for this investment.

(iii) The Society has been allotted capital in Credit Union Fund Management Company totaling $9,000,000. Based on the reduction of the net capital of the Fund, the Board of Directors considered it prudent to reduce the carrying value of its investment by $2.224 million (2010: $0.785 million).

These are recorded at cost less provision for impairment, if any, as there is no active market in these shares and management is otherwise unable to determine the fair value of these investments.

9 LOANS TO MEMBERS NET OF ALLOWANCE FOR IMPAIRMENT

	2011 $'000	2010 $'000
Loans to members	2,381,290	1,760,337
Allowance for impairment	(16,720)	(59,123)
	2,364,570	1,701,214
Interest receivable	18,080	15,503
Total	2,382,650	1,716,717

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

9 LOANS TO MEMBERS NET OF ALLOWANCE FOR IMPAIRMENT (Cont'd)

(a) The movement in loans during the year is as follows:

		2011	2010
		$'000	$'000
(i)	Balance, January 1	1,760,337	1,572,705
	Add: Disbursements and adjustments	1,935,582	1,123,310
		3,695,919	2,696,015
	Less: Repayments, transfers and write-offs	1,314,629	935,678
	Balance, December 31	2,381,290	1,760,337

(ii) The analysis of loans to members by type of security is as follows:

	2011	2010
	$'000	$'000
Loans secured by savings deposits and insurance policies	226,067	163,102
Loans secured by shares	409,199	427,677
Loans secured by real estate property	624,098	319,776
Loans secured by motor vehicles	630,293	544,123
Loans secured by co-makers and character	-	299
Loans secured by miscellaneous securities	29,797	47,206
Unsecured loans	461,836	258,154
	2,381,290	1,760,337

Before approving a loan to a member the Society uses a credit scoring system to assess the potential member's credit quality and defines limits by members. The credit scoring system used incorporates objective criteria of credit analyses that can be quantified and uses several (weighted) variables. There is a set minimum score that must be achieved from key sections, and an overall benchmark score to assess members' eligibility. 97.9% (2010: 95.2%) of the loans to members that are neither past due nor impaired have the best credit scoring (classified in top two of three categories) attributable under the internal credit scoring system used by the Society. There is no member whose balance represents more than 5% of the total balance of loans to members.

(iii) Allowance for impairment determined under the requirements of IFRS

Included in the Society's loans to members balance are debtors with a carrying amount of $48.636 million (2010: $26.280 million) which are past due at the reporting date for which the Society has not provided as there has not been a significant change in the customers' credit quality and the amounts are still considered recoverable.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

9 LOANS TO MEMBERS NET OF ALLOWANCE FOR IMPAIRMENT (Cont'd)

(a) (Cont'd)

(iii) Allowance for impairment determined under the requirements of IFRS (Cont'd)

Ageing of past due but not impaired

	2011	2010
	$'000	$'000
30 – 59 days	25,355	21,368
60 – 90 days	15,822	4,912
91 – 180 days	3,219	-
181 – 360 days	4,240	-
	48,636	26,280

Movement in the allowance for impairment

	2011	2010
	$'000	$'000
Balance, January 1	59,123	44,946
Write off during the year	(55,007)	(4,258)
Charged to revenue during the year	12,604	18,435
Balance, December 31	16,720	59,123

Classified as:

	2011	2010
	$'000	$'000
Specific provision:		
91 – 180 days	8,622	4,973
181 – 360 days	4,861	1,596
Over 360 days	1,643	51,063
	15,126	57,632
General provision	1,594	1,491
Total impaired loans	16,720	59,123

Ageing of impaired loans to members

	2011	2010
	$'000	$'000
91 – 180 days	15,382	26,595
181 – 360 days	6,760	5,369
Over 360 days	3,173	62,883
	25,315	94,847

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

9 **LOANS TO MEMBERS NET OF ALLOWANCE FOR IMPAIRMENT (Cont'd)**

(a) (Cont'd)

(iv) The allowance for impairment determined under JCCUL regulatory requirements is as follows:

	2011 $'000	2010 $'000
Statutory provision		
Balance, January 1	58,736	44,385
Loans written off	(55,007)	-
Charge during the year	13,404	14,351
Balance, December 31	17,133	58,736
Shown in financial statements as:		
IFRS provision as above (Note 9 (a) (iii))	16,720	59,123
Loan loss reserve (Note 21)	413	-
	17,133	59,123
Charge to revenue under IFRS	12,604	18,435
Difference in charge to revenue during the year per statutory requirements	387	(4,084)
Additional appropriation included in equity	413	-
	13,404	14,351

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

9 LOANS TO MEMBERS NET OF ALLOWANCE FOR IMPAIRMENT (Cont'd)

(b) Delinquent loans for statutory purposes

At December 31, 2011 there were 255 delinquent loans, based on statutory requirements, aged 60 days and over summarised as follows:

2011					
No. of Days in Arrears	No. of Accounts in Arrears	Interest Receivable $'000	Delinquent Loans $'000	Savings Held Against Loans $'000	Portion of Loans Not Covered by Savings $'000
0-30	-	-	4,106	-	4,106 (*)
60-90	89	500	15,822	8,281	7,541
91-180	96	949	17,652	5,171	12,481
181-360	57	1,701	9,286	730	8,556
360 and over	13	468	2,717	56	2,661
	255	3,618	49,583	14,238	35,345

2011				
No. of Days in Arrears	No. of Accounts in Arrears	Delinquent Loans $'000	Provision Rate %	Statutory Loan Loss Provision $'000
0-30	-	4,106		1,966 (*)
60-90	89	15,822	10	1,582
91-180	96	17,652	30	5,296
181-360	57	9,286	60	5,572
360 and over	13	2,717	100	2,717
	255	49,583		17,133

At December 31, 2010 there were 375 delinquent loans, based on statutory requirements, aged 60 days and over summarised as follows:

2010					
No. of Days in Arrears	No. of Accounts in Arrears	Interest Receivable $'000	Delinquent Loans $'000	Savings Held Against Loans $'000	Portion of Loans Not Covered by Savings $'000
0-30	-	-	4,270	-	4,270 (*)
60-90	24	231	4,912	1,340	3,572
91-180	26	1,065	25,530	1,530	24,000
181-360	10	372	4,997	8	4,989
360 and over	315	18,356	44,527	62	44,465
	375	20,024	84,236	2,940	81,296

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

9 LOANS TO MEMBERS NET OF ALLOWANCE FOR IMPAIRMENT (Cont'd)

(b) Delinquent loans for statutory purposes (Cont'd)

2010				
No. of Days in Arrears	No. of Accounts in Arrears	Delinquent Loans	Provision Rate	Statutory Loan Loss Provision
		$'000	%	$'000
0-30	-	4,270	-	3,061 (*)
60-90	24	4,912	10	491
91-180	26	25,530	30	7,659
181-360	10	4,997	60	2,998
360 and over	315	44,527	100	44,527
	375	84,236		58,736

(*) Represents renegotiated loans during the year.

(c) The aggregate amount of non-performing loans on which interest was not being accrued amounted to $29.66 million as at December 31, 2011 (2010: $75.05 million). Unrecognised interest related to such loans amounted to $3.12 million (2010: $19.79 million) as security held, if any, was not sufficient to cover outstanding balances. Uncollected interest accrued on impaired loans amounted to $1.52 million (2010: $12.68 million).

