the NEW

2018 ANNUAL REPORT

STRONG INTEGRATED FINANCIAL GROUP • MODERN MUTUAL • EMPLOYER OF CHOICE • MODEL CORPORATE CITIZEN

VICTORIA MUTUAL
Building Your Financial Independence

VISION
To be the leading Caribbean-based mutual provider of financial services

CORE VALUES
Member Focus
Integrity
Teamwork
Innovation
Excellence

MISSION
We are a mutual financial organisation, whose purpose is to empower our Members globally to acquire their own homes and achieve Financial Independence by providing innovative solutions and excellent service, delivered by a highly competent and engaged Team and through multiple channels. We are committed to partnering with our communities to improve quality of life.

the NEW 2018 ANNUAL REPORT

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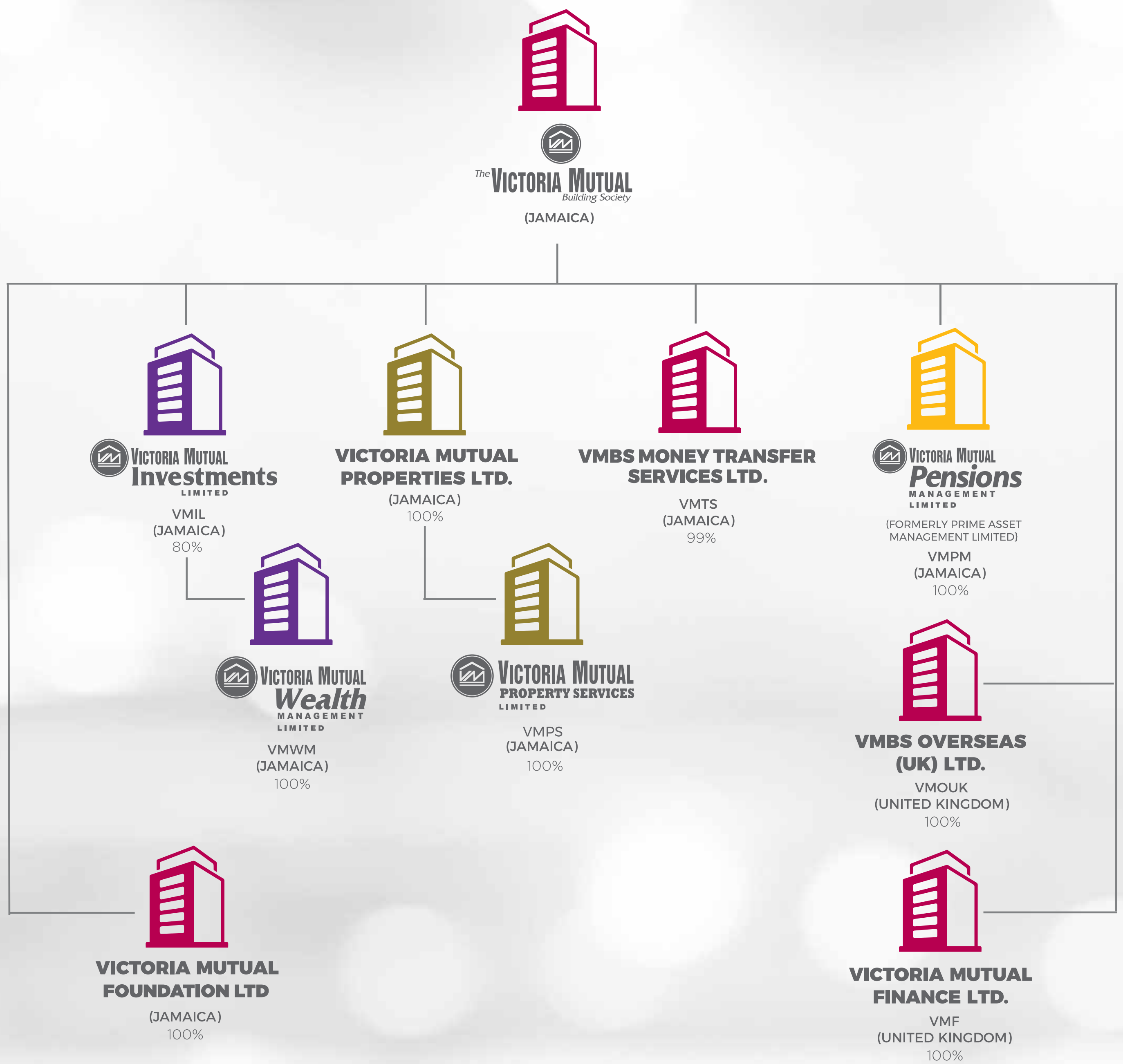
The New VM is driven by

PURPOSE, EXCELLENCE, URGENCY & BOLD AMBITIONS

with an unshakable commitment to delivering the highest levels of customer service and crafting products and services that our Members and Clients want, delivered to them in the ways they choose, The New VM is set to exceed expectations of a Modern Mutual and raise the bar for financial institutions in Jamaica.

MEMBER FOCUS

THE VICTORIA MUTUAL BUILDING SOCIETY SUBSIDIARIES & AFFILIATES



140 YEARS OF MUTUALITY

Victoria Mutual was founded on a mission of spreading financial inclusion.

The aim – forged from the dreams of a group of clergymen – was to create a mutual organisation to assist hardworking but economically marginalised Jamaicans to own their homes. Our founders understood the value of mutuality in the achievement of shared goals and wanted more Jamaicans to experience the benefits of being home owners. That is the genesis of our mutuality and it remains at the core of our purpose 140 years after our founding.

Victoria Mutual was established 13 years after the history-altering Morant Bay Rebellion and immediately facilitated the upliftment of the Jamaican people. Today, our operations are spread across oceans and seas with the same aim. With offices in Jamaica, and representative offices in the United Kingdom, Florida and New York, our reach is wide and our commitment unshakable.

Financial Inclusion in today's Jamaica means greater access to products and services that can improve lives and the knowledge to make informed decisions on financial matters. The Victoria Mutual Group is passionate about empowering our Members and clients with financial education, because we care.

Guided by our four Strategic Goals – Strong Integrated Financial Group, Modern Mutual, Employer of Choice, and Model Corporate Citizen, we pursue our bold ambitions with passion for the sole purpose of improving the lives of our Members and clients and providing them with real value. In 2018 we created an estimated $316 million in value for our Members through low fees and low mortgage rates charged by the Society, and discounts offered to Members

We are more committed than ever to achieve big wins for our Members and Clients and with 140 years of solid experience as our fuel, the future is full of promise of even greater things to come.

OUR STRATEGY

We assess the strategy of the Victoria Mutual Group on an ongoing basis, and once per year, we do so in a particularly focused and structured way.

In 2018, our assessment of the strategy led to our making adjustments to place greater emphasis on empowering our Members and Clients with knowledge that is relevant for their financial well-being. Over the course of 2018, we also created a formal Digital Transformation Strategy for the Group.

These developments are reflected in the revamped Strategy Map for the Group that is shown. The progress we made in 2018 in executing our strategy and the progress we intend to make in 2019 are also outlined.

It should be noted that the foundation elements of our strategy, as enunciated in our Vision Statement, Mission Statement, Strategic Goals and Core Values remain unchanged.

VM GROUP STRATEGY MAP | 2019-2023

FINANCIAL

- F1. Grow Member Value
- F3. Grow Revenue Locally & Internationally
- F2. Improve Efficiency
- F4. Grow Assets & Funding Liabilities
- F5. Maintain Adequate Capital

CUSTOMER

- C1. VM operates in a timely manner when serving me
- C2. It is easy to use VM's branches and digital channels
- C3. With VM, I receive financial solutions that fit my needs
- C4. The VM experience is special because VM takes care to empower me with knowledge that is relevant for my financial well-being
- C5. VM is a good Corporate citizen
- C6. VM is a secure, trusted financial partner

INTERNAL PROCESS

- IP1. Manage and pro-actively enhances IT systems
- IP3. Design and develop digitally-enhanced, profitable products, services & member benefits
- IP5. Grow base of active Members & Clients
- IP7. Deliver relevant, engaging education for the financial well-being of existing and prospective Members & Clients.
- IP8. Strengthen community service
- IP9. Strengthen risk management
- IP2. Simplify, digitize & execute operational & service delivery processes across all channels
- IP4. Manage and deepen client relationships within SBUs & across the Group
- IP6. Manage investment portfolios and carry out mergers & aquisitions
- IP10. Manage VMS capital raising activities

LEARNING & GROWTH

- LG1. We attract, develop and retain the right talent and expertise to support our Members
- LG2. We have an accountable culture that is based on the Core Values and Cultural Beliefs
- LG3. We have the information, digital capabilities and collaboration tools to carry out our functions effectively
- LG4. Our leaders are transformational servant leaders

CULTURAL BELIEFS

Customer Obsessed | Mek Wi Talk More | Accountability Starts With Me | Results Focused | VM Edge | VM Excel | Together Wi A Winna

CORE VALUES

Member Focus | Integrity | Teamwork | Innovation | Excellence

Our progress in 2018 & Plans for 2019

Our Progress in 2018 & Plans for 2019

Our progress in executing the strategy is outlined below. The updates are organised by the strategic objectives in the bottom two perspectives of our strategy map, which are the Learning and Growth Perspective and the Internal Process Perspective.

We expect the outcomes represented by the strategic objectives in the top two perspectives (Customer Perspective and the Financial Perspective) to be achieved once we achieve the objectives in the bottom two perspectives. Therefore, no projects, initiatives or other activities are tied directly to the strategic objectives in the top two perspectives.

The Learning & Growth Perspective

STRATEGIC OBJECTIVE:
LG1: We attract, develop and retain the right talent and expertise to support our Members

STRATEGIC GOAL:
Employer of Choice

OUR PROGRESS:
During 2018 we continued our **Talent Management** programme which involves (1) having Individual Development Plans prepared and regularly updated for all Team Members,

(2) identifying High Potential Team Members,

(3) conducting a comprehensive review of the talent in the organisation, and

(4) developing succession plans for relevant positions. We are continuing with this programme in 2019.

For **Employee Engagement**, team building activities were held during 2018, star performers were recognised for their work, and we continued to offer special rates on mortgages and other loans to team members. These activities are continuing in 2019.

STRATEGIC OBJECTIVE:
LG2: We have an accountable culture that is based on the Core Values and Cultural Beliefs

STRATEGIC GOAL:
Employer of Choice

OUR PROGRESS:
Our Culture of Accountability Programme provides training and tools to assist Team Members to hold themselves and others accountable to high performance. New Cultural Beliefs, aligned with our Core Values, were established and rolled out across the Group in 2018. Team Members continue to use the tools.

STRATEGIC OBJECTIVE:
LG3: We have the information, digital capabilities and collaboration tools to carry out our functions effectively

STRATEGIC GOAL:
Employer of Choice

OUR PROGRESS:
During 2018, our **Digital Transformation Strategy** for the period 2019 – 2023 was developed. The implementation of this strategy is in progress. Please see the projects below for this strategic objective, LG3, as well as the projects under strategic objectives IP2, IP3, and IP4 for further information.

During 2018, we rolled out the **Office 365 tool**, which facilitates greater collaboration.

A new Investment Management System was implemented in VMWM and VMPM in 2018. It went live in VMBS from November 2016.

Under the Financial Reporting System project, a system is being implemented that will be used to support the accurate and timely reporting of financial information to meet the operational, regulatory and strategic needs of the VM Group. Planning work in relation to this project started in 2018.

STRATEGIC OBJECTIVE:
LG 4: Our leaders are transformational servant leaders

STRATEGIC GOAL:
Employer of Choice

OUR PROGRESS:
In 2018, we provided Executive coaching to members of the Senior Leadership Team, and General Management Leadership Training for Managers. We are continuing with these activities in 2019.

The Internal Processes Perspective

STRATEGIC OBJECTIVE:
IP1: Manage and proactively enhance IT systems

STRATEGIC GOAL:
Modern Mutual

OUR PROGRESS:
Among other things, in 2018, architecture was upgraded to improve the performance of our servers, and specific ABMs were reconfigured in order to reduce downtime.

In 2019, we will be migrating critical systems to the cloud and implementing monitoring tools for the proactive detection and resolution of issues.

STRATEGIC OBJECTIVE:
IP2: Simplify, digitise and execute operational and service delivery processes across all channels

STRATEGIC GOAL:
Modern Mutual

OUR PROGRESS:
During 2018 we:
- Implemented iABMs at 5 branches, with intelligent cash deposit functionality, and
- Simplified a number of processes, including making changes so that passbooks are no longer required for withdrawals from passbook accounts

During 2019 we are:
- Implementing iABMs at the remaining branches, and
- expanding the functionality of those that were implemented in 2018,
- Enhancing our mortgage platform
- Preparing to implement a Financial Reporting System, as described under LG3,
- Implementing our new online banking platform, and
- Digitising additional key processes

STRATEGIC OBJECTIVE:
IP3: Design and develop digitally-enhanced, profitable products, services and Member benefits

STRATEGIC GOAL:
Modern Mutual & Strong, Integrated Financial Group

OUR PROGRESS:
In 2018 we introduced new products: an auto loan product, an unsecured loan product, a new Unit Trust within VMWM, and specialised lending in the UK. We also continued work related to launching a credit card product, which remains in progress.

In March 2019 we launched a mortgage product that offers 100% financing for specialised groups, and later in 2019 we will be relaunching our Approved Retirement Scheme (ARS) product.

STRATEGIC OBJECTIVE:
IP4: Manage and deepen client relationships within SBUs and across the Group

STRATEGIC GOAL:
Modern Mutual & Strong, Integrated Financial Group

OUR PROGRESS:
In 2018 we:
- Continued work under the Centre of Excellence for Sales Initiative to improve the effectiveness of sales practices across the Group and improve cross-selling.

In 2019 we are:
- Completing the Centre of Excellence for Sales Initiative
- Beginning the roll out of a Client Management System within VMWM
- Beginning the roll out of redesigned branches. Our new branch in Fairview, Montego Bay, which opened in the first quarter of 2019 is based on the new branch concept.

STRATEGIC OBJECTIVE:
IP5: Grow base of active Members and clients

STRATEGIC GOAL:
Strong, Integrated Financial Group

OUR PROGRESS:
Among other things, during 2018 we held nine Mortgage Expos, and continued the Centre of Excellence for Sales Initiative, as described under IP4.

In 2019 we are continuing to host expos, completing the Centre of Excellence for Sales Initiative, and establishing a unit dedicated to meeting the banking needs of businesses.

The Internal Processes Perspective

STRATEGIC OBJECTIVE:
IP6: Manage investment portfolios and carry out mergers & acquisitions

STRATEGIC GOAL:
Strong, Integrated Financial Group

OUR PROGRESS:
During 2018 we explored potential opportunities in some specific Caribbean territories, and in January 2019 we established a team dedicated to driving and managing the Group's mergers and acquisitions. We expect to close on at least one deal in 2019.

STRATEGIC OBJECTIVE:
IP7: Deliver relevant, engaging education for the financial well-being of existing and prospective Members and clients

STRATEGIC GOAL:
Modern Mutual

OUR PROGRESS:
During 2018 we held nine Mortgage Expos, introduced the VMWM "Wealth Talk" series, and hosted a post-budget forum, pensions seminar, and other fora. We also used social media to provide information to help individuals make sound financial decisions.

We are continuing these activities in 2019, and are strengthening how we execute on this objective, as it represents how we seek to differentiate VM from the rest of the market.

STRATEGIC OBJECTIVE:
IP8: Strengthen community service

STRATEGIC GOAL:
Model Corporate Citizen

OUR PROGRESS:
In 2018, among other things, we:
- Officially launched the VM Foundation.
- Embarked on the Social Enterprise in Schools Programme, in partnership with the British Council, exposing students to the principles of Social Entrepreneurship
- Advanced our financial literacy programme
- Awarded scholarships and bursaries to 59 students

We are continuing with these endeavours in 2019.

STRATEGIC OBJECTIVE:
Strengthen Risk Management

STRATEGIC GOAL:
Strong, Integrated Financial Group

OUR PROGRESS:
After establishing an Enterprise Risk Management (ERM) Framework in 2017, in 2018 we improved the monitoring of our top 15 risks, and are implementing further improvements regarding the detection and monitoring of risks in 2019.

STRATEGIC OBJECTIVE:
IP10: Manage VM's capital raising activities

STRATEGIC GOAL:
Strong, Integrated Financial Group

OUR PROGRESS:
In 2018, the Society successfully raised capital through the issuance of Deferred Shares. New Deferred Shares are being issued in 2019, between April and June.

A Note on Measuring Performance
For each strategic objective, we have at least one metric that is used to measure performance. Further, for each metric, we set a target, measure performance on an ongoing basis, and determine if the target is being met. Doing this allows us to take corrective action when appropriate and provides useful information for decision-making.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the One Hundred and Fortieth Annual General Meeting of The Victoria Mutual Building Society will be held in the Grand Jamaica Suite, Jamaica Pegasus Hotel, 81 Knutsford Boulevard, Kingston 5, Jamaica on Thursday, May 30, 2019 at 3.00 p.m. for the following purposes:

1. To receive the Audited Group Accounts for the year ended 31 December 2018 and the Reports of the Directors and Auditors.

To consider and if thought fit, pass the following Resolution:

Resolution No. 1

"THAT the Audited Group Accounts for the year ended 31 December 2018 and the Reports of the Directors and Auditors circulated with the Notice convening the meeting be and are hereby adopted."

2. To elect Directors.

(1) The Directors retiring from office by rotation pursuant to Rule Number 59(1) of the Society's Rules are Mrs. Jeanne Robinson-Foster and Dr. Judith Robinson and being eligible, offer themselves for re-election.

To consider and if thought fit, pass the following Resolutions:

Resolution No. 2 (a)

"THAT Mrs. Jeanne Robinson-Foster be and is hereby re-elected a Director of the Society"

Resolution No. 2 (b)

"THAT Dr. Judith Robinson be and is hereby re-elected a Director of the Society"

3. To appoint Auditors and authorise the Directors to fix the remuneration of the Auditors.

To consider and if thought fit, pass the following Resolution:

Resolution No. 3

"THAT KPMG, Chartered Accountants, be and are hereby Auditors of the Society pursuant to Rule 72 (1) of the Society's Rules to hold office until the next Annual General Meeting at a remuneration to be fixed by the Directors of the Society".

4. To transact any other business permissible by the Society's rules at an Annual General Meeting

By Order of the Board

Keri-Gaye Brown
Secretary
Dated: 20 Day of March 2019
In accordance with and subject to the provision of Rule 89, a member of the Society is entitled to appoint a proxy to attend and vote at this meeting in his/her stead. The Proxy form shall be provided by the Secretary on request. The completed Proxy form shall be signed by the member and delivered to the Secretary at the Chief Office of the Society not less than ten (10) days before the time appointed for holding of the meeting.

