

REPORT OF THE BOARD OF DIRECTORS

For the year ended December 31, 2004

Economic Overview

In 2004, the local economy recorded its sixth consecutive year of Real Gross Domestic Product (GDP) growth of 1.2 per cent. This however, was below projected growth of 2.5 per cent established in the Medium Term Socio- Economic Policy Framework.

The variation was due primarily to the impact of Hurricane Ivan on infrastructure and productive assets with total cost of the damage estimated at \$36.8 billion.

The local economy was also impacted by increased crude oil prices which in tandem with the hurricane adversely affected developments with the macro economy as follows:

- Inflation rate of 13.7 per cent for 2004 -- down from 14.1 per cent recorded in 2003
- \$2.2 billion more than programmed fiscal deficit for April to December 2004 and
- Deterioration in the merchandize trade balance

On the other hand, interest rates trended downwards with the 30 day reverse repo rate at 13.80 per cent at the end of 2004, representing the lowest rate since December 2002.

In spite of the shocks induced by spiraling oil prices and adverse weather conditions, the 1.2 per cent expansion in the economy was facilitated by growth in the following sectors:

- Tourism
- Manufacturing and processing
- Mining and quarrying
- Construction and installation
- Distribution

In relation to the foreign exchange market, there was relative stability due to an adequate supply of foreign exchange from tourist expenditure, private remittances

and official inflows which facilitated stability in the foreign exchange market and a build up in the Net International Reserve (NIR).

This stability was reflected in a mere 1.63 per cent depreciation in the local currency, the lowest since 1998 when the Jamaica Dollar recorded depreciation of 1.53 per cent.

At 31 December 2004, the weighted average selling rate for the Jamaica Dollar vis-à-vis the United States dollar was US\$1.00 = J\$61.63, a depreciation of 1.6 per cent when compared to US\$1.00 = J\$60.62 at end December 2003.

These factors, coupled with improved fiscal performance throughout the year, helped to buoy investor confidence which was reflected in the conversion of US dollars for investment in local currency instruments. After declining by 1.5 per cent in 2003, domestic currency deposits increased by 13.7 per cent in 2004, while foreign currency deposit growth slowed to 14.1 per cent compared to 40.1 per cent in 2003.

Bank of Jamaica (BOJ) supervision of Credit Unions

Traditionally stable and self regulating, credit unions have now been designated by the Minister of Finance as ‘specified financial institutions’ under the Bank of Jamaica Act, enabling the BOJ to obtain information on their operations. Regulations to establish a formal supervisory framework for these entities have been drafted after extensive discussions with sector representatives and await approval.

The BOJ has continued its preparatory work in anticipation of the adoption of full supervisory responsibility for credit unions and the licensing process that will be implemented and flow from the new Regulations.

During the year, the BOJ in collaboration with the Caribbean Regional Technical Assistance Centre (CARTAC) convened two seminars on corporate governance (which also included segments on Anti-Money Laundering requirements) for credit unions in which representatives from the Jamaica Police Co-operative Credit Union participated.

The programme of prudential reporting introduced in 2003 continued with credit unions submitting the preliminary monthly balance sheet and quarterly earnings and expenditure returns directly to the Bank to facilitate off-site assessment.

Implications

Supervision by BOJ has implications for the type of security that can be accepted by Members for example, no longer would be credit Union be able to appliances, furniture and computers as security.

It would also have repercussions on the amount of unsecured loans that we can afford to Members limiting the Credit Union to 5 per cent of its total loan portfolio.

Overall, the new regulations will impact negatively on profitability in the short term.

Profitability

The Credit Union's surplus for 2004 was \$58.2M, which represented an increase of \$4.8M or 9% over the \$53.4M earned in 2003.

The net income of \$58.2M was earned from gross income of \$166.8M, 78% or \$130.9M of which was earned from interest on loans to members. The \$166.8M represents an increase of \$16.8M or 11.2% over the \$150M earned in 2003.

Total expenses for the year totalled \$108.6M up from \$96.6M an increase of \$12M or 12.4%. This increase resulted in the main from a \$7.2M in personnel expenses, an increase of 36.2%, as also an increase of \$2.4M in members' security expenses an increase of 24.6%.

Share Capital

Share Capital stood at \$482m, an increase of \$61m or 14.6% over 2003

Loans

Our net loan portfolio continues to constitute over 70% of the assets of the Credit Union. The loan portfolio increased by \$136.08M or by 22.1% increasing from \$613.6M in 2003 to \$749.7M at the end of 2004.

Total Assets

The total assets of the Credit Union increased by 22.8% increasing from \$834M at the end of 2003 to \$1,024.2 Billion at the end of 2004.