(d) Unsecured loans

Under the proposed Bank of Jamaica Regulations, the Society's unsecured loan portfolio should not exceed 10% of gross loans.

At December 31, 2011, the gross carrying value of unsecured loan portfolio stood at 19.21% of gross loans (2010: 14.14%). The Board of Directors has approved a limit of 20%.

10 INVESTMENT PROPERTY

The movement in investment property is as follows:

	2011	2010
	$'000	$'000
Balance at the beginning of the year	4,500	4,000
Gain arising on revaluation (Note 26)	1,000	500
Balance at end of the year	5,500	4,500

The Society's investment property is held under freehold interest.

The fair value of the Society's investment property at December 31, 2011 and December 31, 2010 was arrived at on the basis of a valuation dated September 16, 2011 and February 22, 2011 respectively, by Allison, Pitter & Co., independent professionally qualified surveyors not connected with the Society. The valuation was arrived at by reference to market evidence of transaction prices for similar properties. In the opinion of the Board of Directors, which was guided by the opinion of the valuators, the carrying value of the property as at December 31, 2011 would not have been significantly different from the valuation dated September 16, 2011.

The title for the investment property is registered in the name of a credit union which was taken over by the Society.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

10 **INVESTMENT PROPERTY (Cont'd)**

No property rental income was earned by the Society from its investment property during the year (2010: $Nil). Direct operating expenses incurred during the period in respect of this investment property amounted to $2,112 (2010: $7,500).

11 **INTANGIBLE ASSETS**

	Computer Software $'000
Cost	
At January 1, 2010	9,983
Additions	11,969
At December 31, 2010	21,952
Additions	100
Disposal	(1,972)
Transfer from property, plant and equipment (Note 12)	446
At December 31, 2011	20,526
Amortisation	
At January 1, 2010	3,038
Charge for year	4,708
At December 31, 2010	7,746
Charge for the year	6,500
Disposal	(1,972)
Transfer from property, plant and equipment (Note 12)	56
At December 31, 2011	12,330
Carrying Amount	
At December 31, 2011	8,196
At December 31, 2010	14,206

These relate to computer software costs which are being amortised over three years.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

12 PROPERTY, PLANT AND EQUIPMENT

	Freehold Land	Freehold Buildings	Furniture	Fixtures & Office Equipment	Computer Equipment	Motor Vehicle	Property under Construction	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At cost								
January 1, 2010	7,510	41,867	6,666	25,886	35,073	1,987	-	118,989
Additions	-	-	581	3,147	3,233	-	28,626	35,587
Disposal	-	-	(100)	-	-	-	-	(100)
Adjustments	-	-	-	-	(26)	-	-	(26)
December 31, 2010	7,510	41,867	7,147	29,033	38,280	1,987	28,626	154,450
Additions	-	2,146	773	2,659	5,692	-	-	11,270
Disposal	-	-	(1,214)	(4,694)	(12,855)	(1,987)	-	(20,750)
Transfer from property under construction	-	28,626	-	-	-	-	(28,626)	-
Transfer to intangible assets (Note 11)	-	-		-	(446)	-	-	(446)
December 31, 2011	7,510	72,639	6,706	26,998	30,671	-	-	144,524
Depreciation								
January 1, 2010	-	5,672	5,306	14,718	26,519	1,650	-	53,865
Charge for year	-	1,047	473	2,509	4,500	337	-	8,866
Disposal	-	-	(100)	-	-	-	-	(100)
Adjustments	-	-	-	-	(14)	-	-	(14)
December 31, 2010	-	6,719	5,679	17,227	31,005	1,987	-	62,617
Charge for year	-	1,816	564	2,373	5,027	-	-	9,780
Disposal	-	-	(1,174)	(3,939)	(12,692)	(1,987)	-	(19,792)
Adjustments	-	-	31	242	-	-	-	273
Transfer to intangible assets (Note 11)	-	-	-	-	(56)	-	-	(56)
December 31, 2011	-	8,535	5,100	15,903	23,284	-	-	52,822
Carrying Amount								
December 31, 2011	7,510	64,104	1,606	11,095	7,387	-	-	91,702
December 31, 2010	7,510	35,148	1,468	11,806	7,275	-	28,626	91,833

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

12 **PROPERTY, PLANT AND EQUIPMENT (Cont'd)**

The following useful lives are used for the depreciation of property, plant and equipment:

Freehold buildings	-	40 years
Furniture	-	5 years
Fixtures and equipment	-	10 years
Computer equipment	-	3 years
Motor vehicle	-	5 years

13 **RETIREMENT BENEFIT ASSET**

The Society participates in a multi-employer defined benefit pension plan. The plan is funded by contributions from employees and employer. Pension benefits are determined on a prescribed basis and are payable at a rate of 1⅔% of the employee's average earnings over the three years prior to retirement times the employee's number of year's membership in the plan.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation was carried out as at December 31, 2011 by Eckler Consulting Actuaries (Fellows of the Institute of Actuaries). The present value of the defined benefit obligation and the related current service cost and past service cost, were measured using the projected unit credit method.

(a) The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2011	2010
	%	%
Gross discount rate	10.0	11.0
Expected return on plan assets	10.0	10.0
Expected rate of salary increases	8.0	8.0
Future pension increase	3.0	5.25

No automatic increase was projected by the actuaries as the Rules of the Pension Plan do not provide for it.

(b) The amount included in the statement of financial position arising from the Society's obligation in respect of the defined retirement plan is as follows:

	2011	2010
	$'000	$'000
Present value of obligation	(63,255)	(48,372)
Fair value of plan assets	88,039	73,152
	24,784	24,780
Unrecognised actuarial loss	20,316	16,569
Net asset in statement of financial position	45,100	41,349

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

13 **RETIREMENT BENEFIT ASSET (Cont'd)**

(c) Amounts recognised in income in respect of the defined benefit plan are as follows:

	2011 $'000	2010 $'000
Current service cost	2,290	1,299
Interest costs	5,904	6,757
Expected return on plan assets	(7,646)	(7,121)
Net actuarial loss recognised in the year	322	26
Unrealised asset due to the limitation per IAS 19	-	(4,430)
Total included in employee benefit expense	870	(3,469)
Actual return on plan assets	8,278	(1,132)

(d) Movements in the present value of the plan assets in the current period were as follows:

	2011 $'000	2010 $'000
Balance, January 1	41,349	32,873
Amounts (charged) credited to income	(870)	3,469
Contributions by employer	4,621	5,007
Balance, December 31	45,100	41,349

(e) Changes in the present value of the defined benefit obligation in the current period were as follows:

	2011 $'000	2010 $'000
Opening defined benefit obligation	48,372	38,368
Service cost	2,290	1,299
Interest cost	5,904	6,757
Members' contributions	4,028	3,982
Benefits paid	(2,039)	(2,835)
Actuarial gain	4,700	801
Closing defined benefit obligation	63,255	48,372

(f) Changes in the fair value of plan assets are as follows:

	2011 $'000	2010 $'000
Opening fair value of plan assets	73,152	68,129
Employer's contribution	4,621	5,007
Members' contributions	4,028	3,982
Expected return on plan assets	7,646	7,121
Benefits paid	(2,039)	(2,835)
Actuarial (loss) gain on plan assets	631	(8,252)
Closing fair value of plan assets	88,039	73,152

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

13 RETIREMENT BENEFIT ASSET (Cont'd)

(g) The major categories of plan assets, and the expected rate of return at the end of the reporting period for each category is as follows:

	Fair value of plan asset	
	2011	2010
	%	%
Equity instruments	3.6	3.3
Government bonds	39.9	33.7
Repurchase Agreements	34.7	28.3
US$ Bonds	3.2	3.7
Real Estate and real estate fund	13.7	10.5
Other	4.9	20.5
	100.0	100.0

The expected rate of return on the plan assets was 10% at December 31, 2011 (2010: 10%).