INTEGRITY

FIVE YEAR STATISTICAL REVIEW

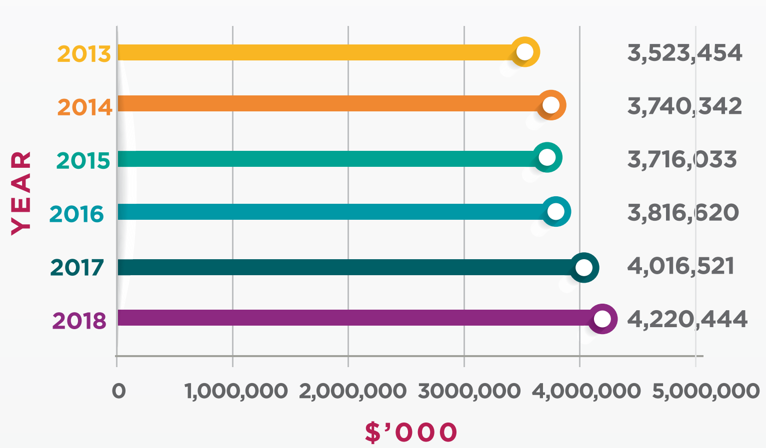
GROUP Balance Sheet ($'000)	2014	2015	2016	2017	2018
Earning Assets	90,488,471	95,490,097	102,579,857	112,397,099	120,789,399
Loans	30,925,659	32,902,398	34,531,088	44,069,750	48,973,660
Total Assets	97,302,033	103,638,266	112,207,742	123,174,146	133,117,216
Savings Fund	60,584,397	66,475,723	71,965,955	76,379,390	81,941,931
Capital and Reserves	11,346,756	12,515,457	14,134,017	15,468,478	16,011,024
Income Statement ($'000)					
Net Interest Income	3,740,342	3,716,033	3,816,620	4,016,521	4,220,444
Operating Revenue	4,964,049	5,330,528	5,547,502	6,532,968	7,594,686
Operating Expenses, excl impairment losses	3,751,843	4,196,834	4,497,234	5,431,981	5,502,705
Surplus before income tax	1,332,220	1,246,983	1,198,979	1,291,440	1,702,849
Surplus for the year after income tax	1,006,182	961,665	856,598	1,032,774	1,218,132
Ratios					
Net Interest Margin	4.35%	4.00%	3.85%	3.74%	3.62%
Return on Capital	9.26%	8.06%	6.43%	6.98%	7.74%
Return on Average Total Assets	1.10%	0.96%	0.79%	0.88%	0.95%
Efficiency Ratio	4.09%	4.18%	4.17%	4.62%	4.29%
Admin Exp:Mean Assets Efficiency Ratio (Cost:Income)	75.58%	78.73%	81.07%	83.15%	72.45%
Capital & Reserves as a percentage of assets	11.66%	12.08%	12.60%	12.56%	12.03%

$16.0B Capital & Reserves

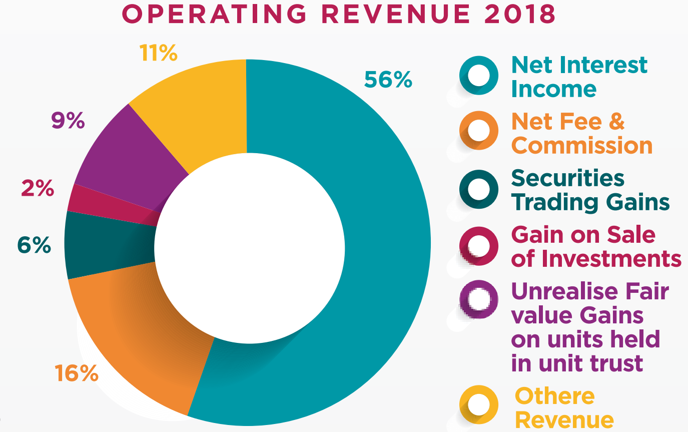
$120.8B Earning Assets

$7.6B Operating Revenue

NET INTEREST INCOME 2014-2018



OPERATING REVENUE 2018



DEFINITIONS USED

Administrative Expenses - Administration + Personnel Costs
Earning Assets - Cash & Cash Equivalent + Investments + Resale Agreements + Loans + Other Assets
Net Interest Income - Interest on Loans + Interest and Dividends from investments - Interest Expense
Operating Revenue - Net Interest Income + Other Operating Revenues
Return on Capital - Surplus Before Income Tax / Average Capital and Reserves
Return on Assets - Surplus Before Income Tax / Average Total Assets
Net Interest Margin - Net Interest Income / Average Earning Assets
Efficiency Ratio - Administration Expenses / Average Total Assets
Cost Income - Administration Expenses / Total Operating Revenue

SOURCES: 2013 – 2018 Audited Financial Statements

DIRECTORS' REPORT

The Directors take pleasure in presenting the One Hundred and Fortieth Annual Report and Statements of Revenue and Expenditure of the Group and the Society, for the year ended 31 December 2018, together with the Statements of Financial Position of the Group and the Society, as at that date.

Surplus

The Group Revenue and Expenditure Account shows Gross Revenue of $7.595 billion (2017: $6.533 billion) and Net Surplus of $1.218 billion (2017: $ 1.033).

Directors

The Directors who served the Society since the last Annual General Meeting are:

Mr. Michael McMorris, Chairman
Dr. Judith Robinson, Deputy Chairman
Rear Admiral Peter Brady
Mr. Noel daCosta
Mr. Courtney Campbell
Mr. Paul Pennicook
Mrs. Jeanne Robinson-Foster
Miss Sandra Shirley
Mr. Matthew Wright
Mr. Brian Goldson
Dr. Maurice McNaughton
Mr. Phillip Silvera

Rotation

In accordance with Rule 59 (1) of the Society's Rules, at the next Annual General Meeting, Mrs. Jeanne Robinson Foster and Dr. Judith Robinson will retire by rotation and being eligible, will offer themselves for re-election.

Mr. Paul Pennicooke resigned from the Board effective November 15, 2018.

Auditors

"That KPMG, Chartered Accountants, be and are hereby Auditors of the Society pursuant to Rule 72 (1) of the Society's Rules to hold office until the next Annual General Meeting at a remuneration to be fixed by the Directors of the Society".

The Directors wish to record their thanks to the management and staff for their continued commitment to the Society and for their hard work during the year under review.

By Order of the Board
20 March, 2019

Keri-Gaye Brown
Secretary
8-10 Duke Street, Kingston
Jamaica, West Indies

BOARD OF DIRECTORS

Mr Michael A McMorris, BA
Chairman

Mr. McMorris is the Chairman of the Board of Directors at Victoria Mutual and has held that office since 2011. He is Principal of the business management firm KRONOS Limited and works with local and international investors in the area of new venture development and strategic management.

Mr. McMorris has had a successful career in both the Private and Public sectors. He was previously an Executive Director of Jamaica Promotion Corporation (JAMPRO) and prior to that, held the post of CEO with Trafalgar Commercial Bank (now First Global) and Knutsford Capital Merchant Bank, which he helped found.

Mr. McMorris holds a Bachelor's Degree in Economics and Politics & Public Affairs from the University of Miami as well as advanced finance training from Citibank's School of Banking where he started his career.

Currently, Mr. McMorris also serves as Chairman of Victoria Mutual Wealth Management Limited, 1st Vice President of the Jamaica Chamber of Commerce and Director of other commercial enterprises. Previously, Mr. McMorris has served as Chairman of VMBS Money Transfer Services Limited, President of the Merchant Bankers Association, Chairman of the Finance Committee of the Airports Authority of Jamaica and a member of the Board of the National Exim Bank.

Dr. Judith Robinson PhD, FCCA, FCA
Deputy Chairman

Dr. Judith Robinson is a Management Consultant and retired Chartered Accountant, who serves as Chairman of the Audit Committee of the Victoria Mutual Building Society, member of its Finance and Risk Management Committee, and Chairman and Investment Committee member of Victoria Mutual Pensions Management Limited.

She has a Ph.D. in Public Administration from New York University and records her prime areas of practice interest as organisational learning and organisational development. A former partner in the management consulting practice of Price Waterhouse Jamaica, Dr. Robinson has held senior management and financial positions at the Jamaica Telephone Company Ltd, the National Water Commission, and NCR (Jamaica) Ltd.

While completing the doctoral programme at New York University, Dr. Robinson worked with the United Nations as a member of the Audit and Management Consultancy Division of the Office of Internal Oversight where she completed assignments in New York and Geneva, Switzerland.

She has served as a director of companies in the private, public and not-for-profit sectors in Jamaica for more than forty years, and is especially proud of her service in the 1970s as Treasurer and President of the J.T.C. Employees Cooperative Credit Union Ltd. (now C&WJ Cooperative Credit Union Ltd.), and as Treasurer of the Jamaica Cooperative Credit Union League Ltd. Most recently she served, inter alia, as Chairman of the National Environment and Planning Agency's Advisory Board, as a director of I.G.L. Limited, and as a director of the Caribbean Cement Company Limited and the National Water Commission, where she chaired their Audit Committees.

Mr. Courtney Campbell, MBA (Distinction), ACIB, BSc, JP Group President & CEO, Victoria Mutual

Mr. Courtney Campbell has served as the President and Chief Executive Officer of the Victoria Mutual Building Society (VMBS) since April 2016. Over the course of his career, Mr. Campbell has held several senior executive positions, including, Chief Executive Officer - GraceKennedy Financial Group, GraceKennedy's financial services holding company with operations in banking, stock broking, insurance and money services across 12 Caribbean territories.

Prior to joining the GraceKennedy Financial Group, he spent over 23 years with the National Commercial Bank, where he served in several management positions, including Head of the Retail Banking Division. He holds a BSc in Management Studies from The University of the West Indies, and an MBA in Finance (Distinction) jointly awarded by the University of Wales & Manchester Business School. He is also a member of the Chartered Institute of Bankers, London. Mr. Campbell is the Chairman of the United Church Mission Enterprise; a Corporate Champion for the UWI STAT, Mona Campus and a Member of the Public Sector Transformation Oversight Committee. He also serves on the Kings House Trust and the Investment Committee of the Council of World Missions. A Justice of the Peace, Mr. Campbell is an Advisory Board Member of the Governor-General's Programme For Excellence and an I Believe Initiative Ambassador. He previously served as a Director of GraceKennedy Limited as well as a number of its subsidiaries' boards and is a former Chairman of the National Education Trust (NET). Courtney is married to Pauline and they have two sons.

Mr Noel daCosta, CD

Noel daCosta has served on several boards in the private and public sectors, and has been at the helm of several local and international organizations, including the Jamaica Chamber of Commerce, the Jamaica Institution of Engineers, the Jamaica Debates Commission, the Jamaica Alcohol Beverage Association, United Way of Jamaica, the Caribbean Breweries Association, the Master Brewers Association of the Americas, and the Caribbean Council of United Way Worldwide.

He has over fifteen years' experience in Corporate Relations, and has worked for over three decades in technical and engineering leadership. He has worked in the beverage industry for many years, in positions such as Corporate Relations Director (Central America and Caribbean) for Diageo Plc, as well as Engineering Manager, Brew master, and Technical Director for the Red Stripe Brewery.
He has postgraduate degrees in Engineering, Business Administration and Insurance, and is a Fellow of both the Jamaica Institution of Engineers and the Institution of Chemical Engineers (UK).

A founding partner of the Jentech Group of engineering companies, Mr. daCosta led a team of over 100 professionals that voluntarily developed a modern Building Code for Jamaica.

In 2012 he was appointed by the Government of Jamaica to the Order of Distinction in the Rank of Commander (CD) for his contributions to engineering and manufacturing, and in 2016 he was appointed to chair the Petroleum Trade Reform Committee.

BOARD OF DIRECTORS

Sandra M. Shirley-Auxilly, MBA, B.Sc. (Hons), PMP

Sandra Shirley-Auxilly, Business Facilitator/Consultant has extensive experience spanning over 30 years in wealth management, trust banking, strategic planning and implementation in the United States and the Caribbean. She was a licensed securities dealer (1996-2018) and President of First Global Financial Services Limited (2004-2008). Mrs. Shirley-Auxilly is a 2006 Fellow of the Jamaican Institute of Management and a member of the Private Sector Organisation of Jamaica. She is also a former Director and Vice President of the Jamaica Chamber of Commerce and has served on various other private and public sector boards, including as Deputy Chairman, The Jamaica Stock Exchange (2008), Secretary, Security Dealers Association (2006-2008), Commissioner, Anti-Dumping & Subsidies Commission and Jamaica Deposit Insurance Company. She was also the Principal, Jamaica Stock Exchange E-Campus (2014-2018).

A former Senior Research/Teaching Fellow-Finance, Mona School of Business, University of the West Indies, Mona, Mrs. Shirley-Auxilly has also served in various capacities on technical assistance and project teams funded by private sector and multilateral agencies. Her experience includes entrepreneurship and SME development. She believes in giving through service and is a United Way volunteer and Past President of Soroptimist International (SI) Jamaica.

Mrs. Shirley-Auxilly has a BSc (Hons.) Management Studies, University of the West Indies, majoring in Accounting & Finance and an MBA Finance and Banking, Pace University, New York, USA. She completed a Post Graduate Diploma, Investment Appraisal and Risk Analysis, Queens University, Ontario, Canada. Mrs. Shirley-Auxilly is an approved Pension Fund Trustee and serves on the boards of Victoria Mutual Building Society, Victoria Mutual Wealth Management Limited, Victoria Mutual Pensions Management Limited and British Caribbean Insurance Company Limited.

Dr. Maurice McNaughton, PhD

Dr. Maurice McNaughton is an Engineering Graduate of the University of the West Indies and holds a PhD in Decision Sciences from Georgia State University. He has over 20 years' senior management and leadership experience in the planning and direction of enterprise-level Information Technology in organisations. He currently serves as Director of the Centre of Excellence for IT-enabled innovation at the Mona School of Business & Management, University of the West Indies.

Dr. McNaughton's research interest spans the domain of emerging Open ICT ecosystems and integrates extensive industry experience with focused academic research about the strategic use of ICTs as an enabler of business innovation in small and large enterprises as well as a growth-enabler for developing economies. He serves the public sector in several capacities including as a member of the National ICT Advisory Council and the Board of Commissioners of the Overseas Examinations Commission.

Rear Admiral Peter Brady

Rear Admiral (ret'd) Peter Brady is the Director General of the Maritime Authority of Jamaica. He served as Chief of Defence Staff in the Jamaica Defence Force (1990-1998), is a graduate of the Royal Naval Staff College, Greenwich London, and has a graduate degree in Marine Management from Dalhousie University, Canada. In December 2003, he was elected as Chairman of Committee 1 of the 23rd IMO Assembly, chaired the IMO's STW Sub-Committee for 10 terms and in June 2010 presided over the Diplomatic Conference in Manila, where the amendments of the STCW Convention was adopted.

He was a visiting lecturer at the World Maritime University (WMU), and has been a serving member of its Board of Governors since 2007, being elected as its Vice Chair in 2015. He chairs the National Hydrographic Committee (Jamaica), is Honorary Consul for the Principality of Monaco, an Associate Fellow of the Nautical Institute and is the 2015 SEATRADE recipient of the IMO themed Award for Maritime Education and Training.

During his military career he was the recipient of the Legion of Merit (Cdr USA); Commander of the Royal Victorian Order (Commonwealth); Commander of Distinction (CD, Jamaica); Medal of Honour for Meritorious Service (Jamaica Military).

Mr. Brian Goldson, MBA, BSc

Mr Brian Goldson is an experienced, innovative business leader and entrepreneur with an extensive and strong track record in delivering a wide range of high-volume, retail consumer transactional financial services throughout the Caribbean over the past 29 years.

A Caribbean focused entrepreneur with investments in Fintech companies, Mr. Goldson has more than 29 years of proven experience in starting and building new business enterprises and leading them to top positions in their respective markets in a number of countries in the Caribbean. He has an outstanding track record in establishing and/or managing a wide range of high-volume retail consumer transactional financial services. These include the launch of Western Union Money Transfer Services; F/X Trader, a retail cambio/bureau de change; and Bill Express, a bill payment service, in several Caribbean territories.

A former equity trader, Mr Goldson has successfully led companies to listings on capital markets. In particular, as Non-Executive Chairman, he led Access Financial Services, a micro-finance institution, to a successful listing on the Jamaica Junior Stock Exchange in October 2009. Mr. Goldson served for 16 years as a member of senior management at GraceKennedy and Company including the position of Divisional Director/Chief Operating Officer, Information & Money Service Division. He was a member of the main board from 1999 to 2006. His other previous board appointments include Non-Executive Chairman of Access Financial Services and the Postal Corporation of Jamaica.

Mr. Goldson attained a BSc in Investment Finance from the University of New Orleans, and an MBA specialising in Strategic Management and Real Estate Finance from Georgia State University.

Mrs. Jeanne P. Robinson-Foster, CD, BA (Hons.), LLB (Hons.), CLE

Mrs Jeanne P. Robinson-Foster studied at the University of the West Indies where she earned a Bachelors of Arts degree, followed by a Bachelors of Law and the Certificate of Legal Education. A true Montegonian, she attended primary and high schools in the area and returned there to work after acquiring her professional qualification. In October 2011, she was conferred with the Order of Distinction (O.D.) in the Commander Class, "in recognition of her significant contribution to the legal profession and community development".

This Attorney-at-Law has over thirty (30) years experience and is the founding partner of Robinson-Foster & Associates. Even though a legal practitioner at this time, Mrs. Robinson-Foster has earned distinction in the airline industry and teaching profession, having worked at Eastern Airlines and taught at Mount Alvernia High School and The University of Technology. In fact, she received the All-Island Courtesy Award in the Airline Industry and was the All-Island Boss of the Year in 1986.

Mrs. Robinson-Foster has served as a member of the General Legal Council of Jamaica and was immediate chair of the Mutual Societies Foundation of Jamaica, which sponsored a successful intervention initiative, the Centres of Excellence Programme in Six (6) rural based high schools. Mrs. Robinson-Foster is a past president of the Soroptimist Club of Jamaica and has represented the Building Societies Association on the Governor-General Achievement Awards Cornwall County Committee and has been a member of the Board of the UWI School of Continuing Studies and the Montego Bay Chamber of Commerce. She has also held the post of Director/member of the Board at the Montego Co-operative Credit Union (now Gateway Co-operative Credit Union), Montego Bay High School, Barracks Road Primary, St. James High School, the Cornwall Regional Hospital and the Western School's Trust.

Presently, she is the chair of The Good Shepherd Foundation, an interdenominational charitable organization in Montego Bay with specific commitment to the health and education of the poor, the disabled and the disadvantaged. She is actively involved in many other organizations and is a Deacon of the Calvary Baptist Church. She is also past Chair and current Board Member of the Sam Sharpe Teachers' College.

Mr Paul Pennicook, BSc

Mr Paul Pennicook, an experienced hotelier and tourism consultant, has held several executive management positions in the hotel and tourism industry including management positions at the Holiday Inn, Montego Bay and Hedonism 2 in Negril before going on to work as General Manager at Couples, Ocho Rios, and Senior Vice President of Sales and Marketing for SuperClubs. He has served as Chairman of Victoria Mutual Property Services since 2015.

Mr Pennicook joined Unique Vacations, the Marketing arm of the Sandals Resorts chain, in 1995 as Executive Vice President. He was appointed to the position of President and Chief Executive Officer of Couples Resorts in 1997; has served as First Vice President of The Jamaica Hotel and Tourist Association (JHTA) as well as Chairman of that organisation's Marketing Committee. He was named Hotelier of the Year in 2001 by the JHTA.

Mr. Pennicook has held the position of Director of Tourism for Jamaica on two occasions, first from 2003 to 2006 and again from 2014 to 2017.He has also served as Senior Vice President, Sales & Marketing at Air Jamaica.

He is a wine connoisseur who has visited vineyards in Australia, California, Chile and Europe studying blends indigenous to these regions.