Highlights of 2004

- The realization of \$1.02 billion in assets
- JPCCU remains one of the top 10 credit Unions locally ranking number 6 in terms of loans and number 8 in relation to savings
- Launch of innovative loan products such as the 10 to 1 Advantage Loan
- Practical and timely loan specials such as the Storm Relief and Christmas Brawta loans
- Introduction of money transfer facilities
- Introduction of bill payment facilities
- Increased visits to police stations with the objective of promoting and selling its various offerings
- Increased participation in financial counselling seminars held at police locations
- More personal banking initiatives

Human Resource Management

The key to a successful organization lies heavily in its Human Resources. The team of highly qualified and trained staff was instrumental in the credit union's ability to maintain its competitive advantage which resulted in its success during 2004.

Throughout the year, the importance of teamwork was emphasized and this was demonstrated through the participation of all levels of staff in the annual staff planning retreat. At this retreat, the performance of the credit union was analysed and strategies developed to assist in achieving the goals.

The strategic direction and focus of the credit union was supported by the comprehensive training program. The main focus was training in the areas of service delivery, corporate governance and the regulatory requirements. This was to ensure that the staff was equipped with the necessary tools to operate at optimum levels while being up to date with the changes within the competitive environment in which we operate.

To increase our visibility within the market and at the same time ensuring customer satisfaction, we brought on board our team a business development officer. The team was further strengthened with the recruitment of a Branch Officer and Loans Officer for the Mandeville and Montego Bay branches respectively.

The credit union will continue to strengthen team by developing the staff through training, teamwork and fostering a healthy family orientated environment. This will assist in ensuring the continuous success of the credit union.

Monthly Directors' Meetings

Following is a record of the attendance of Board of Directors during January to December 2004

ATTENDANCE TABLE

Names	Possible	Attendance	Excused	Absent
Ray Palmer	12	10	2	
Guy Roberts	12	12	*****	
Dale Powell	12	8	4	
Courtney Lodge	12	7	5	
Charles Benbow	12	7	5	
Oswald Burchenson	12	8	4	
Calvin Small	12	7	5	
Jennifer Brown-Bonnick	12	12	*****	
Gladys Brown-Campbell	12	12	*****	

Social Responsibility

The Jamaica Police Co-operative Credit Union has prided itself on its commitment to giving back to its various stakeholders which include Members of the Police Force from which it originated or the communities in which its various branches are located.

This aspect continued during 2004 with myriad contributions to ventures such as:

- Donation of branded polo shirts and caps to members of the Constabulary Communication Network (CCN)
- Donation of appliance and sponsorship of a Christmas treat for Hanover Street Baptist Basic School which we had adopted
- Donation of personal computers to various police departments

- Many contributions to police youth clubs, police sports clubs and police dinners and dances
- Talks on financial counseling and effective budgeting skills at police locations when requested

Future Plans

The Credit Union promises to remain relevant to the evolving needs of its Members and potential members with the implementation of the following initiatives:

- Implementation of QNET, a programme that will link all credit unions island wide thus facilitating our Members' transactions even where the JPCCU does not have a branch or agency
- Widening of bond to include parents, brothers, sisters and grandchildren
- Scheduled participation in divisional meeting island wide
- Increased number of sub-agencies and branches
- Increased use of research tools such as surveys and focus groups to ascertain the ever changing needs of our clients
- Implementation of Prospective Membership Form to capture potential members
- Increased segmentation and targeting of membership

Fiftieth Anniversary Celebrations

Monday, July 4, 2005 will mark the Credit Union's 50th year of providing exceptional services to members of the Police Force and their Families.

A committee comprising JPCCU staff and volunteers has been formed to drive the celebrator activities that have been planned as follows:

- Regional services of thanksgiving
- A lunch hour concert on anniversary date

- An award dinner honouring past volunteers and long serving staff members
- A commemorative booklet highlighting the development and accomplishments of the credit union over the years
- A supplement to be published in our major newspapers
- Redesigned banners for all branches
- 50th anniversary giveaways
- Sponsored weekends for two

Conclusion

As the Jamaica Police C-operative Credit Union enters its 50th year, it assures its Membership that it remains committed to meeting each Member's needs with the provision of improved customer service, innovative programmes and the introduction of new products.

The Board of Directors, management and staff wishes to thank our Members for the continued support they have shown to the organization in the face of competitive market forces and challenging economic conditions.

As we look forward with a committed spirit and the determination to realize our vision, to make The Jamaica Police Co-operative Credit Union limited your premier financial institution, we anticipate your continued support as we work towards the fulfillment of this vision.

For and on behalf of the Board of Directors