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The Board of Directors' assessment of the expected return is based on historical return trends and analysts' prediction of the market for the asset over the life of the related obligation.

(h) The history of experience adjustments is as follows:

	Defined Benefit Pension Plan				
	2011	2010	2009	2008	2007
	$'000	$'000	$'000	$'000	$'000
Present value of defined benefit obligation	(63,255)	(48,372)	(38,368)	(14,572)	(23,753)
Fair value of plan assets	88,039	73,152	68,129	44,369	50,434
Fund Surplus	24,784	24,780	29,761	29,797	26,681
Experience adjustments on plan liabilities - (gain) loss`	(1,232)	(6,721)	989	(13,251)	(4,760)
Experience adjustments on plan assets - gain (loss)	631	(8,252)	7,435	(15,235)	71

The Society expects to make a contribution of $4.46 million (2010: $4.9 million) to the defined benefit plan during the next financial year.

The plan assets do not include any of the Society's own financial instruments, nor any property occupied by or other assets used by the Society.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

14 MEMBERS' DEPOSITS

The movement of members' deposits is as follows:

	2011 $'000	2010 $'000
Balance at beginning of year	2,031,398	1,849,263
Add: Savings and interest	1,882,145	2,346,336
	3,913,543	4,195,599
Less: Withdrawals and transfers	1,668,616	2,164,201
	2,244,927	2,031,398
Add: Interest payable	4,371	8,343
Balance at end of year	2,249,298	2,039,741

15 OTHER BORROWED FUNDS

Other borrowed funds consist of the following:

	2011 $'000	2010 $'000
JCCUL Mortgage loans (Note 15(a))	16,275	16,521
JMB Mortgage loan (Note 15 (b))	180,878	-
JCCUL Liquidity Support Loan (Note 15 (c))	70,018	-
	267,171	16,521
Classified as:		
Current	22,850	400
Non-current	244,321	16,121
	267,171	16,521

(a) The loans were received from JCCUL for on-lending to members. The loans bear interest at rates ranging between 7.5% to 8.0% (2010: 8.5% to 12.5%) per annum. They are repayable over a period of twenty to twenty-five years and are secured by mortgage fund deposits held with JCCUL (Note 5). At December 31, 2011, interest payable amounted to $0.063 million (2010: $0.126 million).

(b) Per loan agreements dated January 31, 2011, November 21, 2011 and January 9, 2012, a loan facility totaling $200 million was approved to the Society. As at December 31, 2011, the amount of $180 million was disbursed, evidenced by Promissory Note dated July 25, 2011 to December 16, 2011. The Notes bear interest at rates ranging between 6.27% and 6.61% per annum. Each tranche is repayable in eighteen monthly instalments which commenced August 1, 2011. At December 31, 2011, interest payable amounted to $0.878 million.

(c) The loan was received from JCCUL for liquidity support. The interest rate is at a rate of 9.25% per annum. It is repayable over three years and is secured by GOJ BMI Notes totaling $77.78 million. (See Note 8). At December 31, 2011, interest payable amounted to $0.018 million.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

16 OTHER LIABILITIES

Other liabilities consist of the following:

	2011	2010
		$'000
Members' standing orders	13,810	11,639
Due to deceased members' estates	5,710	5,772
Withholding tax on deposits	1,608	2,755
Accruals	9,284	4,652
Unclaimed deposits	100	1,615
Disqualified members	4,358	4,444
Other payables	10,887	10,707
	45,757	41,584

17 PROVISIONS

	2011	2010
	$'000	$'000
Employee benefits	2,536	4,152
Legal costs	6,000	2,862
	8,536	7,014

	Legal Costs Note 17(a)	Employee Benefits Note 17(b)	Total
	$'000	$'000	$'000
Balance at January 1, 2009	3,400	4,751	8,151
Utilised	(538)	(7,433)	(7,971)
Charged to income for year	-	6,834	6,834
Balance at December 30, 2010	2,862	4,152	7,014
Utilised	(912)	(6,656)	(7,568)
Charged to income for year	4,050	5,040	9,090
Balance at December 31, 2011	6,000	2,536	8,536

(a) This provision is in respect of legal claims as well as associated legal costs.
(b) The provision for employees' benefits represents annual leave entitlements accrued.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

18 SHARE CAPITAL

All new applicants for membership and existing members of the Society are required to subscribe to a minimum of $2,500 in value of Permanent Shares.

Permanent shares are classified as share capital in accordance with the provisions of IFRIC 2: Members' Shares in Co-operative Entities and Similar Instruments, and cannot be withdrawn by the members at their discretion. In addition, dividends in respect of these shares are generally proposed by the Board of Directors and approved by the members at the annual general meeting.

As at December 31, 2011, the Society had 21,652 (2010: 19,557) members who met or exceeded the qualifying requirement of $2,500. The value of permanent shares as at December 31, 2011 was $54,182,500 (2010: $48,922,500).

	2011	2010
	$'000	$'000
Balance at beginning of year	48,923	35,676
Permanent Shares issued comprising:		
Members' subscription	5,260	11,083
The Society's matching contribution (Note 20 (a))	-	2,164
Balance at end of year	54,183	48,923

For members to avail themselves of loan borrowing and other benefits they must hold voluntary shares in the credit union which are deemed liabilities.

19 STATUTORY RESERVES

The movement in statutory reserves is as follows:

	2011	2010
	$'000	$'000
Balance, January 1	176,893	171,714
Entrance fees	120	-
Transfer from undistributed surplus	8,917	5,179
Balance, December 31	185,930	176,893

The balance represents amounts set aside from surplus up to December 31, 2011 (in accordance with Section 35 of the Co-operative Societies Act) and members' entrance fees received to date. Up to financial year ended December 31, 1977, the Society had set aside twelve and one-half percent (12½%) of its net surplus of income over expenditure. However, subsequent to 1977 the Society has set aside twenty percent (20%) of its net surplus (Note 3). This reserve is not distributable by way of dividends.

20 OTHER RESERVES

(a) Institutional

At the 54th Annual General Meeting held October 2, 1999, the membership decided to set aside, out of surplus, a sum adequate to increase the institutional capital of the Society to be at least eight percent (8%) of total assets. The reserves represent amounts approved to be set aside from surplus for the years 1998 to 2011. Accordingly, an amount of $5.71 million (2010: $28.997 million) was transferred during the year.

In 2010, the Society transferred a total of $2,164,000 towards the permanent capital. This amount represents a contribution of $500 for each member who elected to subscribe to the permanent shares of the Society (Note 18).

20 **OTHER RESERVES (Cont'd)**

(b) Non-Institutional

(i) This reserve represents amounts equivalent to the interest booked in respect of non-performing loans for which adequate security exists to cover the outstanding balances. At December 31, 2011, the reserve stood at $1.522 million (2010: $2.696 million).

(ii) The mortgage indemnity reserves established to protect the Society against loss in the event of default by the borrower, amounted to $0.711 million (2010: $Nil).