BOARD OF DIRECTORS

Mathew Wright, MPhil, MA, BA

Mathew Wright is the Managing Director of York Investment Management S.A., an independent financial advisory firm based in Panama City, Panama and is a Managing Member of of IWC Capital Management LLC, a New York-based private equity firm specializing in multi-family residential and commercial real estate investments in New York City. Mr. Wright has over 20 years' experience in corporate finance, credit risk management and investment management. He is a former Vice-President in the Infrastructure Finance Group of Citibank Global Capital Markets in New York, with responsibility for providing financial advisory and debt arrangement services to major infrastructure projects in North America, Latin America and the Caribbean. Mr. Wight has also served as Assistant Vice-President for Capital Markets in the Emerging Market Corporate Bank of Citibank Jamaica.

Mr. Wright is a former Cambridge Commonwealth Scholar and holds a Master of Philosophy in Environment and Economic Development from Cambridge University in the United Kingdom; a Master of Arts Degree in International Development Policy from Stanford University, California; and Bachelor of Arts Degree in Economics from Williams College, Massachusetts. He also serves as a Board member for Victoria Mutual Building Society and Victoria Mutual Wealth Management.

Keri-Gaye Brown

Ms. Keri-Gaye Brown joined the Victoria Mutual family in August 2010. An attorney-at-law who has been practicing for over 15 years, she possesses extensive knowledge in the areas of banking law, insurance law, corporate secretarial, securities laws and also in the development of compliance and corporate governance policies.

Prior to joining Victoria Mutual, Keri-Gaye worked in the financial sector and as a litigation practitioner in the court of Jamaica.

Phillip G. Silvera, FCCA, FCA

Phillip Silvera is a long-standing member of the Victoria Mutual Family and is a former Executive Vice-President of The Victoria Mutual Building Society (VMBS), where he spent 32 years in various senior positions including Divisional President, Financial Controller and Chief Accountant.

A fellow of the Association of Chartered Certified Accountants (FCCA) UK and the Institute of Chartered Accountants (FCA) Jamaica, Mr Silvera has over four decades of experience in the financial industry. He was also a licenced Security Dealer and served as a registered Public Accountant for many years.

He currently serves on the boards of Victoria Mutual Building Society, VMBS Money Transfer and Victoria Mutual Wealth Management. He chairs the Audit, Risk and Compliance Committees of both Victoria Mutual Investments and Victoria Mutual Wealth Management.

Mr Silvera is the Chair of the Board of Directors of Topaz Christian Fellowship and a Past President of the Golden Acres Citizens Association. He previously served on the boards of several other companies, including Victoria Mutual Insurance Company, Jamaica Unit Trust and The Caribbean Graduate School of Theology. He is also a past Chairman of J.E.T.S. Limited, operators of MultiLink, Jamaica's largest payment system.

A former Head Boy of St. Mary High School, Mr Silvera enjoys woodworking and farming at home.

CHAIRMAN'S MESSAGE

The Victoria Mutual Group had an eventful and successful 2018. The year of our 140th Anniversary featured many big moments and demonstrated that The New VM is more committed, focused and determined than ever to fulfil our mission of helping our Members own their homes and achieve financial independence.

Financial Performance

The Group ended the year in a strong financial position. In 2018 the VM Group's after-tax surplus increased by $185.4 million to end the year at $1.218 billion. The Group's Assets increased by $9.943 billion or 8.07%.

Operating Environment

Local Economy

Throughout 2018, Jamaica solidified gains it had made in previous years and accelerated its programme of economic stimulus. Of particular note:

- The Bank of Jamaica (BOJ) lowered its benchmark overnight interest rate five times in 2018 from 3.25% at the start of the year to 1.75% at the December sitting of the BOJ Interest Rate Committee. Treasury Bill yields fell below 2% from August 1 to November on the 91-day and 182-day tenors, rising to just above the 2% mark in the December auctions. Local rates are the lowest on record in Jamaica's history.

- Jamaica's economy continued to show higher levels of real economic growth, growing 1.9% for 2018, driven primarily by the goods-producing sectors, which grew by 5.0%.

- Businesses maintained a positive outlook, with more businesses planning to increase investments. Consumer confidence was also buoyant, reaching its highest level since 2001.

- Unemployment stood at 8.7% by the end of 2018, a slight uptick from the July survey when an unemployment rate of 8.4% was recorded - the lowest rate on record for Jamaica.

Overseas

Much turmoil was experienced by our Caribbean neighbours. Following a changing of the Government in Barbados, the country took the decision to restructure its debt, having discovered that its debt levels were much higher than anticipated. This resulted in Barbados defaulting on its external debt and the resultant assignment of a default credit rating from overseas ratings agencies. Barbados received an Extended Fund Facility (EFF) from the International Monetary Fund (IMF). The IMF was impressed with the swift domestic debt restructuring, which took place earlier in the fourth quarter, which would create fiscal space for increased social spending and investment in infrastructure. Discussions are ongoing with external creditors.

While Jamaica has been lowering its target interest rates, the US increased its target Fed Funds Rate four times from 1.50% to 2.50% in 2018. This was due to strong labour market conditions, inflation near the target level of 2%, strong household spending, and a decline in unemployment, among other positive data.

Strategy in Action

Throughout 2018 The Victoria Mutual Group focused heavily on Financial Education which is our business' key differentiator – we empower our Members with financial education because we care. Motivated to help more persons make informed financial decisions for their own benefit and the benefit of their families, the team executed a number of initiatives to ensure that more persons received the information they needed. This included the staging of nine mortgage expos across the island, a Post-Budget Forum, a retirement forum, focused social media messaging along with many other initiatives.

The year 2018 saw the introduction of the very popular VM Drive Auto Loan as well as our Unsecured Loan product and specialised lending in the United Kingdom. All this was made possible thanks to our Members who, at our 2017 Annual General Meeting voted to change the rules of the society, facilitating the introduction of these and other new products. The year also saw the Group executing its Digital Transformation Strategy which aims to improve processes, facilitate the introduction of new products, enhance service delivery and increase service delivery channels. Even as the Team worked to create an even better experience for our Members and clients, it achieved a major feat in sweeping the PSOJ-Jamaica Customer Service Association's Service Excellence Awards. The Group won six of seven category awards and the overall Excellence Award. This win serves as great encouragement to the team who will continue to reach higher and dream bigger.

Outlook

This is only the beginning. The New VM will be aggressively pursuing its bold ambitions with passion and purpose. As stewards of this iconic Jamaican institution we can do nothing less.

On behalf of the Board, I wish to thank the Management and Team Members of The VM Group for purposefully applying their talents to achieving the Group's mission. Their passion is commendable and will continue to serve the business and our Members well.

I also wish to thank our Valued Members for allowing us to be your partner along your journey towards Financial Independence. Exciting days are ahead. The New VM will continue to ensure that you have access to the products and services you desire, delivered to you in the way you choose.

Michael A. McMorris

Chairman


VICTORIA MUTUAL
BUSINESS
CONFERENCE
2018
EXCELLENCE
the
NEW
2018
ANNUAL REPORT

CORPORATE GOVERNANCE

Victoria Mutual is fully committed to transparency, ensuring the adoption and implementation of the best practices in corporate governance. We are committed to the sound principles, practices and processes to ensure that the Group is effectively managed in the best interest our valued Members and all stakeholders.

The Board of Directors' responsibilities for the VM Group includes

- Overseeing the implementation and execution of the Strategic Plan and initiatives for VM Group
- Ensuring that robust policies are implemented and complied to govern the operations and critical functions of VM Group
- Supporting the President & CEO through delegation of responsibilities for the overall management of VM Group.

The Board Of Directors' Main Duties For 2018

During the financial year 2018 the Board's main duties and responsibilities were:

Strategic

- Approving the Strategic Plan, key performance targets and supporting business plan
- Assessing the capital adequacy requirements to support the execution of the strategic plans
- Assessing the performance objectives and key metrics

Human Resources

- Review the Compensation Philosophy for the VM Group, the talent management plans and initiatives
- Assess and review the succession plans for executives and management officers

Financial Performance

- Approve and oversee the VM Group's annual budget and supporting financial and business plans
- Review and assess bi monthly financial performance and applicability of the accounting standards
- Review and assess the capital adequacy requirements for the VM Group

Risk Management, Compliance and Internal Controls

- Approve and oversee the Enterprise Risk Management Policy Framework, risk parameters and risk appetite.
- Ensuring appropriate measures are applied and maintained in respect of risk identification, mitigation and controls
- Ensuring that the VM Group operates at all times in compliance with all applicable laws and regulations in respect of all jurisdiction that the VM Group has a presence and serves its Members.
- Review and assess the effectiveness and adequacy of the internal control, systems of risk management, control environment and regulatory compliance.

BOARD COMPOSITION

During 2018 the Board was composed of twelve board members, with eleven members as non-executives. The Board is chaired by an independent Chairman, Mr. Michael McMorris and is composed of directors with diverse skill sets, experiences and backgrounds to provide sound strategic direction for the Society.

- Strategic planning and management
- Banking/financial industry
- Accounting/Auditing
- Information Technology
- Legal
- Human Resource Management

The Board held nine board meetings during 2018 with two meetings focused on strategic planning . Directors attendance and participation at board meeting is critical to the successful governance of the VM Group.

ATTENDANCE BY INDEPENDENT DIRECTORS (Number of meetings – 9)

Michael McMorris (Chairman)	9
Dr Judith Robinson (Deputy Chairman)	8
Jeanne Robinson Foster	8
Rear Admiral Peter Brady	7
Noel DaCosta	9
Paul Pennicook	5
Sandra Shirley	9
Matthew Wright	9
Brian Goldson	9
Maurice McNaughton	7
Phillip Silvera	9

BOARD COMMITTEES

The Society and its subsidiaries are directed by a Board of Directors, and Committees of the respective Boards to provide oversight in the areas of:

a) Group Audit

b) Group Finance and Risk Management; and

c) Group Corporate Governance, Nominations and Compensation.

Each of these Committees is composed exclusively of non-executive Directors with approved Charters to guide the roles and responsibilities. The Committees report to their respective Boards at least quarterly.

The Group Audit Committee

The primary purpose of this Committee is to assist the Board of Directors in fulfilling its accountability for the efficient and effective oversight in the following subject areas:

a) The integrity of the Society's financial statements;
b) The Society's compliance with legal and regulatory requirements;
c) The independent auditor's qualifications and independence;
d) The performance of the Society's internal audit function and the independent auditors; and
e) Internal controls and the operational environment.

The Committee also provides oversight of the audit function of all subsidiary companies of the Society, in addition to performing its substantive role as the Audit Committee of the Building Society.

COMMITTEE MEMBERS & ATTENDANCE (Number of meetings – 7)

Dr Judith Robinson (Chair)	7
Sandra Shirley	7
Rear Admiral Peter Brady	5
Phillip Silvera (appointed July, 2018)	1

The Group Finance and Risk Management Committee

This Committee assists the Board of Directors in fulfilling its responsibilities for overseeing the management of Financial Matters and Risk Management:

CORPORATE GOVERNANCE

FINANCIAL OVERSIGHT

a) The financial performance of all entities within the Group;
b) The allocation of the Group's capital;
c) The assessment and conduct of due diligence for potential major transactions within the Group;
d) The monitoring of the performance, funding and adequacy of the pension scheme(s) operated by the Group;
e) The investment and loan portfolios of the Building Society including the review and approval of significant loans and extensions of credit. In this regard, the Committee receives reports from and oversees the work of the Group Asset/Liability and Credit Committees of the Management.

RISK MANAGEMENT OVERSIGHT

The Risk Management responsibilities include ensuring that appropriate policies, procedures and strategies are established and implemented on an enterprise-wide basis for managing the Group's risk exposures.

The Group Finance and Risk Management Committee monitors the Risk Framework of the Group and provides assistance to the Board in undertaking the following functions:

a) Definition of enterprise risk appetite and the development of a policy framework to guide the design of a robust Risk Management System;

b) Review and evaluation of the Group's risk exposures;

c) Development and maintenance of an effective risk management culture; and

d) Monitoring the risk identification, measurement, monitoring and control processes.

COMMITTEE MEMBERS & ATTENDANCE (Number of meetings – 8)

Mr. Mathew Wright – (Chair)	8
Mr. Michael McMorris	7
Dr. Judith Robinson	7
Mr. Brian Goldson	8
Mr Phillip Silvera	7

The Group Governance, Nomination and Compensation Committee

a) The mandate of this Committee is to assist the Board of Directors in fulfilling its responsibilities for:

b) Designing an effective Corporate Governance Framework, undertaking periodic reviews and making recommendations for reform, if necessary, to ensure the practice of good corporate governance;

c) Identifying qualified candidates for nomination to the Board and for service on committees of the Board; recommending changes in Director compensation to the Board; evaluating candidates for appointment to the position of Chief Executive Officer (CEO) of the Society and making recommendations to the Board in that regard; and assisting the CEO in selecting suitable candidates for appointment to senior management positions in the Group;

d) The formalisation and oversight of senior management compensation programmes for all business units to ensure that compensation is consistent with the objectives, strategy and the control environment;

e) The formulation and oversight of performance incentive systems for all business units and;

f) The establishment of a policy framework to deal with related party transactions and conflicts of interest.

COMMITTEE MEMBERS & ATTENDANCE (Number of meetings – 5)

Mr. Michael McMorris (Chair)	4
Paul Pennicook	3
Mrs Jeanne Robinson – Foster	5
Dr. Maurice McNaugthon	5
Mr. Brian Goldson	5

DIRECTORS' ORIENTIATION AND TRAINING

The Board of Directors is exposed to continuous training and education to keep informed of new developments, legal and regulatory changes which impact the Group and the oversight responsibilities of the Directors. There are Board presentations, and engagement of consultants on key areas, and seminars related to the business objectives.

GUIDELINES FOR BUSINESS CONDUCT

The Guidelines for Business Conduct for the Group is applicable to Directors and all employees of the Society and the subsidiaries. The guidelines set out the ethical and business conduct requirements which include:

1. Compliance with applicable laws and regulations
2. Executing function with integrity, accountability and honesty
3. Avoidance of conflicts of interest; obligation to declare any potential or actual conflict of interest and obtain guidance
4. Corporate disclosures to be accurate and timely
5. Victoria Mutual corporate governance policies and practices are designed to ensure that VM operates in a sustainable and responsible manner at all times.

Leaders become great, not because of their power, but because of their ability to empower others.

CORPORATE SOCIAL RESPONSIBILITY

FOUNDATION
Improving Your Quality of Life

"It is our intention to let the work of The Foundation be a catalyst for a much broader, nationwide growth in volunteerism, and to ignite a spirit of selflessness that will lead more persons to actively help others in different ways".

\- Courtney Campbell, chairman of The VM Foundation -

In its 140th year, Victoria Mutual Group launched the Victoria Mutual Foundation. The launch took place on Tuesday May 8, 2018 at the Knutsford Court Hotel. It was established as the vehicle through which the Victoria Mutual Group will continue to improve quality of life through philanthropic efforts and business imperatives.

The Foundation, which focuses on leadership and nation building, youth empowerment and improving health and family life, seeks to positively transform the lives of Jamaicans globally.

CORE VALUES

- Empowerment
- Accountability
- Care
- Excellence
- Collaboration

AREAS OF FOCUS

The main areas of focus under each banner are:

1. LEADERSHIP AND NATION BUILDING
   - National Leadership Prayer Breakfast
   - Governor General's Achievement Awards
   - Schools/PTA Resource Mobilisation and Training Programme
2. YOUTH EMPOWERMENT
   - Scholarships
   - Social Enterprise in Secondary Schools
   - Financial literacy for young people
   - Under-13 football coaches development programme
3. HEALTH AND FAMILY
   - Marriage and the Family Seminar
   - Adopt-A-Clinic, in partnership with the Ministry of Health
   - Healthy Lifestyles, which will utilise social media to highlight the importance of prevention, early detection and care for a range of lifestyle illnesses

Over 8000 LIVES IMPACTED in 2018

MISSION BROUGHT TO LIFE

674 LEADERS IMPACTED
- **National Leadership Prayer Breakfast** 450 attendees
- **Leadership Training** 62 Coaches in the VM U-13 Football Tournament
- **Governor General Achievement Awards** 38 awardees
- **Social Enterprise in Secondary Schools (SESS) Programme** 124 trained teachers

$1,475,000 IN SMALL GRANTS

111 SCHOOLS IMPACTED
- **VM U-13 Football Tournament** 31 participating schools in rural Jamaica
- **Head-start Scholarship Programme** 52 school beneficiaries
- **Grants** 3 beneficiaries
- **SESS Programme** 22 schools
- **IT Resources** 4 beneficiaries

7688 STUDENTS IMPACTED
- **Social Enterprise in Secondary Schools Programme** 4,950 participants
- **Scholarships** 203 recipients
- **VM U-13 Football Tournament** 682 participants
- **Grants** 893

108 VM VOLUNTEERS
- 25 Trained Mentors
- 16 SESS Volunteers
- 67 registered donors

36 IT RESOURCE DONATED

27 YEARS OF IMPACTING LIVES IN U-13 FOOTBALL COMPETITION

Over 100 COACHES

Over 12,000 STUDENT PLAYERS

80

players have made the Junior Reggae Boyz Squad (U15, U17, U20) over the years with some being called to the Senior Reggae Boyz team, local and overseas leagues as well as benefitted from scholarships abroad to Colleges and Universities.

Why Volunteer?

GIVE YOUR HEARTS TO SERVE – POWER OF VOLUNTEERISM

FORBES MAGAZINE

Gain new skills	Sharpen existing skills	Improves confidence	Improves health and wellbeing	Boosts morale	Provide leadership opportunities	Aid social integration and connections	Engage in training opportunities	Increases employment prospects

HARVARD HEALTH

Weekly volunteering leads to happiness levels comparable to a life-changing salary boost.

HUFFINGTON POST

Workplace giving and volunteering fosters a desirable team environment and improves productivity.

CORPORATE SOCIAL RESPONSIBILITY

Amplifying Our Impact

Through the VM Foundation, in 2018 we were able to impact the lives of over 8,000 persons - of which 7,688 were students - via our programmes and contributions. One Hundred and eleven schools (111) benefited from projects of the VM Foundation. Our vision is to improve the quality of lives of Jamaicans. We have been able to do that thanks to the amazing loyalty of our partners, Members, Board and Team Members.

We are delighted to have invested over J$30 million in Jamaica. Of this amount, over J$1.4 million was donated to support smaller grants. And we're just getting started.

Transforming Lives, Building Better Communities

In 2018, we partnered with the British Council to launch our Social Enterprise in Secondary Schools (SESS) programme in which 14 schools are participating with over 4,000 students. The schools have established social enterprise clubs, identified social problems within their communities and are creating businesses to help address them. It is expected that this programme will help to address the gap in global skills development which is critical to meeting the needs of students in the 21st century in a globalised economy.

VM Foundation continues to transform lives through our commitment to supporting students on their journey towards gaining an education. Over 200 students received scholarships from the VM Foundation Head Start Scholarship programme, at the primary, secondary and tertiary levels.

The VM Foundation has adopted the St Jago Park Health Centre in Spanish Town, St Catherine. Adopt-a-Clinic's primary objective is to have Jamaicans take responsibility for their health at a primary level before they have a need to get to the hospitals. The main thrust of the programme is to refurbish and upgrade clinics across the island to ensure that patients get quality care in a professional setting.
The IgKnight programme focuses on Personal Development, Leadership Formation and Financial Literacy. It seeks to empower students at the tertiary level and equip them with tools and skills necessary to transition and adapt in society inclusive of financial independence for the future as part of their professional development.

The Victoria Mutual Foundation worked with the St James Football Association to host its football competition with over 700 students and coaches. This competition is an important investment in our nation's future and the building block for a development programme for coaches to build their skills in mentoring and informing young people on nutrition, exercise, and self-esteem while young footballers have an opportunity to sharpen their football skills in a safe environment. The competition also includes imparting life skills, including developing good saving and financial habits that the youth will find useful in achieving overall wellbeing.

2018 PERFORMANCE HIGHLIGHTS

Approximately **$316 million** in value delivered to Members through low fees and low mortgage rates charged by the Society, and discounts offered to Members by the Society's subsidiaries

Net Surplus was **$1.218 billion** or **18%** above the **$1.033 billion** achieved the previous year

Group's after-tax surplus increased by **$185.4 million** to end the year at **$1.218 billion**

The Group's assets increased by **$9.943 billion or 8.07%**

Disbursed over **$7.8 billion in mortgages**

Group's On-Balance Sheet Assets increased by 8% to end the year at $133.1 billion

Off-Balance Sheet Assets grew by 21% to end the year at $76.6 billion.

Deposit Liabilities grew by 8% to $95.1 billion

PRESIDENT & CEO'S REPORT

The New VM

I am pleased to report that the Victoria Mutual Group delivered a solid performance in 2018 and that we made significant strides in transforming into The New VM.

The New VM is a Modern Mutual. It exploits digital channels to improve service delivery and innovates products and services, while remaining firmly committed to the principle of mutuality, operating on your behalf, for your benefit.

Building a Strong, Integrated Financial Group

The Group performed well in 2018. Net Surplus was $1.218 billion, which was 18% above the $1.033 billion achieved the previous year. In addition, an estimated $316 million in value was created and delivered to Members through low fees and low mortgage rates charged by the Society, and discounts offered to Members by the Society's subsidiaries. This performance occurred in spite of significant competition in the local financial market, and the Group making a provision for credit loss on financial assets of $477 million. The primary contributor to this provision was an impairment arising from our holdings of Government of Barbados (GOB) bonds that were impacted by a default. We are ensuring that our interests are being taken into consideration in the negotiations that are proceeding between the Barbados Government and its creditors. The aim is for the resolution to be beneficial for both parties.

During the year, the Group's On-Balance Sheet Assets increased by 8% to end the year at $133.1 billion, Off-Balance Sheet Assets grew by 21% to end the year at $76.6 billion.

The VM Drive Auto Loan has been attracting lots of attention

The growth in Off-Balance Sheet Assets was due to increases in the funds managed by Victoria Mutual Pensions Management Limited (VMPM) and Victoria Mutual Wealth Management Limited (VMWM).

Over the course of 2018, Deposit Liabilities grew by 8% to $95.1 billion. Also, the Group remained well capitalised. Total Capital and Reserves as a percentage of Total On-Balance Sheet Assets was 12.03% at the end of the year. This was marginally below the level of 12.56% recorded at the end of 2017, but above the levels of 12.60% and 12.08% recorded at the end of 2016 and 2015, respectively.

Empowering our Members

We take pride in empowering our Members to achieve their dream of home ownership. During 2018, we disbursed over 700 mortgages valuing $7.8 billion.

Additionally, in 2018 we started to place greater emphasis on empowering you, our Members and clients, with knowledge that is relevant for your financial well-being. In an effort to achieve this objective, during the year we held nine Mortgage Expos, introduced the VMWM 'Wealth Talk' series, hosted a post-budget forum, held a pensions seminar, and arranged other fora. We also used social media to provide tips and guidance to you, and the general public, that should help with good financial decision-making. Our significant investments in these financial education activities reflect our commitment to mutuality.

Member Focused!

We not only strive to empower you, but to have all our interactions with you be in keeping with world-class service standards. Our work in this regard was recognised in 2018, with the Group receiving the main prize – the Large Company Award – and six of the seven category awards at the Private Sector of Jamaica/Jamaica Customer Service Association (PSOJ/JaCSA) Service Excellence Awards Ceremony held in July.

PRESIDENT & CEO'S REPORT

The VM Foundation seeks to give young people a head start

Having the appropriate digital tools and capabilities is central to enhancing our service to you. In 2018, we created a formal digital transformation strategy for the Group. Under this strategy, over the course of 2018 we introduced intelligent Automated Banking Machines (iABMs) at five branches. These machines provide for faster, more efficient and convenient service than regular ABMs, as among other things, they accept cash deposits with immediate accounts updates. We also completed the implementation of a new Investment Management System within VMPM and VMWM, made significant progress towards implementing a fully-integrated risk management system for our investment portfolio, and modernised processes within the organisation.

Further, in 2018, we introduced new products and improved our facilities. We introduced an auto loan product, an unsecured loan product, two new Unit Trust portfolios within VMWM which are an International Equity portfolio and a Money Market portfolio, and specialised lending in the United Kingdom. These have been received well by you. During the year we renovated the Half Way Tree branch, and made significant progress in preparing for the opening of our new branch in Fairview, Montego Bay.

Employer of Choice

There is no doubt that delivering exceptional service and building The New VM are dependent on enhancing the competence and engagement of our team.

To this end, during 2018 we continued our talent management programmes. This included various forms of coaching and training, with special emphasis on executive coaching, general management training and sales training. Face-to-face training sessions totaling over 1,500 hours were held and, in aggregate, team members spent over 5,500 hours in training that was delivered digitally.

To keep the team engaged and motivated, we hosted our second 'I AM VM' awards, which recognises high performers, participated in corporate runs and fitness challenges, and held team building activities.

Supporting Our Communities

Just as we seek to support our team members, we also seek to support the communities that we serve. Within the Group, this role is now led by the VM Foundation which was established in 2017, and officially launched in May 2018.

In 2018, in partnership with the British Council, the VM Foundation embarked on the Social Enterprises in Schools Programme. The programme is designed to teach social enterprise skills in secondary schools, as well as support the schools and teachers in developing and formalising school-based social enterprises. Those who participate in this programme develop skills to sustain themselves and their families, which bodes well for those who are at-risk. During the year, 350 students from 22 schools and 50 adults were exposed to the principles of social entrepreneurship through the programme.

During the year we also advanced our Financial Literacy Programme, which aims to provide Jamaicans with the knowledge, skills and confidence to make sound financial decisions and effectively manage their personal finances. The first cohort, from the University of Technology, had 110 students.

In addition, we awarded scholarships and bursaries totaling just under $2 million to 59 students.

Outlook

Competition from other financial institutions, both traditional and non-traditional, as well as continuing changes in customer expectations and regulatory requirements are certain. However, our awareness of the landscape, adoption of agile implementation practices, and sense of purpose will allow us to continue to fulfil the organisation's mission. In fact, based on the significant improvements in the local economy over the past years, and the progress that we are making within VM, the Group is poised to flourish.

Over the course of 2019 we will continue the programmes to strengthen the talent and engagement of the team; advance the projects under our digital transformation strategy to improve our systems and processes, including for risk management; further strengthen the programme to empower you with knowledge that is relevant for your financial well-being; continue to expand the products and services available to you, including through overseas expansion; and continue to undertake programmes to improve the quality of life of those in the communities we serve. All of these actions are being taken with one aim in mind: To continue to improve our service to you.

Thank You

You are fundamental to our purpose, and I take this opportunity to thank you for continuing to choose VM as your financial partner. Please be confident in knowing that I, and the entire Victoria Mutual Team, remain committed to helping you achieve success.

I also take this opportunity to express my sincere gratitude to all Team Members and Directors of the Group's Boards for their dedication and invaluable contributions to building the new VM.

Courtney Campbell

Group President & CEO,
Victoria Mutual

TEAMWORK

Great leaders never set out to be a leader...They set out to make a difference. It's never about the role- always about the goal.

GROUP EXECUTIVES

Courtney Campbell, MBA (Distinction), ACIB, BSc, JP, Group President & Chief Executive Officer

Janice McKenley, FCCA, FCA, MBA, BSc, Group Chief Financial Officer

Devon Barrett, MBA Group Chief Investment Officer & Chief Executive Officer, VMWM

Peter Reid, BA (Hons.), Chief Executive Officer- Building Society Operations

Rezworth Burchenson, MBA, BSc, Chief Executive Officer VMPS & Deputy Chief Executive Officer, VMWM

Laraine Harrison, MBA, BA Group Chief Human Resources Officer

Judith Forth-Blake, MBA, BA (Hons.) Group Chief Customer & Brand Officer

Rickardo Ebanks, BSc (Hons.) Group Chief Operations Officer

Keri-Gaye Brown, MBA (Dist), LL.B (Hons), Group Chief Legal, Risk and Compliance Officer & Corporate Secretary

Michael Howard, MBA, BSc Chief Executive Officer, VMBS Money Transfer Services Limited

Kathya Beckford, CFA, MSc (Dist), BSc (First Class Hons), Group Chief Strategy Officer

Michael Neita, MBA, BEng, BSc. Chief Executive Officer, Victoria Mutual Prop-erty Services Limited

René Allen-Casey, FCCA, FCA, CIA, CIRM, Dip, BA Group Chief Internal Auditor

SENIOR LEADERS
WITH GROUP FUNCTIONS

Chevonne Ashman, MBA, BSc, PMP, Assistant Vice President, Group ICT

Debbie Dunkley, FCA, FCCA, MBA, Vice President, Group Finance

Clover Moore, Assistant Vice President, Group Corporate Affairs and Communications

Sheena Wedderburn-Reid, MSc, ITIL, CRISC, CISA, Assistant Vice President, Group Digital Transformation

Carla McIntosh Gordon, Assistant Vice President, Group Programme Management Office

Dr. Dayton Robinson, PhD, Assistant Vice President, Group Human Resources

LEADERSHIP TEAM, VICTORIA MUTUAL
BUILDING SOCIETY

Peter Reid, BA (Hons.), Chief Executive Officer-Building Society Operations

Paul Elliot, AICA, MBA, BSc (Hons), Vice President Sales

Conroy Rose, CSC, MBA, BSc, Assistant Vice President Sales

Karlene Waugh, BSc, Assistant Vice President Business Operations

Clive Newman, MBA, FICB, Assistant Vice President Credit

Leighton Smith, MBA, BBA Chief Representative Officer, VMBS United Kingdom

Christopher Denny MBA, BSc, Vice President Service and Sales Support (Demitted office 2018)

Audley Knight, PFP, MBA, BBA, Assistant Vice President, Service and Sales Support (Demitted office 2018)

LEADERSHIP TEAM VICTORIA MUTUAL
WEALTH MANAGEMENT

Devon Barrett, MBA, BSc, Chief Executive Officer

Rezworth Burchenson, MBA, BSc, Deputy Chief Executive Officer

Karlene Mullings, MBA, Head Sales And Client Relations

Colando Hutchinson MBA, FCA, CFA Head Capital Markets

Denise Marshall-Miller, MBA, Manager, Bond Trading

Hakima K Reece, ACCA, Manager, Business Operations

Evette Bryan, MBA, Manager Treasury and Trading

Nichole Adamson, CFA, FRM, MSc, Manager Research and Stockbroking

Natalie K Bennett, MBA, BSc, Manager Risk & Compliance

Sharon Sterling, MBA, Marketing Manager

LEADERSHIP TEAM VICTORIA MUTUAL
PENSIONS MANAGEMENT

Rezworth Burchenson, MBA, BSc, Chief Executive Officer

Lennox Turner, FCCA, FCA, MBA, Financial Controller

Tamieka Reece, FCCA, MSc, BSc, Manager Rick & Compliance

Natalie K Bennett, MBA, BSc, Manager Risk &Compliance (Acting)

Judi-Anne Marzouca, BAA, Manager, Pensions Administration

LEADERSHIP TEAM VICTORIA MUTUAL
PROPERTY SERVICES

Micheal Neita, MBA BEng. BSc, Chief Executive Officer

Marcia Sterling, Assistant Manager Sales/Valuation & Office Administration

Louis R. Christie, MRCIS, Qualifying Director

Jermaine Williamson, BSc, Senior Valuer

LEADERSHIP TEAM VICTORIA MUTUAL MONEY TRANSFER

Micheal Howard, MBA, BA, Chief Executive Officer

Owen Bruce, Manager Distribution

BRANCH LEADERSHIP
WESTERN TEAM

Suzette Ramdanie-Linton, Regional Manager (Western) Sales & Service

Faithline Campbell, Branch Manager, Montego Bay

Robert Foster, Branch Manager, Mandeville

Marsden Dennis, Branch Manager, May Pen

Charmaine McConnell-Taylor, Branch Manager, Ocho Rios

Erica Robinson, Branch Manager, Santa Cruz

Sean Taylor, Branch Manager, Falmouth

BRANCH LEADERSHIP
EASTERN TEAM

Simone George-Davey, Regional Manager (Eastern) Sales & Service

Allison Morgan, Branch Manager, Half Way Tree

Mendel Thompson, Branch Manager, Liguanea

Sasha-Gay Wright-Wilson, Branch Manager, University of Technology (UTech), Papine

Cherese Stewart, Branch Manager, Linstead

Ainsley Whyte, Branch Manager, Duke Street

Shelliann Afflick, Branch Manager, New Kingston

Joy Bunting- Pusey, Branch Manager, Portmore

Ruth Oliver, Branch Manager, Spanish Town

Allison Shields, Branch Manager, Savanna-La-Mar

INNOVATION

MANAGEMENT DISCUSSION & ANALYSIS

INTRODUCTION

The Victoria Mutual Group is a leading mutual institution, serving Members and clients in Jamaica and overseas. Founded in 1878, Victoria Mutual is headquartered in Kingston, Jamaica and maintains offices across the island and in two major financial capitals overseas – The United Kingdom and The United States. The Company has been in the business of helping average Jamaican families achieve financial independence through home ownership for 140 years. We have built on this solid reputation, now offering a suite of products and services which includes investment banking, pension fund management services, real estate services, money transfer services, and general insurance. These services are offered to our diverse client base of individuals, governments, corporations and financial institutions through five strategic business units and an affiliate company.

Contained in this Management Discussion and Analysis (MD&A) are insights into Victoria Mutual's 2018 operations and how our Strategic Business Units (SBUs) performed during the period. Our leadership team also discusses the upcoming year, outlining VM's future goals and approaches to new initiatives.

THE OPERATING ENVIRONMENT

Local Economy

Throughout 2018, Jamaica solidified gains it had made in previous years and accelerated its programme of economic stimulus. Of particular note:

- The Bank of Jamaica (BOJ) lowered its benchmark overnight interest rate five times in 2018 from 3.25% at the start of the year to 1.75% at the December sitting of the BOJ Interest Rate Committee. Treasury Bill yields fell below 2% from August 1 to November on the 91-day and 182-day tenors, rising to just above the 2% mark in the December auctions. Local rates are the lowest on record in Jamaica's history.
- Jamaica's economy continued to show higher levels of real economic growth, growing 1.9% for 2018, driven primarily by the goods-producing sectors, which grew by 5.0%.
- Businesses maintained a positive outlook, with more businesses planning to increase investments. Consumer confidence was also buoyant, reaching its highest level since 2001.
- Unemployment stood at 8.7% by the end of 2018, a slight uptick from the July survey when an unemployment rate of 8.4% was recorded - the lowest rate on record for Jamaica.

Overseas

Much turmoil was experienced by our Caribbean neighbours. Following a changing of the Government in Barbados, the country took the decision to restructure its debt, having discovered that its debt levels were much higher than anticipated. This resulted in Barbados defaulting on its external debt and the resultant assignment of a default credit rating from overseas ratings agencies. Barbados received an Extended Fund Facility (EFF) from the International Monetary Fund (IMF). The IMF was impressed with the swift domestic debt restructuring, which took place earlier in the fourth quarter, which would create fiscal space for increased social spending and investment in infrastructure. Discussions are ongoing with external creditors.

While Jamaica has been lowering its target interest rates, the US increased its target Fed Funds Rate four times from 1.50% to 2.50% in 2018. This was due to strong labour market conditions, inflation near the target level of 2%, strong household spending, and a decline in unemployment, among other positive data.

OUR OPERATIONS

Customer Experience

The focus of the Customer and Brand unit for 2018 was to develop and implement initiatives to support the achievement of the VMBS business targets, particularly asset growth, deposit garnering and customer experience.

Asset Growth Initiatives:

With respect to asset growth, we kicked off the year with the launch of an incentive campaign for Realtors and Developers aimed at driving mortgage referral business via our two main business partners. Additionally, we participated in a number of events with the Realtor Association of Jamaica (RAJ), including, their Annual General Meeting and the RAJ Expo held in October, all in an effort to strengthen our relationship and improve communication with this group. Particular emphasis was also placed on the continued promotion of our First-time Home Buyers Mortgage (FTHB) product, which was launched the previous year, and which offered the highest level of financing in the market, at 97%.

One of the highlights of the year was the launch of the inaugural VM Mortgage Expo in Kingston, which was held on Saturday and Sunday, May 4 and 5, 2018. The tremendous success of the Kingston-leg spurred follow-up events in Montego Bay, Ocho Rios and at least five (5) other Branch locations where similar events were held on a smaller scale.

The launch of the highly successful VM Drive Auto Loan campaign in the latter part of August, to support the historic introduction of auto loans to the VM product suite, was another major milestone for our team in 2018.

Deposit Garnering Initiatives:

Awareness campaigns to drive support for our iSave savings products and several Deferred Shares offerings were part of our deposit garnering initiatives. We also ran campaigns targeting dormant account holders to encourage them to reactivate their accounts, and targeted persons on the verge of becoming dormant account holders, to proactively encourage account activity and prevent these accounts from becoming dormant.

Customer Experience:

One of our major achievements for 2018 was VM winning six (6) out of seven (7) category awards as well as the overall award for Service Excellence in the Private Sector Organisation of Jamaica (PSOJ) and the Jamaica Customer Service Association (JaCSA) joint national customer service competition. VM topped a field of 16 finalists and won 6 out of 7 category prizes for Leadership and Strategy, International Benchmarking, Reward and Recognition, Measurement and Monitoring, Complaints Management, Training and Capacity Building, as well as the overall award for Customer Service. We were heartened by the recognition of all the ground work we have done particularly over the past 2 years to lay this foundation and are very much encouraged to stay the course, as we work to become the icon of service in

MANAGEMENT DISCUSSION & ANALYSIS

Jamaica.

We also introduced a new governance structure around Customer Experience with the formation of the Customer Experience Steering Committee, headed by VM Group President & CEO Courtney Campbell.

DIGITAL TRANSFORMATION: THE JOURNEY TO DIGITAL MASTERY

A new vision, a central hub for digital direction, new approaches: 2018 brought major changes for digital transformation at the VM Group.

Amazon, Netflix and similar companies now set the standard for customers' expectations around customer experience and service quality, regardless of the industry or sector. Financial institutions like Victoria Mutual are all expected to offer customers service "anywhere, anytime, any way". The Group took important steps to achieve this goal in 2018, all aimed at driving transformation through innovative digitalisation projects across the Group's companies.

The digital future of the VM Group is now defined by a winning aspiration, "to become a digital leader, a modern and relevant mutual." This direction has been set with customer experience at the core and will see the VM Group moving from simply "doing digital" to truly "being digital." Having a vision for Victoria Mutual as a digital leader helps to drive decisions around digitalisation: what projects are important, where and how to invest, what approach to take, what specific digital technologies will be adopted to aid in driving significantly higher levels of profit, productivity and performance for their business.

One of the major changes to support the digital transformation thrust for the Group, was the establishment of a Digital Transformation Unit. This unit was created under the Group ICT department and comprises three components critical to the digital future: data analytics, solutions development, and idea exploration. The Digital Transformation Unit serves to drive the digital transformation forward and manage the Group-Level implementation of the strategy.