21 **LOAN LOSS RESERVE**

This reserve represents the excess of the provision for impairment determined using the JCCUL's regulatory requirements over the amounts determined under IFRS (Note 9(a)(iv)).

22 **RETIREMENT BENEFIT RESERVE**

This represents an appropriation of undistributed surplus equivalent to the amount recognised as a retirement benefit asset as required by the Society's regulator.

23 **FAIR VALUE RESERVES**

	Investment Revaluation Reserve $'000
Balance at January 1, 2010	(413)
Cumulative loss reclassified to profit or loss on de-recognition of AFS financial assets	413
Increase in fair value of available-for-sale investments	1,633
Balance at December 31, 2010	1,633
Cumulative loss reclassified to profit or loss on disposal of AFS financial assets	307
Increase in fair value of available-for-sale investments	2,789
Balance at December 31, 2011	4,729

24 **SHARE TRANSFER FUND**

The balance represents amounts set aside during the year to be used to purchase Permanent Shares from members who no longer wish to continue their membership. The resolution to establish the Share Transfer Fund was passed at the 65th Annual General Meeting held April 28, 2010.

There was no purchase of Permanent Shares during the year.

25 **FEE INCOME**

	2011 $'000	2010 $'000
Loan commitment fees	15,758	9,057
Loan processing fees	28,283	15,195
Other fees	8,700	6,388
	52,741	30,640

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

26 OTHER INCOME

The analysis of other income is as follows:

	2011	2010
	$'000	$'000
Dividends	1,523	2,395
Gain arising on revaluation of investment property (Note 10)	1,000	500
Exchange gains (losses) from holding foreign currency deposits	63	(741)
Commission – Family Indemnity Plan (F.I.P.)	3,285	2,737
Gains on FVTPL equity investments	4,536	311
Miscellaneous	2,787	1,069
	13,194	6,271

27 STAFF COSTS

Staff costs during the year in respect of employees were:

	2011	2010
	$'000	$'000
Salaries and wages (including pension costs)	117,303	95,793
Statutory contributions	19,214	17,215
Allowances and benefits	46,864	41,208
	183,381	154,216

28 OTHER EXPENSES

These comprise:

	2011	2010
	$'000	$'000
Administrative expenses	113,758	83,724
Marketing and promotions	22,769	18,565
Stabilisation fees	7,139	6,627
League fees	6,276	5,755
Other	8,944	6,092
	158,886	120,763

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

29 NET INCOME AFTER HONORARIA

The net income is arrived at after taking into account the following:

(a) Net gains on:

	2011 $'000	2010 $'000
Fair value through profit or loss designated upon initial recognition	4,536	311
Exchange gain on financial assets at amortised cost	63	(741)

(b) Revenues (Expenses) on:

	2011 $'000	2010 $'000
Interest income on financial assets at amortised cost - unimpaired	380,014	347,393
- impaired	1,362	2,691
Interest income on available-for-sale financial assets	11,172	15,780
	392,548	365,864
Interest expense on financial liabilities at amortised cost	(47,576)	(75,067)
Dividend revenue on financial assets at fair value through profit or loss	1,523	2,395
Provision in respect of financial assets at amortised cost	12,604	18,435

(c) Other

	2011 $'000	2010 $'000
Expenses of Board and Committee meetings	2,612	2,254
Auditors' remuneration	2,573	2,550

30 APPROPRIATIONS

	2011 $'000	2010 $'000
Donations and outreach programme	167	474
Scholarship	1,224	450
Dividend distributed (Note 40)	4,845	3,633
	6,236	4,557

The above appropriations were approved at the 2010 Annual General Meeting (2010: 2009 Annual General Meeting).

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

31 ADJUSTMENTS TO RECONCILE NET INCOME TO CASH FLOW PROVIDED BY OPERATING ACTIVITIES AND CHANGES IN OPERATING ASSETS (LIABILITIES)

	2011	2010
	$'000	$'000
Adjustments to reconcile net income to cash flow provided by operating activities		
Depreciation of property, plant and equipment	9,780	8,866
Amortisation of intangible assets	6,500	4,708
Loss on disposal of available-for-sale investments	307	-
Gain on revaluation of investment property	(1,000)	(500)
Loss (Gain) on sale of property, plant and equipment	529	(6)
Gain on disposal of fair value through income investment securities	-	(83)
Revaluation increase on fair value through income investment securities	(4,536)	(311)
Property, plant and equipment adjustment	273	12
Foreign exchange adjustment	(11)	208
Allowance for impairment losses on loans to members	12,604	18,435
Interest income	(392,548)	(365,864)
Interest received	392,395	364,550
Post retirement benefit asset	870	(3,469)
Increase in provisions	9,090	6,834
Dividend income	(1,523)	(2,395)
Impairment on available-for-sale investments	1,439	917
	34,169	31,902
Changes in operating assets/liabilities		
Loans to members (net)	(675,960)	(146,944)
Other assets	(6,225)	(8,946)
Deposits from members	213,529	182,135
Other liabilities	4,173	4,577
Provisions utilised during the year	(7,568)	(7,971)
Contributions to defined benefit pension plan	(4,621)	(5,007)
	(442,503)	49,746
Cash generated from operations:		
Interest expense	47,576	75,067
Interest paid	(50,715)	(75,125)
Adjustments to reconcile net income to cash flow provided by operating activities and changes in operating (liabilities) assets	(445,642)	49,688

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

32 COMPARISON OF LEDGER BALANCES

	Share Capital	Deposits	Loans	Interest Receivable on Loans	Interest Payable on Deposits
	$'000	$'000	$'000	$'000	$'000
General ledger					
December 31, 2011	54,183	2,244,927	2,381,290	18,080	4,371
Personal ledger					
December 31, 2011	54,183	2,244,927	2,381,290	18,080	4,371
Difference	-	-	-	-	-

33 CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents include cash at bank and in hand and other highly liquid bank deposits held with financial institutions, which have an original maturity of three months or less from the date of acquisition and are held to meet cash requirements rather than for investment purposes.

	2011	2010
	$'000	$'000
Cash resources	303,379	266,257
Less: cash reserves	(173,829)	(172,577)
	129,550	93,680

34 INSURANCE

(a) Fidelity insurance coverage

During the year the Society had coverage with Cuna Mutual Insurance Society through the JCCUL. Total premiums paid for the year was $828,803 (2010: $790,813).

(b) Loan protection and life savings coverage

During the year the Society had loan protection and life savings coverage with Cuna Mutual Insurance Co. Ltd. Total premium for the year was $9.193 million (2010: $7.885 million). The policy remained in force throughout the year with all premiums being paid promptly.

35 COMMITMENTS AND CONTINGENT LIABILITIES

Loans to members

At December 31, 2011, the Society had commitments in respect of loans to members, approved but not yet disbursed, amounting to $181.579 million (2010: $15.510 million). There was no security in place at that date in respect of these loans.

35 COMMITMENTS AND CONTINGENT LIABILITIES (Cont'd)

Contingent Liabilities

At December 31, 2011, value at letters of undertaking issued to vendors in respect of motor vehicle loans to members amounted to $9.144 million (2010: $6.896 million).

36 RELATED PARTY TRANSACTIONS AND BALANCES

Operating transactions

The Society entered into the following transactions with related parties:

(a) At December 31, 2011, three members of the Society's Board of Directors and five Committee members had loans totalling $10.52 million including interest (2010: five members of the Board and four Committee members with total balance of $12.56 million). Loans, including interest, due from members of staff totalled $57.78 million (2010: $46.1 million).