The Group's digital transformation strategy was developed in 2018 and has been penned to span through to 2023. It is aimed at helping to significantly impact the surplus targets as the Group moves towards becoming a Modern Mutual: Relevant and integrated – radically, digitally transformed. The strategy lays out a roadmap for the annual digital transformation focus and key projects towards the achievement of our goal.

Underpinning the Digital Transformation Strategy are key areas of focus which are critical to the digital future of the Group. We will be focusing on delivering exceptional customer experience, on improving decision-making through the use of data analytics, on innovating and developing new products and also seeking to establish new business models, all the while ensuring that we are improving our internal processes and building the capabilities in the organisation to ensure the transformation of business. We have established governance mechanisms, processes and controls which will provide the guidance and oversight necessary to advance the digital strategy work, ensuring continued growth consistent with the organization's vision and values of becoming a radically, digitally transformed mutual.

The year 2018 saw groundwork being laid for a transformed future stemming from the developed digital strategy: new collaboration tools, new methodologies, new programmes. Changes that began with VM Team Members are already beginning to ripple out to our Members and Clients as we identify new ways to serve our customers and address their needs.

In the first half of 2018, we made a move to roll out a market leading and robust cloud email platform solution across the Group, as well as an integrated suite of collaboration tools. As we roll out our adoption strategy for the use of tools within the organisation, we have begun developing a more collaborative culture and started to transform the way we work. Simplified process automation, collaborative information repositories and increased team interaction through the use of these digital tools have allowed us to use existing resources more productively and have impacted key metrics and performance indicators across the Group.

At the core of any transformation is the people, and the VM Group's digital transformation is no different. The strategy recognises this and 2018 saw the beginning of digital capability development through the introduction of new methodologies and a greater focus on self-service, to help Team Members better contribute to the transformation. We commenced the training of our people in Design Thinking, a methodology for the development of creative and innovative solutions, to more creatively solve problems using a customer focused perspective and doing so in a collaborative, cross functional way. Agile methodologies were introduced which will transform the approach to projects and translate into faster execution and benefits realization. Investments have been made in acquiring cutting edge data analytics and business intelligence tools that will help facilitate greater data-driven decision-making.

The year 2018 also saw revisions to our suite of projects, where a critical assessment of projects was undertaken to ensure that all the digital projects that impact the experience of our Members and clients were cohesive and comprehensively delivered on our customer experience aspirations. With these enhancements to our programme of projects, our Members and clients can expect to see changes in the products and services offered, the way they interact with the VM Group and their experience at all touchpoints.

Going into 2019, we are already looking ahead at how we can accelerate our rate of change, build the right culture for change and derive maximum benefit for all our stakeholders.

Work on transformative projects will begin in earnest as we start using the new methodologies and approaches. Data is going to be used in new and exciting ways to drive decisions on internal processes as well as better serving our customers. We will begin looking at how we attract and retain the right people for the new digital VM and build a culture that empowers and encourages change from all.

Transforming an organisation is not simple, and the challenge before us is to bring an existing organization into the digital future while maintaining the values that have led to its successes thus far. There is change in the air, and the VM Group must change as our industry, customers and environment changes around us. This change must be championed by our Leadership team, driven by the Digital Transformation Unit, and supported wholeheartedly by our Team Members, Members and Clients.

It is through a clear and compelling vision integrated into our customer-centered strategy, which clearly defines the path for execution, that we will transform how we use digitally powered services, processes and technologies to delight our customers. With the guidance and structures, we have put in place, and a digitally competent and engaged team, we will see the end of 2023 as a new VM, digitally and radically transformed – a true Digital Master.

ICT Operations Highlights

2018 saw the revamping of Group ICT and the emergence of ICT Operations to complement the Digital Transformation arm, thereby creating dual IT. ICT Operations' purpose is to secure, maintain and pro-actively enhance the VM Group's ICT systems in a timely and effective manner thereby contributing to the Group's strategic objectives.

Major accomplishments in 2018, included the expansion of secured

MANAGEMENT DISCUSSION & ANALYSIS

Internet access which paved the way for the roll-out of cloud-based systems across the VM Group. Other infrastructure changes were the upgrade of our data centre storage and processing capacity and increases in the wireless capacity to support the new applications implemented by Digital Transformation.

Various applications were amended to improve the service to our members, most notably, the online registration system for online banking. Improved integration in our Money Transfer systems underpinned increased volumes and profitability of that business line. Internally, we implemented IT Business Partners which improved the relationship and service to departments thereby improving the response to business issues.

Some of the other initiatives which you may have experienced include:

- Allowance for withdrawals/ transfers from passbook accounts online In keeping with your mandate to modernise and simplify transactions on accounts.
- Electronic reminders of expired IDs to avoid delays in the execution of your transactions when you visit our branches.
- New technologies for the issuance of ABM cards to increase the number of Members with convenient access to their accounts.
- Deployment of 5 new intelligent cash counting ABMS with implementations planned for the remainder of branches throughout 2019

A modern, secure, user-friendly internet banking platform is being developed for launch in 2019. 2019 will see further improvements to our technology, structure and processes to facilitate the modernisation of ICT Operations in keeping with the digital transformation being undertaken by the VM Group.

Business Operations focused on our Members

At our last AGM and through subsequent interactions, our Members shared their feedback on a variety of matters. As a Customer Obsessed organisation, your Business Operations team focused on this feedback and directed our efforts to matters which are most important to our Members. Some of the items on which you provided feedback are as follows:

- Product offerings
- Documents required to activate dormant accounts
- Registration process for Online Banking
- Obtaining mortgage statements,
- Use of passbook accounts on OFS
- Delays in the processing of pension payments
- Long wait times

Some of the changes implemented are as follows:

Product offerings

Auto and Unsecured loans are now available at VMBS. New and existing members have accessed these products exceeding our expectation for the first few months of operation. Very soon, you will also be able to secure auto insurance at any of our local branches.

Documents required to activate dormant accounts

We reduced the number of documents requested by improving our KYC requirements and processes by adopting local and international best practices. Even with the positive feedback from our Members, we continue to review for opportunities to make this process a more positive experience for our Members.

Registration process for Online Banking

Even while we work on deploying a new solution, we have simplified the current registration process by reducing the information required. We have also made changes to accommodate a higher percentage of transactions on the platform.

Passbook account holders now enjoy all the services.

Obtaining mortgage statements

We reduced the wait time for mortgage statements from days to 15 minutes or less. Statements for your accounts are available on demand via e-mail or print in branch. Our Member Engagement team is also able to provide you with a statement on demand with a quick call.

Pension Processing

As we reported in prior years, our banking relationships changed for Pensions Postings. On average, 88% of your pension payments are processed within 15 hours of receipt by our bankers. We are not satisfied with this and have been working collaboratively with our bankers and overseas entities to improve the quality of the data provided to facilitate more timely credits.

Wait Times

We have heard your feedback on wait time in our branches and we have done several things to address it. We have increased the authority levels and cash limits of our branch teams. This empowerment has significantly reduced the instances of them having to leave their station to get overrides. This has resulted in faster processing by our tellers.

We also made changes to our onboarding solution that resulted in approximately 71% of accounts being opened within 40 minutes.

A dedicated project team is working on improving the process of opening accounts that will allow you to do much of the process without coming in branch.

We have also deployed a new queueing system in our model branch in Fairview which totally removes the need for persons to stand in line. This branch also has a state-of-the art digital signing solution which allows the processes to be executed with much less paper. These capabilities will be rolled out across the remaining branches after being perfected in Fairview.

We are never satisfied, and we crave your feedback as we find ways deliver excellence to you at all channels.

OUR PEOPLE

Our Team Members continue to be valued stakeholders, contributing in fundamental ways to the success of the Victoria Mutual Group.

As part of our Strategic Goal to be **Employer of Choice**, we follow a targeted strategy to attract, develop and retain highly competent Team Members who, guided by our **Core Values** and motivated by our **Cultural Beliefs**, exhibit the Desired Behaviours that will deliver VM's **Key Results**.

The strategy focused primarily on three areas:

1. Culture and Employee Engagement
2. Talent Management
3. Performance Management and Rewards and Recognition

Organisational Structure

The VM Group embarked on a 'Redesign for Transformation' exercise which commenced on June 1, 2018. The purpose of the redesign for transformation exercise was for greater efficiencies and effectiveness across the group and to ensure that the appropriate structures are put in place to achieve the organisation's 2020 objectives and beyond.

CULTURE AND EMPLOYEE ENGAGEMENT

Engagement Activities

Various engagement initiatives were executed during the year and were well received by Team Members. Team Members participated in several Wellness and Sports activities in addition to Chill Spot activities put on by the Social Engagement Committee as well as activities initiated by the respective department/branch/ SBUs.

The major engagement activity for 2018 was the year-end party. The year-end party was sponsored by Victoria Mutual Money Transfer Services and was held at the Half Way Tree Location. It was well supported by the Team Members and based on the positive feedback of the attendees the party was a success.

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Business Conference

The year 2018 started with a focus on our Team Members. The first annual VM Group Business Conference took place on the first Saturday of the year at the Jamaica Conference Centre, Kingston under the theme ***'The R.A.C.E. – If it's to be, it's up to me'.*** The conference zeroed in on Accountability, Customer Obsession and Efficiency across the VM Group. The lively event was well attended and served to inform Team Members of the 2018 key business targets and the new strategic direction of the Victoria Mutual Group. The Conference also allowed the Team Members to share ideas freely and fostered alignment on the year's major objectives.

HREI Survey and Results

HREI survey measures the level of Team Member engagement in the organisation throughout the year. It is administered three times for the year and the results are used by the senior leaders to develop systemic action plans while Managers work to complete and implement their respective action plans in consultation with their teams to improve the results after each wave. The scores are then average at the end of the year to get a final score for the year The Average HREI score for the Group for 2018 was 72% like that of 2017 and in keeping with high engagement score benchmarks locally and internationally.

Culture of Accountability Programme

Our Culture of Accountability Programme continued to be the foundation of our employee engagement initiative using the culture tools of Focused Storytelling, Focused Feedback and Focused Recognition to achieve results. A refresh of the Culture of Accountability Programme took place in March 2018 with the creation of seven new cultural beliefs which focus on achieving the VM Group's desired results. The selection of the new cultural beliefs was a collaborative exercise and have received buy-in from Team Members.

The seven new cultural beliefs are: Customer Obsessed; Results Focused; VM Excel; VM Edge; Accountability Starts with Me; Together 'Wi A Winna'; Mek Wi Talk More.

Talent Management

The talent management initiatives for 2018 included the following: Succession Plan readiness for Senior Leader and Middle Management Positions; Individual Development Plans; Career Plans for Key Positions and High Potential Talent. A talent review assessment process reviewing the strategic talent plan of the VM Group by assessing all Officers below the level of Assistant Vice President commenced in October 2018 and will continue into 2019.

In 2018 Team Members spent approximately 5,500 hours engaged in digital learning and approximately 1,500 hours engaged in face-to-face training programmes.

The Talent management initiatives contributed to approximately 60% of the vacancies being filled internally in 2018 reversing the 60% of positions being filled by external hires in 2017.

Internal Communications

The New VM prioritises team member engagement and continuously implements inventive ways to inform, inspire and ignite its team members. This is a key pillar in our transformation journey and as such we are deliberate about sharing information with team members across the Group. We have created a weekly internal video series - the VM Insider - as well as a monthly internal newsletter – Mutually Inclusive - that showcase team member wins and provide information that is useful and engaging. The team also stages investment, mortgage and savings 'bootcamps' for team members where they receive guidance on how best to achieve financial wellbeing.

PERFORMANCE MANAGEMENT AND RECOGNITION & REWARDS

Performance Management

The Victoria Mutual Group **Performance Management and Appraisal System** (PMAS) was designed to achieve a high-performance organisation.

There are two key components to the performance appraisals namely performance management and Desired behaviours. For 2018 the agreed weightings for each component were as follows:

- Performance Objectives 60% **(what we do)**
- Desired Behaviours 40% **(how we do it)**

Recognition and Rewards

Recognising our team members for demonstrating the VM Group's desired behaviours of "VM Excel" and "Results Focus" is critical to building team member engagement in a high-performance culture. In addition to instant recognition of our team members for excellence, our first "I am VM awards" function took place in 2017 at the Pegasus and was well supported by our team Members. In 2018 we were unable to have a function of the magnitude of 2017 due to the organisation's high cost to income ratio, however, due to the importance of recognising our Team Members for excellence our organising committee demonstrated "VM Edge" in its execution of much smaller but effective version of the "I am VM Awards" broadcast from the Half Way Tree location to all the VM locations.

RISK GOVERNANCE

Enterprise Risk Management Framework

Enterprise Risk Management (ERM) is defined as an organisation's competency to manage uncertainty, and more effectively minimise threats and maximise opportunity. The ERM Framework within VMBS is designed to ensure that the strategies and risk appetite are aligned to achieve the balance between risk and reward, to achieve sustainable return and value.

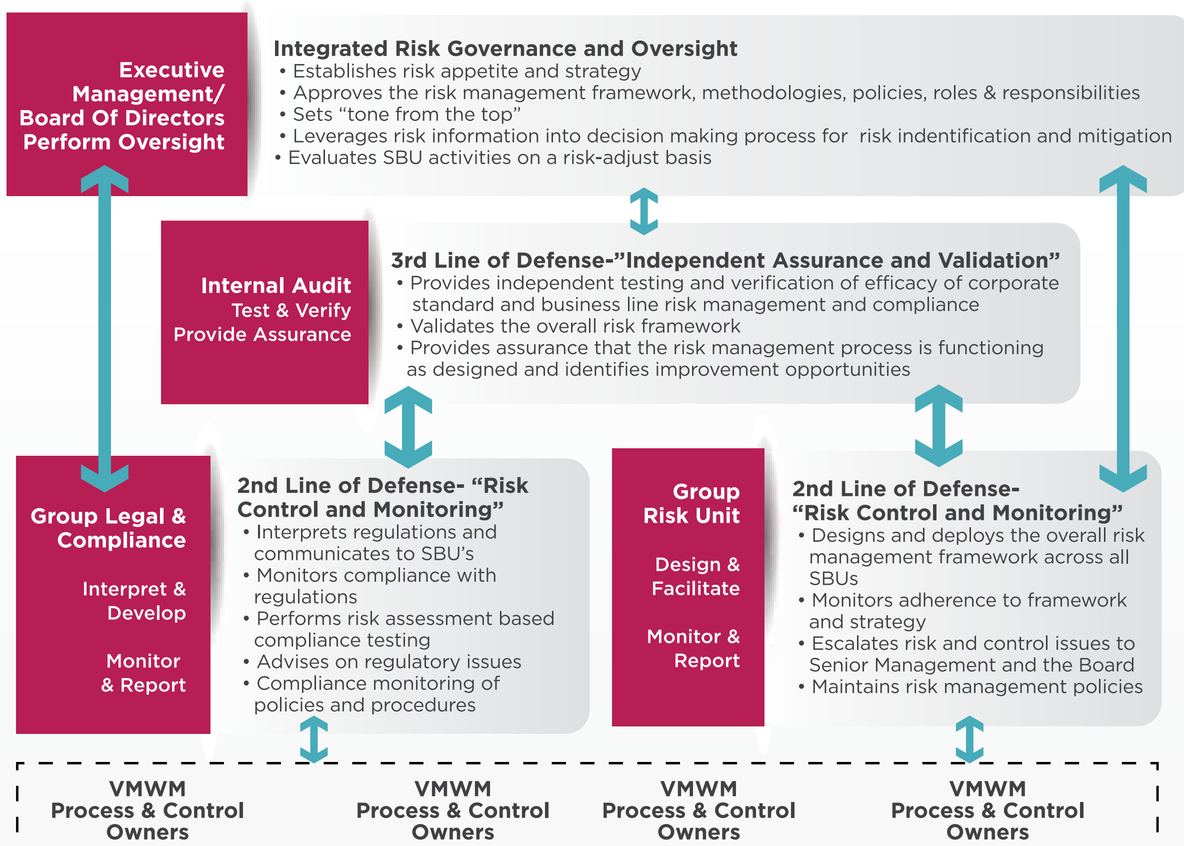
The key objectives of the VM Group's Enterprise Risk Management programme are to ensure that:

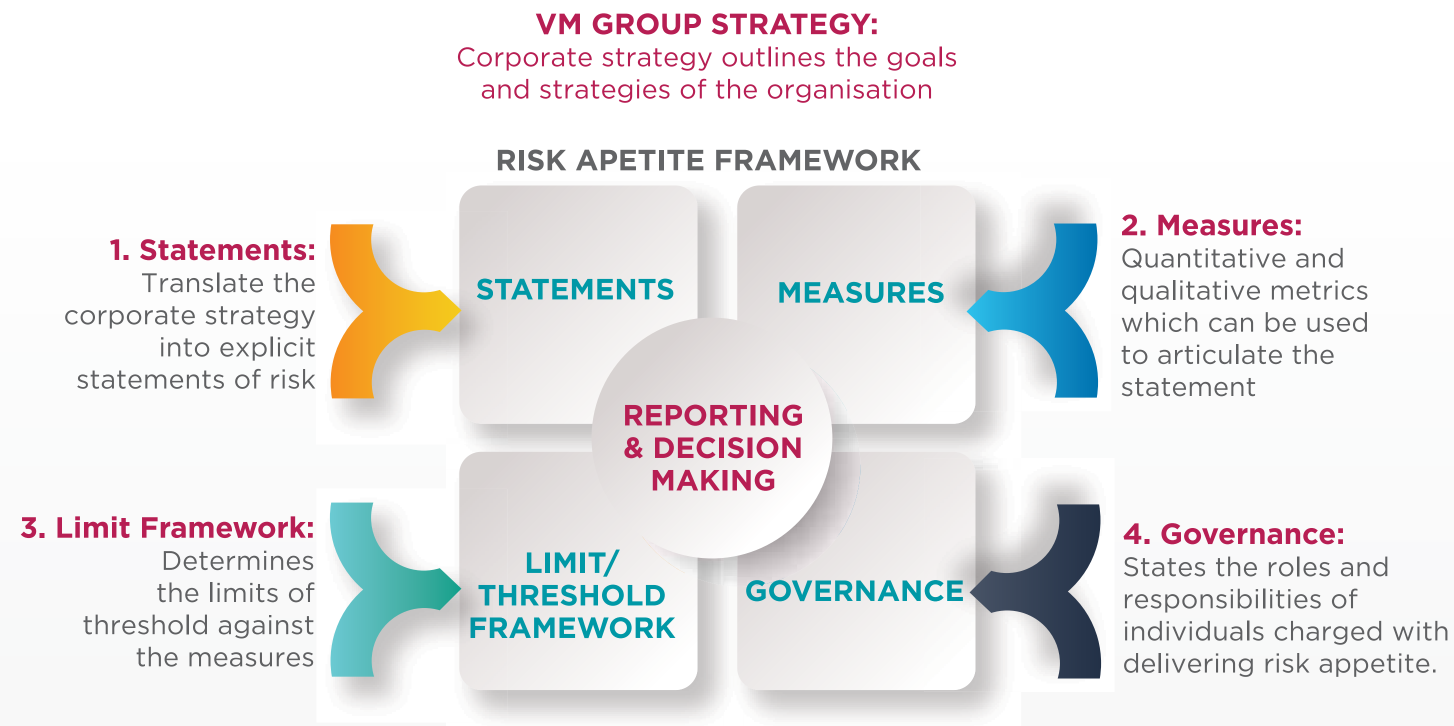
- Key risks (potential and existing) that may impede achievement of the Group's strategic and business objectives are proactively identified, monitored and mitigated.
- Techniques used to identify, assess, manage and report on risks are consistently applied.
- Risk management decision-making for the entire Group is consistent with the Group's risk appetite and strategies.
- Risk management is embedded into the Group's culture and business processes.
- Direct accountability for risk management is established and communicated throughout the Group.

An approach for Enterprise Risk Management has been adopted and implemented by VMBS where risk management is an integral part of our day-to-day operations and the shared responsibility of all Team Members. In keeping with the three lines of defense model, VMBS distinguishes among three groups (or lines) responsible for effective risk management:

- **1st Line of Defense** – Business Unit Management teams are responsible and accountable for the ongoing management of risks including the identification, assessment and reporting of risk
- **2nd Line of Defense** – Risk Management function provides oversight of risks and challenge the completeness and accuracy of risk assessments, reporting and mitigation activities
- **3rd Line of Defense** – Independent Internal Audit

MANAGEMENT DISCUSSION & ANALYSIS





function reviews and provides objective assurance on the effectiveness of the Group's systems of internal controls

The Risk Management Framework is the foundation for ensuring a robust risk culture for the governance of risks, where all Team Members take responsibility for managing risks effectively and efficiently. The enterprise-wide application of the framework involves key elements:

- **Risk Governance** – A robust structure comprising the Board of Directors supported by the Senior Management Team to provide integrated risk governance and oversight to aid strategic decision-making through the Group Finance and Risk Management Committee.
- **Risk Appetite Framework** – The Board has approved an appropriate risk appetite which guides the number and types of risks VMBS undertakes, aligned with the execution of the strategic objectives. The risk appetite establishes the risk boundaries while achieving a balanced approach for risk and returns.
- **Risk Management Tools** –The Risk Management Framework is integrated with business planning processes to achieve consistency with group strategic objectives and manage risk exposure.
- **Risk Identification and Assessment** - A comprehensive process has been implemented to identify and assess risk drivers and the materiality of the potential impact on VMBS. The process also includes robust and regular reviews in keeping with the established risk profiles.
- **Risk Register** - For key business risks, a risk register is maintained by the respective risk owner, outlining the nature of the risk, mitigating controls in place and any improvement actions being undertaken. An assessment of the risk, i.e. Likelihood of Occurrence, Impact, Management Controls and Residual risk is reviewed on a quarterly basis and provided to the respective management committees.
- **Key Risk Indicators** - Key Risk Indicators are business metrics used to monitor risk exposure within VMBS. Key Risk Indicators are monitored based on the Group's Risk Appetite and a limits framework.
- **Risk Culture** - VMBS risk culture is robust with Team Members being exposed to the key requirements and responsibilities. It is influenced by the governance structures, risk management techniques and the guiding risk appetite statements for key areas.

MANAGEMENT DISCUSSION & ANALYSIS

Strategic Risk - The risk of current or prospective adverse impacts to VMBS earnings, capital, reputation or standing arising from ineffective strategic decisions, or lack of responsiveness to industry, economic or technological changes.

Risk Management Strategies
The Board of Directors provides oversight of the strategic risk and engages in Annual Strategic Planning sessions. The Board regularly evaluates the execution of the strategic plan on a group wide basis.

Legal and Regulatory Risk - The risk of loss or imposition liabilities arising from of penalties, fines, or other breaches of applicable laws, regulations, or contractual obligations.

Risk Management Strategy
VM Group regulatory risk framework is designed to safeguard against legal and regulatory exposures. The Risk and Compliance function is responsible for identifying regulatory developments and providing staff with guidance and training to achieve high compliance standards.

Reputational Risk - The risk that negative publicity for the Group from customers, counterparties, investors, regulators, market analysts, debt-holders, other relevant key stakeholders may adversely affect VM Group revenues, operations or customer base which will require the implementation of cost-defensive measures.

VM Group Reputation Risk is managed and controlled through various measures which include robust governance framework, business code of conduct guidelines, policies and procedures to govern operations, strong compliance programmes and training for all Team Members.

A collaborative approach is adopted by the Corporate Affairs and the Legal, Risk and Compliance Units to proactively manage any potential exposure.

Operational Risk – The risk of financial loss in the event of inadequate or failed internal processes or systems, human errors or external occurrences. The scope of Operational Risk is wide and includes all aspects of the business such as legal, regulatory, change risk, technology failure and the potential impact of external factors such as financial crimes.

The three lines of defense supported by a strong operational risk management programme which is focused on accountability, defined roles and responsibilities.

The technology infrastructure is also a key area and VMBS has a policy of continuous improvement in order to effectively manage operational risk exposure whilst managing the capital expenditures with sound processes for review and approval.

Credit Risk - The risk of loss resulting from the failure of a borrower or counterparty to comply with the terms of the financial/contractual arrangements to VM Group. Credit Risk is directly related to lending, funding, investments and trading activities undertaken by the Group and are subject to regulatory capital requirements.

Credit Risk is managed through alignment of product offerings with the target market, with defined requirements, strong underwriting and credit analysis standards applied.

The Group has adopted best practices and standards for risk rating of transactions and review of portfolios with reference to established tolerance levels.

Credit exposures are monitored by management committees. Robust monitoring of loan quality and arrears is a key component of the risk management utilised, supported by efficient processes for outstanding payments in default

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Market Risk – Risk of loss from changes in market prices and rates, which may result in market volatility. Factors include interest rates, credit spreads, equity prices and foreign exchange rates.

VM Group buys and sells currencies, equities and bonds in keeping with the investment strategies guided by policies, established maturity profiles, gap limits with appropriate risk tolerances.

Foreign Currencies Risks are mitigated by maintaining assets and borrowing in the same currencies.

Credit Spread Risks may arise from investment portfolios held for the purposes of satisfying liquidity and statutory reserves requirement and for investments.

Generally, various tools are used to monitor market risk such as stress testing limits and assessing regularly the Value at Risk (VaR) with comparison to the actual profit and loss.

Liquidity Risk - The risk that VMBS is unable to meet its financial obligations in a timely manner at reasonable prices. These financial obligations include liabilities to depositors, settlement of securities, borrowing and repurchase transactions and other investment commitments.

The Liquidity Risk Management Framework is focused on measurement and modelling for forecasts in total cash flows, off balance sheet activities.

The effective use of contingency planning for liquidity to analyse and respond to actual and potential events impacting liquidity with appropriate counter measures.

Funding diversification is utilised to manage exposures to funding source concentrations. The principal sources of funding are capital, core deposits through the branch network and other funding.

Core Liquidity as part of prudent risk management practices, involves a pool of highly liquid unencumbered assets being maintained that can be readily converted to cash if required, based on changes in market conditions.

GROUP FINANCIAL PERFORMANCE

Group Financial Position

The Group's total on-balance sheet assets have increased by $9.943 billion or 8.07% year on year to total $133.117 billion at December 31, 2018. This increase was primarily as a result of growth in non-Government of Jamaica investment securities and the loans portfolio by $5.549 billion (26.3%) and $4.904 billion (11.13%), respectively.

Loans, investments and other interest earning assets totalled $120.79 billion, which was an increase of $8.392 billion or 7.47% over that reported for 2017.

The loan portfolio at the end of the year totalled $48.97 billion, up from $44.07 billion reported as at December 31, 2017. Net of repayments and redemptions, the loan book grew by $4.87 billion, of which disbursements totalled $8.06 billion, offset by repayments of $3.19 billion.

The Group's off-balance sheet assets amounted to $76.554 billion as at December 2018, which was $13.467 billion or 21.35% over that reported for 2017.

Funding

The depositors and customers of the Group continued to recognize the value of our services, which resulted in the $5.562 billion or 7.28% increase in the funding portfolio. The Group continued to develop and implement strategies in an effort to retain and increase funding obtained from members and customers by way of savings and repurchase agreements.

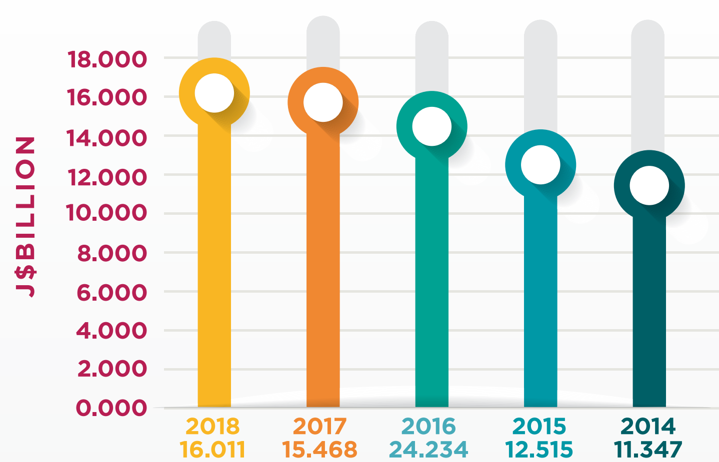
Capital & Reserves

The Group's total Capital & Reserves grew from $15.468 billion to $16.011 billion in 2018. The Society continues to transfer 100% of Net Surplus to capital after allocation is made to the Credit Facility Reserve, and in 2018, transferred $446.953 million to the Retained Earnings Reserve, and $78.874 million to the Reserve Fund.

ON & OFF BALANCE SHEET ASSETS FOR THE VM GROUP

Figures in '000s	**2018**	**2017**
Group On-balance sheet assets	133,117,216	123,174,146
VMWM Off-balance sheet assets	24,313,239	18,268,988
VMPM Off-balance sheet assets	52,241,259	44,819,000
Total	**209,671,714**	**186,262,134**
Growth in On & Off balance sheet assets (%)	**12.6%**	**14.8%**

GROUP TOTAL CAPITAL & RESERVES



GROUP SUMMARY OF RESULTS ($'000's)

	2018	**2017**
Net Interest Income	4,220,444	4,016,521
Net Fee & Commission Income	1,248,932	913,651
Other Operating Revenue	2,125,310	1,602,796
Total Operating Revenue	**7,594,686**	**6,532,968**
Operating Expenses	5,979,677	5,452,149
Operating Surplus	**1,615,009**	**1,080,819**
Share of Profits of Associate	87,840	210,621
Surplus before Income Tax	**1,702,849**	**1,291,440**
Income Tax	484,717	258,666
Surplus after Income Tax	**1,218,132**	**1,032,774**

Operating Results

The Group recorded a Net Surplus of $1.218 billion for the year ended December 31, 2018, compared to $1.033 billion for 2017. The surplus is inclusive of the Society's 31.5% share of profits in BCIC totalling $87.84 million.

The 17.95% growth year on year is attributable to increases in Net Interest Income (5.08%), Other Operating Revenue (32.6%), Net Fee and Commission Income (36.7%), partially offset by a 9.68% increase in non-interest expenses (administrative costs).

Operating Surplus, which excludes share of profits in the associate, was $1.615 billion for the year, which reflected an increase of $534.19 million or 49.4% when compared with the 2017 results.

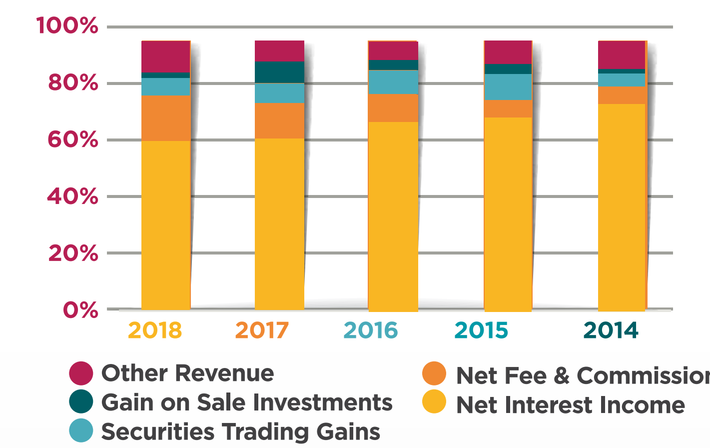
Provision for income taxes was $484.72 million for 2018, compared to $258.67 million in 2017, resulting in an effective tax rate of 28.5% compared to 20% in the prior year, due mainly to increases in net interest income and fee income.

Operating Revenue

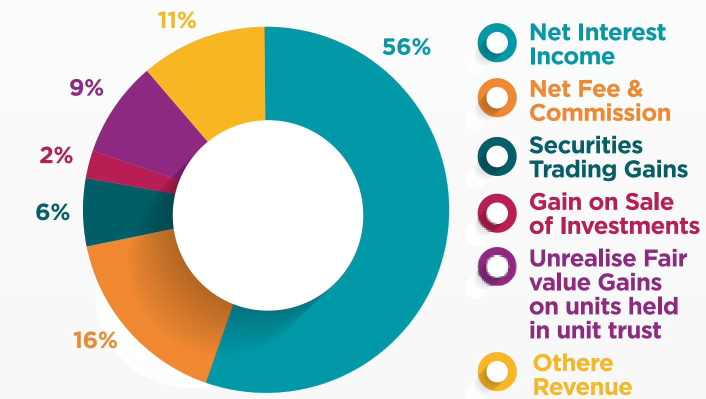
Operating Revenue includes net interest income, net fees and commission income, gain on the sale of investments and trading gains. Operating revenue totalled $7.595 billion representing an increase of 16.25% or $1.062 billion over the prior financial year. Total gross income, which consists of operating revenue plus interest and fee and commission expenses, was $9.774 billion, an increase of $977.02 million or 11.1%.

Net interest income accounted for 55.6% of total operating revenue, down from 61.5% in 2017. Net fee and commission income accounted for 16.4%, up from 14% in the previous year, while gain on the sale of investments and unrealised fair value gains on unit trust investments accounted for 2.3% and 8.5%, respectively. These combined income items accounted for 82.8% of the revenues earned by the Group in 2018.

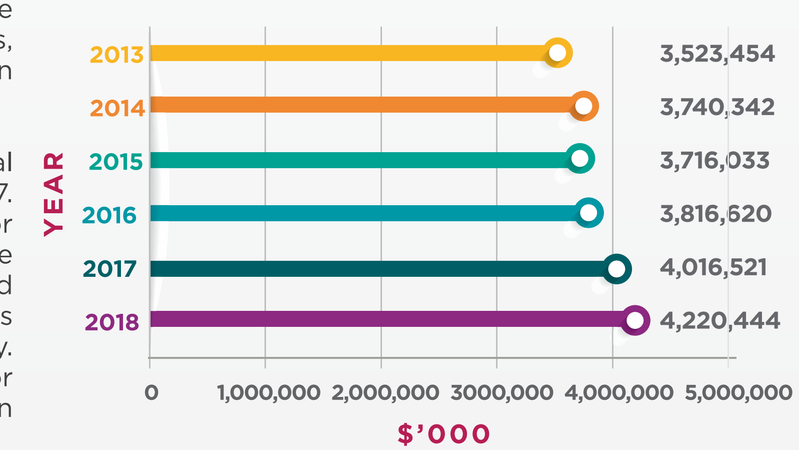
OPERATING REVENUE



OPERATING REVENUE 2018



NET INTEREST INCOME 2014-2018



Net Interest Income

We continue to focus on our strategic objectives to expand our core business through improved sales. With our efforts to grow our balance sheet, consideration is also given to managing our net interest income while mitigating risks.

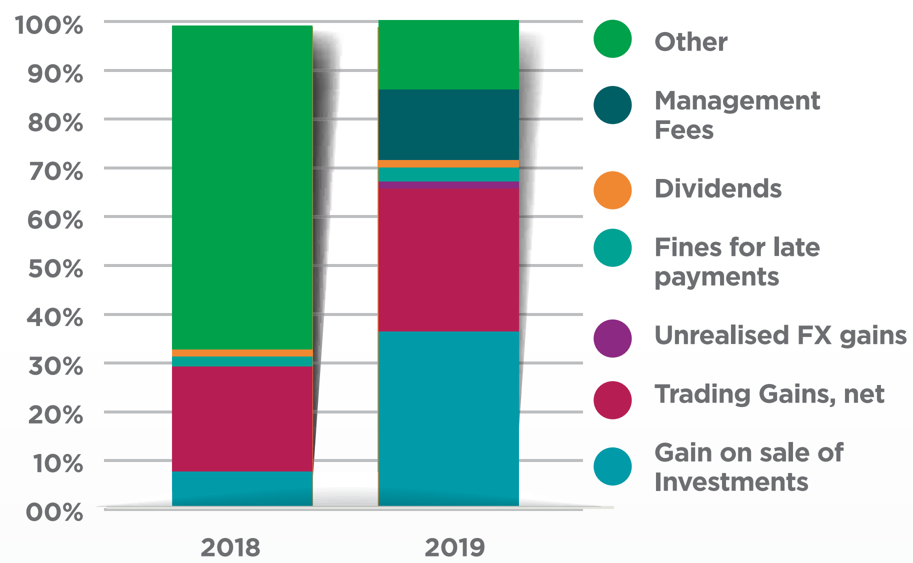
The Group's Net Interest Income for the financial year ended December 31, 2018 totaled $4.22 billion, which exceeded that reported for 2017 by $203.92 million or 5.08%.

Loan interest income of $3.65 billion reflected a 9.2% or $306.73 million increase over that reported in 2017. This was due primarily to year over year growth in loan volumes driven by our mortgage business and the introduction of auto and unsecured loans in 2018.

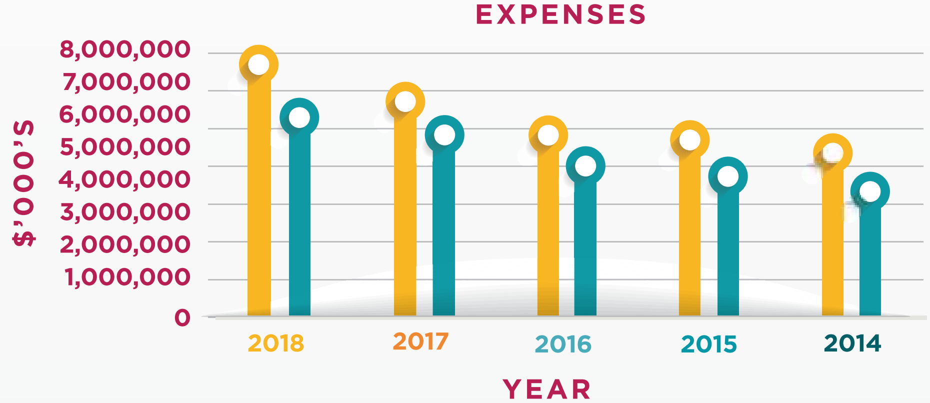
Interest income from investments declined by $196.74 million or 6.9%, resulting mainly from an overall reduction in average yields on investments.

Total Interest expense decreased by $93.93 million or 4.3% over that reported for the previous year.

OTHER OPERATING REVENUE (%) 2018/2017



OPERATING REVENUE & ADMINISTRATIVE EXPENSES



Other Operating Revenue

Other Operating Revenue for the year totalled $2.125 billion, reflecting an increase of $522.51 million or 32.6% above that reported for 2017. The increase was attributable to mark-to-market gains from unit trust investments and gains from the disposal of investment property.

Operating Expenses

Operating Expenses, comprised of personnel costs, depreciation and amortisation, and other operating expenses, increased by $70.724 million or 1.3% to $5.503 billion, driven by continued investment in the business to drive operational efficiency and enhance customer service.

Personnel costs decreased by $194.79 million or 6.2%, which includes an increase in salaries of $75.58 million or 4.5%, a decrease in other staff benefits of $75.2 million or 7.6%, an actuarial decrease to the pensions and post-retirement medical benefits of $305.04 million or 164.8%, and an increase in termination expenses of $84.29 million or 140.5% in comparison with the prior year.