At December 31, 2011, all loans owing by Directors, Committee members and staff were being repaid in accordance with their loan agreements.

(b) At December 31, 2011, eleven members of the Society's Board of Directors and ten Committee members had savings deposits totalling $9.3 million including interest (2010: eleven members of the Board and eight Committee members with total balance of $9.1 million). Deposits held by members of staff totalled $12.70 million (2010: $13.88 million).

No guarantees have been given nor received. No expense has been recognised in the period for bad or doubtful debts in respect of amounts owed by related parties.

Compensation of key management personnel

The remuneration of directors and other key members of management during the year was as follows:

	2011 $'000	2010 $'000
Short-term benefits	37,922	33,445
Post employment benefits (*)	1,477	1,439
	39,399	34,884

The remuneration of members of key management is determined by the Board of Directors, having regard to the performance of individuals and prevailing macro economic factors.

* This represents employer's contribution to the multi-employer defined benefit plan.

37 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

37 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

Categories of financial instruments

The following table sets out the financial instruments as at the end of the reporting period:

	2011 $'000	2010 $'000
Financial assets		
Fair value through income (FVTPL)		
- Held for trading	14,384	17,173
Loans and receivables (including cash and cash equivalents)		
- Cash resources	303,379	266,257
- Loans to members (net of allowance for impairment)	2,382,650	1,716,717
- Investment securities	-	19,739
- Securities purchased under resale agreements	71,602	205,026
- Other assets (excluding prepayments and withholding tax)	38,501	29,864
	2,796,132	2,237,603
Available-for-sale financial assets	98,076	136,625
	2,908,592	2,391,401
Financial liabilities (at amortised cost)		
- Members' deposits	2,249,298	2,039,741
- Other borrowed funds	267,171	16,521
- Other liabilities (excluding accruals and withholding tax)	34,865	34,177
	2,551,334	2,090,439

Financial risk management policies and objectives

By its nature, the Society's activities principally include the use of financial instruments. The Society has exposure to the following risks from its use of its financial instruments: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Financial risk management objectives
The Board of Directors has overall responsibility for the establishment and oversight of the Society's risk management framework. The Society's risk management policies are established to identify and analyse the risks faced by the Society, to set appropriate limits and controls, and to monitor risks and adherence to limits. The Board through its various committees, which includes the Loans & Delinquency, Treasury & Financial Executive, Assets & Liability, Supervisory, Credit and IT Committees, is responsible for monitoring compliance with the Society's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Society. All committees report regularly to the Board on their activities. The Board of Directors meet on a monthly basis to review the performance and risks affecting the Society.

The Supervisory Committee is responsible for monitoring compliance with the Society's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Society. The Supervisory Committee is assisted in these functions by the Internal Audit Department which undertakes periodic reviews of risk management, internal controls and procedures, the results of which are reported to the Supervisory Committee, which reports its findings, recommendations and management responses to the Board.

37 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

Financial risk management policies and objectives (Cont'd)

The Society has documented policies such as the Investment, Loans and the Delinquency policies, which provide the risk management framework for the management of risks associated with financial instruments. These policies are reviewed annually and approved by the Board of Directors. The policies set out the Society's overall business strategies and its risk management philosophy. This risk management programme seeks to minimise potential adverse effects on financial performance of the Society through internal risk reports which analyse exposures by degree and magnitude of risks.

The Board of Directors, through its Asset and Liability Committee, provides written principles on foreign exchange risk, interest rate risk, credit risk, the use of non-derivative financial instruments, and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis.

By its nature, the Society's activities are principally related to the use of financial instruments. The Society accepts deposits from members at fixed rates of interest for various periods and seeks to earn above average interest margins by investing these funds in high-quality assets. The Society seeks to increase these margins by lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due.

There has been no change in the Society's exposure to these financial risks or manner in which it manages and measures risk during the period.

Exposures are measured using sensitivity analyses indicated below.

(a) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market prices, whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market. Market risk exposures are managed through policies, and limits established by the Board of Directors, which are reviewed by the Board at least annually.

The Society's activities expose it primarily to the financial risks of changes in foreign currency exchange rates as disclosed in Note 37(b) below, interest rates as disclosed in Note 37(c) below, as well as equity price risks.

<u>Management of market risk</u>
The Board of Directors outlines the general policy of the Society in managing this risk. The Society monitors this risk through research of financial markets, as well as analyses of financial institutions with whom investments are made. The primary goal is to maximise the return on the portfolio.

<u>Equity price sensitivity analysis</u>
The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date.

If quoted equity prices had been 10% (2010: 20%) higher/lower income for the year ended December 31, 2011 would increase/decrease by $1.438 million for the Society (2010: increase/decrease by $3.435 million) as a result of the changes in fair values of the trading securities.

The decrease in sensitivity during the period was mainly due to the disposal of certain equity investments.

The decrease in equity price sensitivity is as a result of reduced holdings of equity instruments during the year.

(b) Foreign currency risk

The Society undertakes certain transactions denominated in currencies other than the Jamaican dollar resulting in exposures to exchange rate fluctuation.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

37 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)**

Financial risk management policies and objectives (Cont'd)

(b) Foreign currency risk (Cont'd)

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Management of foreign currency risk
Management consistently monitors the Society's exposure in this regard by consistently monitoring foreign exchange markets and factors influencing currency movements and positioning its foreign currency assets holdings accordingly.

The carrying amounts of the Society's foreign currency denominated monetary assets at the reporting date are as follows:

	Assets	
	2011	2010
	J$'000	J$'000
US dollars	1,510	20,638

Foreign currency sensitivity analysis
The following table details the Society's sensitivity to a 1% revaluation and devaluation (2010: 5% revaluation and devaluation) in the Jamaican dollar against the relevant foreign currencies. The above sensitivity rates are used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the percentage changes in foreign currency rates as described above.

If the Jamaican dollar strengthens by 1% or weakens by 1% (2010: strengthens by 5% or weakens by 5%) against the US dollar, income will decrease or increase by:

	2011		2010	
	Decrease	Increase	Decrease	Increase
	J$'000	J$'000	J$'000	J$'000
Profit or loss	15	15	1,032	1,032

This is mainly attributable to the exposure outstanding on investment securities and cash resources at year end in the Society.

The Society's sensitivity to foreign currency has decreased during the current period mainly due to the maturity of US dollar investments and reduction of holdings of US dollar cash reserves.

(c) Interest rate risk management

Interest rate risk is the potential that the value of financial instruments will fluctuate due to changes in market interest rates as a result of cash flow or fair value interest rate risks. Financial instruments subject to fixed interest rates are exposed to fair value interest rate risk while those subject to floating interest rates are exposed to cash flow interest rate risk. The Society's exposure to interest rate risk is affected by its holding in cash resources, loans to members, investment securities, securities purchased under resale agreement, other assets, members' deposits and other borrowed funds.

Management of interest rate risk
The Society's exposure to interest rate risk is measured using gap and sensitivity analyses as well as maintaining an appropriate mix of variable and fixed rate instruments.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

37 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)**

Financial risk management policies and objectives (Cont'd)

(c) Interest rate risk management (Cont'd)

The following table summarises the Society's exposure to interest rate risk. Included in the table are the Society's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

As at December 31, 2011:	Within 3 Months $'000	3 to 12 Months $'000	1 to 2 Years $'000	2 to 3 Years $'000	3 to 4 Years $'000	4 to 5 Years $'000	Over 5 Years $'000	Non-rate Sensitive $'000	Total $'000
Assets									
Cash resources	298,700	-	-	-	-	-	-	4,679	303,379
Loans net of allowance for impairment	13,360	166,949	418,610	194,510	309,358	531,574	748,289	-	2,382,650
Investment securities:									
- Fair value through income	-	-	-	-	-	-	-	14,384	14,384
- Available-for-sale	-	-	54,845	22,932	-	-	-	20,299	98,076
Securities purchased under resale agreement	71,602	-	-	-	-	-	-	-	71,602
Other	38,501	-	-	-	-	-	-	-	38,501
Total assets	422,163	166,949	473,455	217,442	309,358	531,574	748,289	39,362	2,908,592
Liabilities									
Members' deposits	2,208,908	40,390	-	-	-	-	-	-	2,249,298
Other liabilities	-	-	-	-	-	-	-	34,865	34,865
Other borrowed funds	6,197	16,653	28,440	31,042	5,910	6,457	172,472	-	267,171
Total liabilities	2,215,105	57,043	28,440	31,042	5,910	6,457	172,472	34,865	2,551,334
Interest Rate Sensitivity Gap	(1,792,942)	109,906	445,015	186,400	303,448	525,117	575,817	4,497	357,258
Cumulative Interest Rate Sensitivity Gap	(1,792,942)	(1,683,036)	(1,238,021)	(1,051,621)	(748,173)	(223,056)	352,761	357,258	

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

37 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)**

Financial risk management policies and objectives (Cont'd)

(c) Interest rate risk management (Cont'd)

As at December 31, 2010:	Within 3 Months $'000	3 to 12 Months $'000	1 to 2 Years $'000	2 to 3 Years $'000	3 to 4 Years $'000	4 to 5 Years $'000	Over 5 Years $'000	Non-rate Sensitive $'000	Total $'000
Assets									
Cash resources	258,200	-	-	-	-	-	-	8,057	266,257
Loans net of allowance for impairment	13,152	107,532	312,278	212,590	269,752	487,752	313,661	-	1,716,717
Investment securities:									
- Fair value through income	-	-	-	-	-	-	-	17,173	17,173
- Loans and receivables	19,739	-	-	-	-	-	-	-	19,739
- Available-for-sale	40,388	-	-	53,798	20,884	-	-	21,555	136,625
Securities purchased under resale agreement	189,907	15,119	-	-	-	-	-	-	205,026
Other	29,864	-	-	-	-	-	-	-	29,864
Total assets	551,250	122,651	312,278	266,388	290,636	487,752	313,661	46,785	2,391,401
Liabilities									
Members' deposits	2,006,370	33,371	-	-	-	-	-	-	2,039,741
Other liabilities	-	-	-	-	-	-	-	34,177	34,177
Other borrowed funds	133	400	565	599	635	673	13,516	-	16,521
Total liabilities	2,006,503	33,771	565	599	635	673	13,516	34,177	2,090,439
Interest Rate Sensitivity Gap	(1,455,253)	88,880	311,713	265,789	290,001	487,079	300,145	12,608	300,962
Cumulative Interest Rate Sensitivity Gap	(1,455,253)	(1,366,373)	(1,054,660)	(788,871)	(498,870)	(11,791)	288,354	300,962	

37 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

Financial risk management policies and objectives (Cont'd)

(c) Interest rate risk management (Cont'd)

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for all instruments at the end of the reporting period. The analysis is prepared assuming the amount of assets held at the end of the reporting period was held throughout the year. In respect of Jamaican dollar balances, a 100 basis points increase or decrease (2010: 200 basis point increase and 100 basis point decrease), and in respect of United States dollar denominated balances, a 50 basis points increase/decrease (2010: 50 basis points increase/decrease) is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

In respect of Jamaican dollar balances, if interest rates had been 100 basis points higher or lower (2010: 100 basis points higher and 100 basis points lower) and all other variables were held constant, the Society's:

- net income for the year ended December 31, 2011 would increase/decrease by $Nil (2010: $10,723/$5,361 respectively). This is mainly attributable to the Society's exposure to interest rates on its variable rate investment securities; and

- other equity reserves as at December 31, 2011 would decrease/increase by $0.968 million/$0.988 million (2010: $0.119 million/$0.060 million) respectively mainly as a result of the changes in the fair value of available-for-sale investment securities.

In respect of United States dollar denominated balances, if interest rates had been 50 basis points higher or lower (2010: 50 basis points higher or lower) and all other variables were held constant, the Society's net income for the year ended December 31, 2011 would decrease/increase by $7,550 (2010: $3,123). This is mainly attributable to the company's exposure to interest rate on its cash holdings.

The Society's sensitivity to interest rates has decreased during the current period mainly due to the decreased holdings of cash reserves and debt securities.

(d) Credit risk management

Credit risk is the risk that a party to a financial instrument will default on its contractual obligations resulting in financial loss to the Society. Financial assets that potentially subject the Society to concentration of credit risk consist primarily of cash resources, loans to members, investment securities and securities purchased under resale agreement. At year end, the maximum exposure of the Society to credit risk totalled approximately $2.91 billion (2010: $2.39 billion).

Management of credit risk
The Society's credit risk is managed through strategies, policies and limits that are approved by the Board of Directors, specifically through reviews of the financial status of each obligator and making provisions for impairment where there is evidence of impairment.

(i) Cash resources

The Society minimises this risk by limiting its obligators to major banks and JCCUL. The carrying amount of cash resources (excluding cash in hand) totalling $299 million at year end represents the Society's maximum exposure to this class of financial assets.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

37 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)**

Financial risk management policies and objectives (Cont'd)

(d) Credit risk management (Cont'd)

(ii) Loans to members

The Society has established policies and procedures which govern standards for granting loans and the process of continuous monitoring and measurement in relation to delinquency and debt recovery management. The exposure is to a number of individuals and there are limits on amounts which may be advanced to any borrower. Further these amounts are protected by Fidelity and Loan Protection and Life Savings Insurance Coverage, which mutually protects the deceased members' beneficiaries and the Society from losses. Additionally, the Society holds collateral in respect of the majority of its loans to members.

The carrying amount of financial assets in respect of loans to members totalling approximately $2.83 billion (2010: $1.717 billion) at year end which is net of impairment, represents the Society's maximum exposure to this class of financial assets without taking into account the value of any collateral held.

The following table summarises the credit exposure (before allowances for impairment) of the Society in respect of loans to members by sector:

	2011 $'000	2010 $'000
Business	428,632	25,413
Real estate	762,013	330,848
Education	71,439	126,924
Personal	690,574	780,829
Motor vehicle	404,819	475,511
Other	23,813	20,812
Total	2,381,290	1,760,337

Fair value of collateral held at year end in respect of loans to members

	2011 $'000	2010 $'000
Motor vehicle	1,074,886	986,827
Property	1,836,103	504,422
Savings		
- with Society	633,223	777,697
- with other institutions	24,970	23,519
Investments and Insurance	31,607	27,370
Total	3,600,789	2,319,835

The Society also has credit exposures in respect of guarantees totalling $181.579 million issued as at December 31, 2011 (2010: $15.510 million) (See Note 35).