Depreciation and amortisation expense increased by $104.108 million or 43.2% over 2017, due mainly to the Group's continued innovation and enhancements of its information technology platforms.

Other operating expenses totaled $2.204 billion, reflecting an increase of $161.409 million or 7.9% over that reported for 2017. The increased expenditure included increases in business development activities of $172.71 million, consultancy and other professional fees of $28.41 million, computer maintenance of $47.898 million, and asset tax of $26.17 million.

Impairment Losses on Financial Assets

Impairment losses on financial assets grew by $456.8 million, from $20.17 million in the previous year to $476.97 million in 2018. The increase was attributable mainly to the adoption by the Group of the new accounting standard, IFRS 9, Financial Instruments, effective January 1, 2018.

IFRS 9 replaced IAS 39, Financial Instruments: Recognition and Measurement, and sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Differences in the carrying amounts of the Group's financial instruments resulting from the adoption of IFRS 9 were recognised in retained earnings and reserves as at January 1, 2018.

IFRS 9 also introduced a new impairment model that requires the recognition of expected credit losses ("ECL") for certain financial assets as well as for off-balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37, Provisions, Contingent Liabilities and Contingent Assets.

A summary of IFRS 9 and the impact from the adoption is shown in Note 4 and in Note 6 (a)(ii) of the audited financial statements.

Key Performance Indicators

The return on average total assets was 0.95%, up from 0.88% for 2017. At the end of the 2018 financial year, the ratio of capital and reserves to total assets was 12.03%, compared to 12.56% in the prior year.

Net Interest Margin, which measures net interest income as a percentage of mean assets, declined from 3.74% in 2017 to 3.62% in 2018.

The Cost to Income ratio improved from 83.15% to 72.45% in 2018.

VMBS FINANCIAL PERFORMANCE

The Society's 2018 financial performance reflected a decline of 32.6% in pre-tax surplus when compared to the previous year. 2017's results were impacted by a 'one off' capital gain of $1.149 billion arising from the dissolution of its subsidiary WESTIN International Insurance Company that year. The

THE SOCIETY	2018	2017	2016
Pre-tax Surplus ($M)	1,221.7	1,812.7	898.9
After-tax Surplus ($M)	940.7	1,739.4	651.9
Total Assets ($B)	114.3	104.8	97.3
Total Loans ($B)	48.9	44.1	34.5
Deposit Liabilities ($B)	96.0	89.1	83.6
Net Interest Margin (Net Interest Income as % of Mean Interest Earning Assets)	3.95%	4.09%	4.18%
Cost to Income Ratio	74.51%	72.06%	80.88%
Capital Adequacy Ratio	22.16%	21.64%	19.31%

2018 performance reflects a 5.1% increase in net interest income. Surplus after tax of $940.727 million reflected a decrease of $798.661 million or 45.9% year over year. The effective rate of corporation tax charged for 2018 was 23.0%, compared to 4% in the previous year, with the latter being due primarily to the tax exemption on capital distribution from the dissolution of the subsidiary.

The $190.14 million increase in net interest income was the combined result of a $131.45 million or 2.4% increase in interest income, and a $58.69 million or 3.4% decrease in interest expense.

Interest rates have continued to fall across the industry, and this is reflected in the decline in the net interest margin falling from 4.09 % in 2017 to 3.95% in 2018.

Interest income earned from the loans book of $3.635 billion was 9.4% higher than the $3.322 billion reported for 2017. However, interest income earned from investments was $180.4 million or 8.3% less than prior year.

The overall cost of administration increased by $250.34 million or 5.3% moving from $4.748 billion in 2017 to $4.999 billion in 2018. The personnel cost component decreased by $165.64 million or 6.8%, moving from $2.439 billion in 2017 to $2.273 billion in 2018. Other operating expenses of $2.435 billion, inclusive of asset tax and impairment losses, increased by $340.95 million or 16.3% in 2018, compared to $2.094 billion in 2017. Depreciation and amortisation charges increased by $75.03 million, resulting from increased capital expenditure used to support the business in 2018. The cost to income ratio was 74.51% in 2018 compared to 72.06% in 2017.

We are pleased to report the continued growth in Total Assets of 9.1% during the year, moving from $104.78 billion in 2017 to $114.32 billion at the end of 2018. The financial health of the Society was also assured, as the Capital Adequacy ratio was 22.16%, which exceeded the minimum of 10.0% required by the regulators.

Savings

The savings fund (excluding funds due to specialized institutions) at the end of 2018 stood at $82.83 billion, up from $77.10 billion reported at December 2017, representing a year over year increase of $5.73 billion or 7.43%.

Deposit growth was driven by several key fund-raising initiatives. At the centre of our strategy is the continued focus on Relationship Management which focuses on the needs of our members through their life stages and providing them with the tools required to grow and manage wealth; this includes savings programs geared towards home ownership.

The market in 2018 remains fairly liquid, with evidence of interest rate sensitivity. Against this fact, we continue to measure and monitor Member satisfaction through periodic NPS surveys which has enabled us to better understand our Members and their needs.

Mortgage Loans

The loan portfolio at the end of 2018 stood at $48.87 billion, up from $44.11 billion reported at December 2016, representing a year over year increase of $4.76 billion or 10.79%. Total loans disbursed totalled $8.06 billion.

This solid performance is underpinned by the Society's promise to providing our members with excellent service at all touchpoints and our commitment to on-going process improvements aimed at shortening the end to end processing time while delivering exceptional Member experience.

Mortgage Loan Portfolio Quality

The loan quality ratio (a measure of non-performing loans expressed as a percentage of total mortgage portfolio) was 1.95% at year end and under 2% for the second consecutive year.

We are pleased with the overall quality of the loan portfolio which we attribute to prudent risk assessment built into our underwriting and adjudication processes. We also remain committed to providing assistance to members who may face challenges from time to time.

The VICTORIA MUTUAL Building Society

The Victoria Mutual Building Society was established in 1878 by a group of clergymen who wanted to help ordinary Jamaicans achieve the goal of home ownership. They created a mutual organisation which aimed to assist its Members in purchasing homes through a process that involved pooling their savings to facilitate mortgage loans.

November 2018 marked 140 years since this mission began and serving our Members has remained our priority all this time. Over the decades, our business has grown and now reaches beyond oceans and seas, spreading financial inclusion and helping our Members achieve financial independence wherever they are in the world.

The New VM provides a comprehensive range of products and services. We also empower our Members with financial education because we care.

Our Members benefit from the VMBS Team's extensive experience and the heart of service from which our business was founded. Our Strong Integrated Financial Group provides access to a range of financial services including loans, savings, pension administration, wealth management and money transfer services. In 2018 we introduced an auto loan product – the VM Drive Auto Loan, as well as Unsecured Loans.

We are engaged in a digital transformation which includes the upgrade of our branch network. Our Half-Way Tree Branch was renovated in 2018 and now boasts a modern feel and a more comfortable atmosphere for our Valued Members. This is just the beginning, as our entire branch network will eventually be upgraded.

Electronic Channels

VMBS started the process of upgrading its ABM fleet by introducing Intelligent Deposit ABMs (iABMs) to expand the ABM Network from 19 to 26 in 2018, with additional terminals to be added in 2019. With the increased number of ABM terminals and the additional capabilities, VMBS was able to achieve 29% transaction growth for VMBS Card Transactions and lead all Jamaican financial institutions with a 44% growth in MultiLink income for 2018. The improved ABM capabilities also contributed to the Branch Network achieving a transaction migration of 69.96% exceeding its 2018 target of 67.82%. As we prepare our Members for the much-anticipated Online Banking platform, we were able to reach a milestone of thirty-five thousand (35,000) enrolled Online Banking users who are now ready to take advantage of the new platform

iABM Project

In 2018, the iABM Implementation project under the Branch of the Future programme, implemented six (6) intelligent ABMs in four (4) locations under a pilot implementation programme. The locations were Duke Street, Linstead, Portmore and the new Fairview Financial Centre. Two (2) iABMs were also implemented at the Half-Way Tree location with a grand reveal at VM's in-branch birthday celebration.

These ABMs provided all the services previously offered through this channel, along with the capability of cash counting (depositing cash without envelopes). Members therefore now have immediate access to their deposited funds via their ABM cards.

Assistance was provided by Branch Concierges to migrate our Members from the Teller wicket to the ABMs for all feasible transactions. After an initially slow uptake, our Members became more comfortable and reliant on the iABMs. Migration numbers climbed from 28% in June 2018 to 54% in December 2018. This was measured against the 40% target stated in the project's business case and a 60% stretch target subsequently communicated by the Project's Steering Committee.

Financial Performance

The Society's 2018 financial performance reflected a decline of 32.6% in pre-tax surplus when compared to the previous year. 2017's results were impacted by capital gains of $1.148 billion arising from the dissolution of its subsidiary WESTIN International Insurance Company that year. The 2018 performance reflects a 5.1% increase in net interest income with loan quality ratio remaining relatively flat year over moving from 1.90% in 2017 to 1.95% in 2018.

Surplus after tax of $940.727 million reflected a decrease of $798.661 million or 45.9% year over year. The effective rate of corporation tax charged for 2018 was 23.0%, compared to 4% in the previous year, with the latter being due primarily to the tax exemption on capital distribution from the dissolution of the subsidiary.

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Efficiency

The Society maintained a focus on deepening and understanding the needs of its Members. We worked on a number of initiatives and focused heavily on Financial Education through a series of Mortgage Expos and adverts, improving our complaints management and leads management systems and the improvement of our mortgage processing end-to-end.

We continue to improve and modernise our branches and were pleased to unveil our renovated space at the Half way Tree location.

The branch network represents an important touch point for our members and we are continuously making changes to improve and modernize these spaces – the renovation exercise will continue into 2019 across other branches

2019 Focus

For 2019 we will continue to focus on the needs of our members and the strategic execution of our key business initiatives. We will continue to invest in our core business to grow both organically and through acquisitions. Plans geared towards the growth include

- Product innovation and the expansion of our suite of products
- Completing the full roll out of new AMBs across the network
- Reiterating our commitment to financial inclusion by launching products that caters to excluded persons and or groups
- Focusing on our Business Banking members by establishing a unit dedicated to serving this sector
- Growing core deposits through key deposit raising initiatives
- The continued redesign of branch layouts to maximise potential for the efficient execution of transactions
- Upgrading on online banking platform

Representative Offices

The Victoria Mutual Building Society has been a pioneer in serving the needs of Jamaicans living in the Diaspora since the early 1980s, as the organisation was the very first Jamaican financial institution to establish Representative Offices overseas; specifically, in the United Kingdom. Since then we have established offices in Florida and New York, and maintained brand presence in Canada

United Kingdom

Through the Representative Offices in the United Kingdom the Society continues to maintain a strong presence in the Jamaican UK Diaspora. Our offices engage in several community-based activities throughout the year that build bridges between Jamaicans and our beloved homeland. The Offices also host several events annually to keep Jamaican's informed and educated on achieving financial independence through home ownership.

In 2018 some of our activities included:

- Property acquisition /homeownership workshops and seminars
- Support of Jamaican Alumni and Member associations
- Sponsorship of Charities and Fundraising events that support key sectors in Jamaica, such as health, education and agriculture
- Supporting the initiatives of the Jamaican High Commission; more notably its quarterly citizenship ceremony for successful individuals who have applied for Jamaican citizenship.

In 2018 the Representative Offices opened over 950 new accounts and over £2.2 Million Sterling Pounds and $38.5 Million Jamaican Dollars in mortgages written and disbursed.

Florida

On December 11, 2018, the VM Florida Representative celebrated 10 years of existence in South Florida. Since inception the Representative Office has consistently promoted the savings and loans options of the Society to Jamaicans and Friends of Jamaica living in Florida and neighbouring states.
In 2018, the office supported varied initiatives of several civic groups, churches and alumni associations within the Jamaican Community. From participating in these lead generation activities, the office referred over $1.3million US Dollars in mortgages for the year.

New York

In 2018 The New York Representative Office was established to serve Members living in the tri-state areas of New York, New Jersey and Connecticut. The office is located at 300 Cadman Plaza West, Suite 12155, Brooklyn, New York 11201. Mrs Natasha Service was appointed as the Chief Representative Officer for the location

BUSINESS LINES

Victoria Mutual Investments Limited (VMIL) and its wholly owned subsidiary, Victoria Mutual Wealth Management (VMWM), had a challenging but equally rewarding year.

In 2018, net interest income and other operating revenue increased by 35.21% from $0.966 billion in 2017 to $1.306 billion in 2018 resulting in an after-tax net income of $397.6M, up 14.8% vs 2017. The factors contributing to this positive performance were:

- Growth in fees from our Capital Markets Business, moving from $316.54 million in 2017 to $614.48 million in 2018. Our volume of funds raised increased from $18.34 billion in 2017 to $19.31 billion in 2018.
- Off-balance sheet assets grew by 22.28% from $19.88 billion in 2017 to $24.31 billion in 2018. This growth is primarily attributable to a 52.97% growth in our Unit Trust Funds, moving from $10.93 billion in 2017 to $16.72 billion in 2018.
- Our Unit Trust Market share grew from 4% as at December 2017 to 6% as at December 2018. Our Property Fund was the best performing in 2018 with a return of 7.57%. This Fund invested close to $1 Billion in properties in the business district of New Kingston in 2018. Our Local Equity Fund was the second-best performing with a return of 28.68%.
- There was also growth in the number of Unit Trust Portfolios, moving from 6 to 8 with the introduction of our Money Market Portfolio and International Equity Portfolio.

Our 2018 Profit was impacted by a provision for credit loss on financial assets of $105.44 million. The primary contributor was an impairment of Government of Barbados (GOB) bonds. VMIL had investments of $354 million in the Barbados Securities that were impacted by the default. We are closely monitoring negotiations between Barbados Government and creditors aimed at achieving a mutually beneficial resolution.

CLIENT EXPERIENCE

Based on client feedback, much attention was given to improving our client experience during the year. We engaged professionals from Ernst and Young who led our team in a process of customer journey mapping. This showed the full journey of our customers and highlighted areas for improvement. The aim is to create a better experience for our customers and to develop ways to serve them more effectively, wherever they wish to be served. We expect to continue to reap the benefits of this exercise in the years ahead. Another initiative executed in the year to further improve our client experience was to centralise our Operations Unit within the VM Group.

This follows other centralization efforts made in the areas of marketing, human resources, treasury/investment services and accounting. We have begun to benefit from the expertise of the consolidated team and have also been able to run a more efficient operation in VMIL, thanks to this centralisation. After two years of work, the team implemented a new investment management system. The new system gives greater functionality and fortifies the back-office operations, towards improving our client experience. This new system facilitated the launch of our two new Unit Trust portfolios during 2018. While we continue to work tirelessly to improve our client experience, we are very proud to be part of the VM Group that won the 2018 PSOJ Service Excellence Award for overall service excellence. It is encouraging recognition and motivation to press even harder towards our service delivery goals.

OUR PEOPLE

We recognize that our team members are the backbone of our operations and moved with urgency in 2018 to build our people and fortify the team for the journey ahead. Our strategic priority is to attract, develop and retain the right talent. Working closely with Group Human Resources, we implemented several team member engagement activities. We also hosted several personal finance sessions to help our team members achieve financial wellbeing. Our team members also benefitted from an increased number of training hours.

OUTLOOK

In 2018, the Board approved a new, 5-year strategic plan which focused on aggressive growth in four areas:

1. Revenue;
2. Total Assets;
3. Client Experience;
4. Our People.

This is part of our broader mission to optimise our service delivery and realise improved returns on our clients' investments. The new plan reflects alignment on the direction to be pursued by management, and provides greater energy, clarity and focus. The path ahead for VMIL is bright – and ambitious. We have instituted aggressive targets in the areas of efficiency, team member engagement, and client experience. We have the right team in place and are motivated to achieve excellence. In 2019 we will be opening a new branch in Fairview, Montego Bay.

VMIL is more committed than ever to grow our clients' wealth and maximise value for our shareholders. We look forward to a successful future for VMIL under the leadership of Rez Burchenson as CEO and Colando Hutchinson as Deputy CEO effective January 1, 2019. Their combined expertise and commitment to the VMIL purpose augers well for the future.

Victoria Mutual Property Services Limited (VMPS) is the Real Estate and Property Services arm of the Victoria Mutual Group, providing real estate sales and rental services, islandwide property appraisals and valuations, as well as commercial property management services.

These services complement the Society's core business of providing mortgages to finance properties in Jamaica. The Company also provides the business units within the Victoria Mutual Group with project management services.

The Company recorded growth in revenue of 48% year-over-year to $185.8 million from $125.5 million, with Real Estate Sales and Project Management revenues surpassing budget by 38% and 81% respectively. Revenues from Property Appraisals equalled that of 2017.

Over the course of the year, the business sold 118 properties valued at $1.979 billion and completed 835 valuations at a combined value of $17.5 billion.

For 2019, the VMPS will focus on continuing to increase our market share in the real estate brokerage and appraisal businesses, on implementing the slate of project prioritised for 2019-2020 and increasing the number of buildings under management.

Victoria Mutual Pensions Management (VMPM) was formed in 1996 as a division of Prime Life Assurance Company Limited. It grew into a stand-alone entity and in 2013 became a wholly-owned subsidiary of the Victoria Mutual Group.

VMPM offers a full range of pensions services, namely Pension Investment Management, Pension Administration, Member Education, Pensions Consultancy and an Approved Retirement Scheme. We strive to be the preferred pension services provider in Jamaica by delivering value to our clients through a holistic approach to pensions, while maximising your investment returns. This is achieved through our:

1. Commitment to high quality service;
2. Commitment to Service Level Agreements (SLA) which sets timelines for the submission of key deliverables;
3. Commitment to Regulatory Compliance; and
4. Commitment to Member education.

We currently offer Pension Administration Services for 21 Superannuation Funds and one Approved Retirement Scheme, as well as Investment Management for 29 Superannuation Funds and one Approved Retirement Scheme.

Financial Performance

The year ended 31 December 2018 yielded an increase in assets under management of $7.86 billion to end the year at $52.24 billion. The number of lives being administered by VMPM increased by 495, to close the year at 7,105 Members.

We earned profit before tax and after tax of $124.81 million and $106.08 million respectively. Administrative expenses as a percentage of revenue closed the year at 65% with a ROE of 71%.

2018 Achievement Highlights

One major achievement of 2018 was the implementation of the Investment Management System. We also celebrated hitting over$50 billion mark in assets under management.

Areas of Focus for 2019

In the year ahead, we are anticipating continued growth in assets and membership, which will be accelerated by the distribution of VMPM Approved Retirement Scheme products through the VMWM and VMBS network. This is slated for the third quarter of 2019. It is also expected that all our Members will be provided with online access in the coming year.

Vmbs Money Transfer Services Limited (VMTS) is a subsidiary of Victoria Mutual Building Society. Through its extensive and increasing distribution network of over 85 locations across Jamaica, VMTS provides our remittance customers with the convenience of sending and receiving their funds at any of our VMBS branch locations and VM Money Transfer agents.

Our services include:

- Cash Pick-ups
- Direct deposit of remittance to account at any financial institution in Jamaica
- SMS telephone notification on the arrival of funds
- Receiving funds on VM Money Transfer Card
- Bill Payments
- JUTC Smarter Card top-up
- DHL packages pickup and drop off

Our business relationship extends to over eight major international remittance partners including MoneyGram, the second largest Money Transfer company in the world; Xoom/PayPal; World Remit; NCS eMoney Services; RIA Financial Services; Choice Money Transfer; Sigue; and NHT Contributions.