37 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)**

Financial risk management policies and objectives (Cont'd)

(d) Credit risk management (Cont'd)

(ii) Loans to members (Cont'd)

Collateral repossessed

	2011		2010	
	Carrying Value $'000	Value of Collateral $'000	Carrying Value $'000	Value of Collateral $'000
Commercial property	-	-	8,769	3,000
Motor vehicles	1,197	1,430	5,394	4,280
	1,197	1,430	14,163	7,280

Repossessed assets are sold in an orderly fashion with the proceeds used to reduce or repay outstanding indebtedness. Where excess funds are available after the debt has been repaid, it is returned to the member by way of a deposit to savings. Where a balance exists after sale, a further demand is made on the member for repayment. The Society does not utilise repossessed assets for its operations nor are they sold to staff members or volunteers. The Society also holds hypothecated savings amounts of $5.96 million (2010: $1.6 million) in respect of delinquent accounts.

Re-negotiated loans

Features of these loans include extended payment arrangement, modification to interest rates and deferral of payments. Following re-negotiation, a previously overdue account is reset to a normal status and managed together with other similar accounts. Policies and practices in respect of these activities are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Re-negotiated loans that would otherwise be past due or impaired totalled approximately $4.11 million inclusive of interest as at December 31, 2011 (2010: $4.27 million).

(iii) Investment securities and securities purchased under resale agreements

The Society seeks to minimise its risk in the following ways:

- Limits to the amount of investment with any one institution in accordance with the investment policy guidelines;
- Limits to certain types of investments in accordance with the investment policy guidelines;
- Clear approval structure which govern investment decisions;
- Investments are placed with reputable financial institutions and are usually collaterised by the Government of Jamaica (GOJ) or Bank of Jamaica (BOJ) securities duly transferred to the Society in the event of default.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

37 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)**

Financial risk management policies and objectives (Cont'd)

(d) Credit risk management (Cont'd)

(iii) Investment securities and securities purchased under resale agreements (Cont'd)

The carrying amount of these financial assets totalling approximately $181.01 million net of impairment, represents the Society's maximum exposure to this class of financial assets and are grouped as follows:

	2011 $'000	2010 $'000
Bonds and debentures	77,777	115,070
Repurchase agreements	71,602	205,026
Other	34,683	58,467
	184,062	378,563

(e) Liquidity risk management

Liquidity risk, also referred to as funding risk, is the risk that the Society will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, and the availability of funding through an adequate amount of committed facilities.

Management of liquidity risk
Management ensures that strong liquidity levels are maintained in order to prevent unacceptable losses.

The Society manages this risk by keeping a portion of its financial assets in liquid form in accordance with regulatory guidelines. The Society is subjected to a liquidity limit imposed by the Jamaica Cooperative Credit Union League (JCCUL), under Rule 15 Liquidity Reserves Compliance, and compliance is monitored weekly. The key measure used by the Society for managing liquidity risk is the ratio of liquid assets to total specified liabilities. For this purpose, liquid assets include cash and bank balances, deposits held with JCCUL and highly liquid investments which are readily converted into cash within three months. The total specified liabilities include voluntary shares, deposits (including fixed deposits) and any accrued interest and dividend outstanding. JCCUL stipulates that the Society's liquidity reserve should be no less than the average of 10% of the Society's specified liabilities. The liquid assets ratio at the end of the year was 11.48% (2010: 11.11%).

There has been no change to the Society's exposure to liquidity risk or the manner in which it manages and measures the risk.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

37 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)**

Financial risk management policies and objectives (Cont'd)

(e) Liquidity risk management (Cont'd)

Liquidity risk tables

The following tables detail the Society's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Society can be required to pay. The table includes both interest and principal cash flows.

	Within 3 Months/ On Demand	3-12 Months	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Over 5 Years	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2011								
Members' deposits	2,211,639	51,116	-	-	-	-	-	2,262,755
Other borrowed funds	10,021	32,894	45,078	45,078	18,268	18,268	264,838	434,445
Other liabilities	36,865	-	-	-	-	-	-	36,865
	2,258,525	84,010	45,078	45,078	18,268	18,268	264,838	2,734,065
2010								
Members' deposits	2,020,314	34,067	-	-	-	-	-	2,054,381
Other borrowed funds	380	1,141	1,522	1,522	1,522	1,522	19,782	27,391
Other liabilities	34,177	-	-	-	-	-	-	34,177
	2,054,871	35,208	1,522	1,522	1,522	1,522	19,782	2,115,949

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

37 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)**

Financial risk management policies and objectives (Cont'd)

(e) Liquidity risk management (Cont'd)

Liquidity risk tables (Cont'd)

The following table details the Society's expected maturity for its financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Society anticipates that the cash flow will occur in a different period.

	Within 3 Months	3-12 Months	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Over 5 Years	No Specific Maturity	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2011									
Cash resources	118,168	-	-	-	-	-	-	185,820	303,988
Loans to members (net of allowance for impairment)	322,768	856,843	653,820	483,813	384,406	241,922	857,638	-	3,801,210
Investment securities:									
- Fair value through income	-	-	-	-	-	-	-	14,384	14,384
- Available-for-sale	2,127	6,498	53,423	20,377	-	-	-	20,299	102,724
Securities purchased under resale agreements	71,922	-	-	-	-	-	-	-	71,922
Other	-	-	-	-	-	-	-	38,501	38,501
	514,985	863,341	707,243	504,190	384,406	241,922	857,638	259,004	4,332,729
2010									
Cash resources	82,460	-	-	-	-	-	-	183,825	266,285
Loans to members (net of allowance for impairment)	241,097	694,450	657,511	412,522	111,029	86,997	152,408	-	2,356,014
Investment securities:									
- Fair value through income	-	-	-	-	-	-	-	17,173	17,173
- Loans and receivables	19,936	-	-	-	-	-	-	-	19,936
- Available-for-sale	2,669	9,205	12,217	57,015	23,969	30,406	10,135	21,555	167,171
Securities purchased under resale agreements	193,105	15,708	-	-	-	-	-	-	208,813
Other	-	-	-	-	-	-	-	29,864	29,864
	539,267	719,363	669,728	469,537	134,998	117,403	162,543	252,417	3,065,256

The Society expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets.

37 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

Financial risk management policies and objectives (Cont'd)

(f) Fair value of financial assets and financial liabilities

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. A market price, where an active market (such as a recognised stock exchange) exists, is the best evidence of the fair value of a financial instrument. Where market prices are not available for some of the financial assets and liabilities of the Society, the fair values of those assets and liabilities have been presented in these financial statements using various estimation techniques based on market conditions existing at end of the reporting period. Generally, judgement is necessarily required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented in these financial statements are not necessarily indicative of the amounts that the Society would realise in a current market exchange.

The values derived using these techniques are significantly affected by underlying assumptions concerning both the amounts and timing of future cash flows and the discount rates used. The following methods and assumptions have been used:

(i) The carrying values of cash and cash equivalents, securities purchased under agreements to resell, other assets, and other liabilities maturing within twelve months are assumed to approximate the fair values because of the short-term maturity of these instruments.

(ii) The fair values of available-for-sale and fair value through profit or loss investment securities are carried at fair values. The fair values of quoted shares are determined based on published quotation of the bid prices existing at the end of the reporting period. The fair values of available-for-sale debt securities are determined in accordance with generally accepted pricing models using prices from observables current market transactions.

(iii) The fair values of members' deposits which do not have a fixed maturity date are assumed to be the amounts payable on demand (their carrying amounts) at the end of the reporting period. Deposits with fixed rates and activities are at rates that are not significantly different from current rates and are assumed to have discounted cash flow values that approximate fair value.

(iv) The fair values of loans to members are estimated based on the expected future cash flows discounted at market interest rates for similar loans at year end. The carrying values of loans to members approximate the fair values of these loans, since the interest rate charged on these loans are equivalent to the interest rates of similar loans at year end.

(v) The fair values of the Society's holding of unquoted shares has not been determined as there is no active market for these shares.

(vi) The fair values of fixed rate loans payable have been estimated by applying market interest rates of similar loans at year-end to the expected future cash flows.

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

37 **FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)**

Financial risk management policies and objectives (Cont'd)

(f) Fair value of financial assets and financial liabilities (Cont'd)

Fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

	2011		
	Level 1	Level 2	Total
	$'000	$'000	$'000
Financial assets at fair value through profit or loss:			
Equity securities (quoted)	14,384	-	14,384
Available-for-sale securities			
Government of Jamaica securities	-	77,777	77,777
Total	14,384	77,777	92,161

	2010		
	Level 1	Level 2	Total
	$'000	$'000	$'000
Financial assets at fair value through profit or loss:			
Equity securities (quoted)	17,173	-	17,173
Securities available-for-sale			
Government of Jamaica securities	-	115,070	115,070
Total	17,173	115,070	132,243

There were no transfers between Level 1, Level 2 and Level 3 in the period.

37 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

Financial risk management policies and objectives (Cont'd)

(f) Fair value of financial assets and financial liabilities (Cont'd)

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. 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 held by the group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise 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.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

All gains and losses included in other comprehensive income relate to available-for-sale debt securities held at the end of the reporting period and are reported as changes of 'Fair Value Reserve'.

Capital risk management

The Society manages its capital to ensure it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Society's overall strategy remains unchanged from 2010.

The capital structure of the Society consists of its members share capital, institutional capital and non-institutional capital. The Society currently has only one class of share capital.

The Society's Board of Directors reviews the capital structure on a semi-annual basis. As part of this review, the Board of Directors considers the cost of capital and the associated risks. Based on the Board of Directors' recommendations, the Society balances its overall capital structure by the payment of dividends.

<u>Requirements of JCCUL and the proposed Bank of Jamaica Regulations</u>
The amount of the institutional capital of the Society is guided by the performance measurements stipulated by the JCCUL, which requires that institutional capital should exceed 8% of total assets. At December 31, 2011 the Society's ratio of institutional capital to total assets amounted to 12.87% (2010: 14.65%).

Under the proposed Bank of Jamaica regulations the Society should maintain a minimum level of:

(a) institutional capital of 6% of total assets, and
(b) institutional capital to risk weighted assets at or above 10%.

At December 31, 2011, the Society fulfilled the requirement for (a) as disclosed in the preceding paragraph. As at December 31, 2011, the Society's rate of institutional capital to risk based assets amounted to 22.52% (2010: 25.8%).

GSB CO-OPERATIVE CREDIT UNION LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

38 **OPERATING LEASE ARRANGEMENTS**

(a) The Society as a lessor

The Society rented a portion of its property in New Kingston under an operating lease. Property rental earned during the year was $5.103 million (2010: $5.177 million). The contract expired in November 2011 and is currently being billed monthly.

(b) The Society as a lessee

(i) Parking spaces

The Society rents parking facilities under operating lease. Rental charged during the year was $1.888 million (2010: $2.057 million).

At the end of the reporting period, the Society contracted with its owners for the following future minimum lease payments:

	2011	2010
	$'000	$'000
Within one year	590	606

(ii) Branch location: May Pen

The Society rents its branch office location under an operating lease. Rental charged during the year was $0.840 million (2010: $0.840 million).

At the end of the reporting period, the Society contracted with the- owners for the following future minimum lease payments:

	2011	2010
	$'000	$'000
Within one year	840	700

39 **OPERATIONS**

Maximum liability

As at December 31, 2011 the Society's maximum liability stood at 559% (2010: 525%) of the Society's capital. The maximum liability is agreed annually by the Society's members at the Annual General Meeting and was set at 1,150% of the Society's capital (excluding loan loss and retirement benefit reserves).

40 DIVIDENDS – MEMBERS' SHARES

(a) Proposed

The Board of Directors have proposed a distribution of $5.4 million representing approximately 10% of the average share balance as at December 31, 2011 to be paid out of 2011 undistributed surplus. This proposed distribution is subject to the approval of the Society's members at the Annual General Meeting and has not been included as a liability in these financial statements.

(b) Paid

Dividend distribution of $4.8 million representing approximately 10% of the average share balance as at December 31, 2010, which was approved by the Society's members at the 2010 Annual General Meeting, was paid during the year (Note 30).

41 IMPENDING MERGER

At a Special General Meeting of the members held July 19, 2011, a resolution was passed to approve a merger between the Society and Churches Co-operative Credit Union. The merger process is currently underway. However, no definite merger date has been confirmed.

ADDITIONAL INFORMATION

REPORT TO THE REGISTRAR OF CO-OPERATIVE SOCIETIES

RE: GSB CO-OPERATIVE CREDIT UNION LIMITED
(A Society registered under the Co-operative Societies Act, Cap. 75)

ON ADDITIONAL INFORMATION

Our examination of the financial statements of the Society for the year ended December 31, 2011 was intended primarily for the purpose of formulating an opinion on those financial statements taken as a whole. The additional information presented in page 2 has been taken from accounting and other records of the Society and is not necessary to give a true and fair view of the financial position of the Society at December 31, 2011 or of its financial performance and cash flows for the year then ended. Such information has not been subjected to sufficient tests and other auditing procedures to enable us to express an opinion as to the fairness of all the details included therein and accordingly we do not express an opinion on the additional information.

Deloitte & Touche
Chartered Accountants

Kingston, Jamaica
February 29, 2012

GSB CO-OPERATIVE CREDIT UNION LIMITED

OTHER EXPENSES

YEAR ENDED DECEMBER 31, 2011

	2011	2010
	$'000	$'000
ADMINISTRATIVE		
Property rental	840	840
Electricity	10,281	7,604
Water rates and property taxes	628	835
Audit fees - current year	2,573	2,550
Repairs and maintenance	8,080	5,641
Motor vehicle expenses	1,038	952
Telephone	19,674	14,344
Postage and stationery	5,101	3,409
Fidelity Insurance	829	791
Insurance	11,845	9,798
Professional fees	7,880	1,958
Security	10,175	8,174
GCT irrecoverable	11,764	11,076
Miscellaneous expenses	4,351	3,207
Bank service charges	3,058	2,942
Loss (Gain) on disposal of property, plant and equipment	529	(6)
Computer expenses	13,224	7,552
Parking expense	1,888	2,057
	113,758	83,724
MARKETING AND PROMOTIONS		
Advertising and promotion	20,181	16,857
New product development	2,588	1,708
	22,769	18,565
REPRESENTATION AND AFFILIATION		
Board and committees’ meetings	2,612	2,254
League fees	6,276	5,755
Stabilisation dues	7,139	6,627
Seminars and meetings	1,534	828
Annual general meeting	4,798	3,010
	22,359	18,474
OTHER EXPENSES	158,886	120,763