The 2018 achievements are as follows:

1. Opened two new VM Money Express Locations.
2. Opened 14 new subagent locations.
3. Exceeded net profit target by 328%.
4. Exceeded revenue target by 33%.
5. Highest HREI in the VM Group of Companies.
6. Highest NPS score in the VM Group of Companies.
7. Held expenses below budget by 11%.
8. Launched new technological solution with one of our partners.
9. Launched from a new country from one of our partners.

For 2019, our Areas of Focus include:

1. Expanding the VM Money Express network across Jamaica
2. Expand the sub-agent network across Jamaica
3. Expand Money Transfer Regionally
4. Launching two new VMTS international money transfer partner in Jamaica
5. Implement IT solutions
6. Increase profitability
7. Increase transaction values and volumes
8. Reduce expenses
10. Improve efficiency ratio

Inaugural Vm Group Business Conference

VM Team members from all across Jamaica gathered under the theme "The R.A.C.E (Revenue, Accountability, Customer Obsession and Efficiency)– If it's to be it's up to me."

Labour Day- Corporate Philanthropy

The VM Team from across the island were hard at work on Labour Day, uplifting the Randolph Lopez School of Hope through a beautification project.

The President's Cocktails And Cultural Concert

The President's Cocktails and Cultural Concert was held in recognition of our 140th anniversary. The grand event showcased outstanding performances by the UWI singers and Dance Xpressionz

Renovated Half-Way Tree Branch Unveiled

Then Minister of State in the Ministry of Finance and the Public Service, The Hon. Fayval Williams was our guest at the opening of our newly renovated Half-Way Tree branch.

Governor General's Visit

Governor General, His Excellency The Most Hon. Sir Patrick Linton Allen, ON, GCMG, CD, KSt.J, visited our Half-Way Tree location as part of our Anniversary celebrations. He and The Most Hon. Lady Allen were presented with a gift by President and CEO Courtney Campbell and later toured the newly-renovated branch.

Mortgage Expos (cross country)

The VM Group hosted nine mortgage expos across the island in 2018, spreading financial education and making the road to home ownership easier for our Members.

National Leadership Prayer Breakfast

The National Leadership Prayer Breakfast is a VM Foundation sponsored event. It brings together the leaders of the island's two major political parties at the start of the year for fellowship and prayer.

Launched VM Drive

Thanks to a Members' vote in 2017, we are now able to broaden the scope of our services and offer exciting new products such as auto loans.

VM Foundation

In 2018 the VM Group officially launched the VM Foundation, giving greater structure to its philanthropic efforts.

VM Wealth Talks Series

The VM Group is committed to empowering our Members and Clients with financial education because we care. We do so through avenues like the VM Wealth Talks Series, which features experts speaking on different financial matters.

VM Foundation Scholarship Awards

As a part of our philanthropic efforts, we offer a scholarship programme that provides financial support to students.

UWI STAT

L-R Giselle Campbell, President of UWI STAT, Courtney Campbell Group President and CEO of VM Group, Clover Moore, Assistant Vice President of Group Corporate Affairs and Communications VMBS, Sophia Lewis, Assistant Manager of Group Corporate Affairs and Communications VMBS and Rojay Leachman, Vice President of Finance UWI STAT.

Since 2017 the VM Group has been a proud corporate partner of UWI STAT (Students Today, Alumni Tomorrow) Ambassador Corps Programme for which Group President and CEO, Courtney Campbell is a mentor. In this way, VM Group continues to play an active role in the lives of Jamaica's future leaders.

2018 UK Listening Tour

An annual event where senior executives from VM Group visits the UK to get feedback from, and engage with, members of the diaspora.

INTEGRITY

FINANCIAL STATEMENTS

December 31, 2018

KPMG
Chartered Accountants
The Victoria Mutual Building
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Kingston
Jamaica, W.I.
+1 (876) 922-6640
firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Members of
THE VICTORIA MUTUAL BUILDING SOCIETY

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of The Victoria Mutual Building Society (the Society) and the consolidated financial statements of the Society and its subsidiaries (the Group), set out on pages 82 to 182, which comprise the Group's and Society's statements of financial position as at December 31, 2018, the Group's and Society's income statements, statements of comprehensive income, changes in capital and reserves and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Society as at December 31, 2018, and of the Group's and the Society's financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Society in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
THE VICTORIA MUTUAL BUILDING SOCIETY

Report on the Audit of the Financial Statements (Continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance 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 for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
THE VICTORIA MUTUAL BUILDING SOCIETY

Report on the Audit of the Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Society to cease to continue as a going concern.

KPMG

INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Members of
THE VICTORIA MUTUAL BUILDING SOCIETY

Report on the Audit of the Financial Statements (Continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on additional matters as required by the Building Societies Act

We have examined the mortgage deeds and other securities belonging to the Society. Title deeds numbering 8,002 were produced to us and actually inspected by us, and we are satisfied that the remaining 132 deeds not inspected by us were in the hands of attorneys or elsewhere in the ordinary course of business of the Society.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith, are duly vouched and in accordance with law.

KPMG

Chartered Accountants
Kingston, Jamaica

March 29, 2019

STATEMENTS OF FINANCIAL POSITION

December 31, 2018

	Notes	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
ASSETS					
Cash and cash equivalents	8	7,702,936	12,214,487	7,562,954	9,315,007
Investments - Jamaica Government securities	9	25,868,004	20,266,137	15,895,208	12,220,464
- Other	10	26,633,893	21,084,898	23,209,864	17,363,848
Resale agreements	11	10,296,069	14,320,770	8,578,312	12,283,910
Loans	12	48,973,660	44,069,750	48,879,060	44,118,134
Other assets	13	5,339,371	3,714,289	2,335,906	2,336,539
Income tax recoverable		178,430	101,951	175,494	101,951
Deferred tax assets	14(a)	212,695	85,461	-	-
Employee benefits asset	15	2,327,900	2,176,900	2,327,900	2,176,900
Interest in subsidiaries	16	-	-	1,270,420	1,081,394
Interest in associate	17	1,134,445	1,142,378	659,200	659,200
Intangible assets	18	2,794,237	2,352,348	1,756,019	1,507,112
Investment and foreclosed properties	19	168,459	437,621	285,778	554,941
Property, plant and equipment	20	1,487,117	1,207,156	1,383,675	1,060,148
Total assets		**133,117,216**	**123,174,146**	**114,319,790**	**104,779,548**
LIABILITIES					
Savings fund:					
Shareholders' savings	21	80,719,470	75,123,408	81,609,676	75,845,137
Depositors' savings	22	1,222,461	1,255,982	1,222,461	1,255,982
Savings fund		81,941,931	76,379,390	82,832,137	77,101,119
Due to specialised institution	25	13,175,738	12,046,079	13,175,738	12,046,079
		95,117,669	88,425,469	96,007,875	89,147,198
Income tax payable		108,745	109,028	-	-
Other liabilities	23	2,576,826	4,179,682	655,093	507,675
Repurchase agreements	24	13,957,109	11,822,293	1,001,512	51,707
Other borrowings	26	3,876,594	1,593,901	2,476,269	1,087,792
Deferred tax liabilities	14(b)	518,849	298,595	515,794	298,419
Employee benefits obligation	15	950,400	1,276,700	897,300	1,206,500
Total liabilities		**117,106,192**	**107,705,668**	**101,553,843**	**92,299,291**
CAPITAL AND RESERVES					
Permanent capital fund	29	7,746,058	7,746,058	7,746,058	7,746,058
Reserve fund	28(i),29	1,268,048	1,189,174	1,268,048	1,189,174
Retained earnings reserve	28(ii),29	2,565,208	2,118,255	2,565,208	2,118,255
Non-distributable reserve	28(iii)	216,559	12,929	216,559	12,929
Capital reserve on consolidation	28(iv)	82	82	-	-
Credit facility reserve	12(c),28(v)	1,021,384	1,236,781	1,021,384	1,236,781
Investment revaluation reserve	28(vi)	242,632	416,181	(61,310)	167,060
General reserve		10,000	10,000	10,000	10,000
Currency translation reserve	28(vii)	291,323	273,097	-	-
Retained earnings		1,927,366	1,781,237	-	-
		15,288,660	14,783,794	12,765,947	12,480,257
Non-controlling interest	30	722,364	684,684	-	-
Total capital and reserves		**16,011,024**	**15,468,478**	**12,765,947**	**12,480,257**
Total liabilities and capital and reserves		**133,117,216**	**123,174,146**	**114,319,790**	**104,779,548**

The financial statements on pages 82 to 182, were approved for issue by the Board of Directors on March 29, 2019 and signed on its behalf by:

Director
Michael A. McMorris

Countersigned:

Director
Courtney Campbell

Corporate Secretary
Keri-Gaye Brown

The accompanying notes are an integral part of the financial statements.

INCOME STATEMENTS

Year ended December 31, 2018

	Notes	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Interest income, calculated using the effective interest method	32	6,300,370	6,190,380	5,626,071	5,494,617
Interest expense	32	(2,079,926)	(2,173,859)	(1,686,586)	(1,745,273)
Net interest income		4,220,444	4,016,521	3,939,485	3,749,344
Fee and commission income	33	1,348,197	1,003,682	355,908	321,296
Fee and commission expenses	33	(99,265)	(90,031)	(38,678)	(54,193)
Net fee and commission income		1,248,932	913,651	317,230	267,103
Other operating revenue	34	2,125,310	1,602,796	1,963,474	2,544,453
Net interest income and other revenue		7,594,686	6,532,968	6,220,189	6,560,900
Personnel costs	35	(2,953,311)	(3,148,104)	(2,272,906)	(2,438,544)
Impairment losses on financial assets		(476,972)	(20,168)	(364,053)	(20,168)
Depreciation and amortisation	18, 19, 20	(344,896)	(240,788)	(290,312)	(215,283)
Other operating expenses	36	(2,204,498)	(2,043,089)	(2,071,237)	(2,074,170)
		(5,979,677)	(5,452,149)	(4,998,508)	(4,748,165)
Share of profits of associate	17	87,840	210,621	-	-
Surplus before income tax		1,702,849	1,291,440	1,221,681	1,812,735
Income tax charge	37	(484,717)	(258,666)	(280,954)	(73,347)
Surplus for the year		1,218,132	1,032,774	940,727	1,739,388
Attributable to:					
Equity holders' of the Society		1,138,612	1,032,205	940,727	1,739,388
Non-controlling interest		79,520	569	-	-
		1,218,132	1,032,774	940,727	1,739,388

The accompanying notes are an integral part of the financial statements.

STATEMENTS OF COMPREHENSIVE INCOME

Year ended December 31, 2018

	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Surplus for the year	1,218,132	1,032,774	940,727	1,739,388
Other comprehensive income				
Items that will never be reclassified to profit or loss:				
Net gains on investments in equity securities designated at fair value through OCI (2017: available-for-sale)	163,200	-	-	-
Net gains/(losses) on remeasurement of employee benefits asset and obligation	314,200	(158,196)	290,900	(150,896)
Deferred income tax on net gains/(losses) on remeasurement of employee benefits asset and obligation	(95,408)	40,603	(87,270)	42,870
Foreign currency translation difference on foreign operations and other adjustments	18,226	(54,012)	-	-
	400,218	(171,605)	203,630	(108,026)
Items that may be reclassified to profit or loss:				
Unrealised (losses)/ gains on debt securities at fair value through OCI (2017: available-for-sale)	(302,577)	477,078	(95,404)	350,019
Deferred income tax on unrealised gains on investment securities measured at fair value through OCI (2017: available-for-sale)	56,514	21,095	-	-
Realised gains on fair value of debt securities at FVOCI (2017: available-for-sale)	(27,846)	(613,647)	(27,049)	(606,625)
	(273,909)	(115,474)	(122,453)	(256,606)
Total other comprehensive income/(loss) for the year, net of tax	126,309	(287,079)	81,177	(364,632)
Total comprehensive income for the year	1,344,441	745,695	1,021,904	1,374,756

The accompanying notes are an integral part of the financial statements.

GROUP STATEMENT OF CHANGES IN CAPITAL AND RESERVES

Year ended December 31, 2018

	Permanent capital fund $'000	Reserve fund $'000	Retained earnings reserve $'000	Non-distributable reserve $'000	Capital reserve on consolidation $'000	Credit facility reserve $'000	Investment revaluation reserve $'000	General reserve $'000	Currency translation reserve $'000	Retained earnings $'000	Total capital and reserves $'000	Non controlling interest attributable to parent $'000	Total capital and reserve $'000
Balances at December 31, 2016, as restated	**7,746,058**	**936,390**	**685,812**	**120,955**	**82**	**1,182,620**	**626,818**	**10,000**	**327,109**	**2,498,173**	**14,134,017**	**-**	**14,134,017**
Total comprehensive income for 2017													
Surplus for the year	-	-	-	-	-	-	-	-	-	1,032,205	1,032,205	569	1,032,774
Other comprehensive income:													
Change in fair value of available-for-sale investments, net of tax	-	-	-	-	-	-	498,131	-	-	(191)	497,940	233	498,173
Foreign currency translation difference on foreign subsidiaries' balances and other adjustments	-	-	-	-	-	-	-	-	(54,012)	-	(54,012)	-	(54,012)
Realised gains on available-for-sale financial assets	-	-	-	-	-	-	(613,647)	-	-	-	(613,647)	-	(613,647)
Net gain on remeasurement of employee benefits asset and obligation, net of tax	-	-	-	(108,026)	-	-	-	-	-	(9,562)	(117,588)	(5)	(117,593)
Total other comprehensive income	-	-	-	(108,026)	-	-	(115,516)	-	(54,012)	(9,753)	(287,307)	228	(287,079)
Total comprehensive income for the year	-	-	-	(108,026)	-	-	(115,516)	-	(54,012)	1,022,452	744,898	797	745,695
Movements between reserves													
Credit facility reserve transfer	-	-	-	-	-	54,161	-	-	-	(54,161)	-	-	-
Other transfers [notes 27 and 28(i)]	-	252,784	1,432,443	-	-	-	-	-	-	(1,685,227)	-	-	-
Total movement between reserves	-	252,784	1,432,443	-	-	54,161	-	-	-	(1,739,388)	-	-	-
Non-controlling interest investment in subsidiary	-	-	-	-	-	-	-	-	-	-	-	683,887	683,887
Share of investment revaluation of associate	-	-	-	-	-	-	(95,121)	-	-	-	(95,121)	-	(95,121)
Balances at December 31, 2017	**7,746,058**	**1,189,174**	**2,118,255**	**12,929**	**82**	**1,236,781**	**416,181**	**10,000**	**273,097**	**1,781,237**	**14,783,794**	**684,684**	**15,468,478**

The accompanying notes are an integral part of the financial statements.

GROUP STATEMENT OF CHANGES IN CAPITAL AND RESERVES (CONT'D)

Year ended December 31, 2018

	Permanent capital fund $'000	Reserve fund $'000	Retained earnings reserve $'000	Non-distributable reserve $'000	Capital reserve on consolidation $'000	Credit facility reserve $'000	Investment revaluation reserve $'000	General reserve $'000	Currency translation reserve $'000	Retained earnings $'000	Total capital and reserves $'000	Non controlling interest attributable to parent $'000	Total capital and reserve $'000
Balances at December 31, 2017	**7,746,058**	**1,189,174**	**2,118,255**	**12,929**	**82**	**1,236,781**	**416,181**	**10,000**	**273,097**	**1,781,237**	**14,783,794**	**684,684**	**15,468,478**
Impact on initial application of IFRS 9 (note 4)	-	-	-	-	-	(356,158)	(74,807)	-	-	(338,604)	(769,569)	(4,549)	(774,118)
Restated balances at January 1, 2018	7,746,058	1,189,174	2,118,255	12,929	82	880,623	341,374	10,000	273,097	1,442,633	14,014,225	680,135	14,694,360
Total comprehensive income for 2018													
Surplus for the year	-	-	-	-	-	-	-	-	-	1,138,612	1,138,612	79,520	1,218,132
Other comprehensive income:													
Unrealised gains on debt securities at FVOCI, net of tax	-	-	-	-	-	-	(215,839)	-	-	-	(215,839)	(30,224)	(246,063)
Foreign currency translation difference on foreign subsidiaries' balances and other adjustments	-	-	-	-	-	-	-	-	18,226	-	18,226	-	18,226
Realised gains on debt securities at FVOCI	-	-	-	-	-	-	(27,687)	-	-	-	(27,687)	(159)	(27,846)
Unrealised gains on equity securities at FVOCI	-	-	-	-	-	-	130,560	-	-	-	130,560	32,640	163,200
Net gain on remeasurement of employee benefits asset and obligation, net of tax	-	-	-	203,630	-	-	-	-	-	12,709	216,339	2,453	218,792
Total other comprehensive income	-	-	-	203,630	-	-	(112,966)	-	18,226	12,709	121,599	4,710	126,309
Total comprehensive income for the year	-	-	-	203,630	-	-	(112,966)	-	18,226	1,151,321	1,260,211	84,230	1,344,441
Movements between reserves													
Credit facility reserve transfer	-	-	-	-	-	140,761	-	-	-	(140,761)	-	-	-
Other transfers [notes 27 and 28(i)]	-	78,874	446,953	-	-	-	-	-	-	(525,827)	-	-	-
Total movement between reserves	-	78,874	446,953	-	-	140,761	-	-	-	(666,588)	-	-	-
Dividend paid to non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	(42,001)	(42,001)
Share of investment revaluation of associate	-	-	-	-	-	-	14,224	-	-	-	14,224	-	14,224
Balances at December 31, 2018	**7,746,058**	**1,268,048**	**2,565,208**	**216,559**	**82**	**1,021,384**	**242,632**	**10,000**	**291,323**	**1,927,366**	**15,288,660**	**722,364**	**16,011,024**

The accompanying notes are an integral part of the financial statements.

SOCIETY STATEMENT OF CHANGES IN CAPITAL AND RESERVES

Year ended December 31, 2018

	Permanent capital fund $'000	Reserve fund $'000	Retained earnings reserve $'000	Non-distributable reserve $'000	Credit facility reserve $'000	Investment revaluation reserve $'000	General reserve $'000	Retained earnings $000	Total capital and reserve $000
Balances at December 31, 2016	7,746,058	936,390	685,812	120,955	1,182,620	423,666	10,000	-	11,105,501
Total comprehensive income for 2017									
Surplus for the year	-	-	-	-	-	-	-	1,739,388	1,739,388
Other comprehensive income:									
Unrealised gains on available-for-sale financial assets	-	-	-	-	-	350,019	-	-	350,019
Realised gains on available-for-sale financial assets	-	-	-	-	-	(606,625)	-	-	(606,625)
Gain on remeasurement of employee benefits asset and obligation, net of tax	-	-	-	(108,026)	-	-	-	-	(108,026)
Total other comprehensive loss	-	-	-	(108,026)	-	(256,606)	-	-	(364,632)
Total comprehensive income for the year	-	-	-	(108,026)	-	(256,606)	-	1,739,388	1,374,756
Movements between reserves									
Credit facility reserve transfer	-	-	-	-	54,161	-	-	(54,161)	-
Other reserves [notes 27 and 28(i)]	-	252,784	1,432,443	-	-	-	-	(1,685,227)	-
Total movement between reserves	-	252,784	1,432,443	-	54,161	-	-	(1,739,388)	-
Balances at December 31, 2017	7,746,058	1,189,174	2,118,255	12,929	1,236,781	167,060	10,000	-	12,480,257

The accompanying notes are an integral part of the financial statements.

SOCIETY STATEMENT OF CHANGES IN CAPITAL AND RESERVES (CONT'D)

Year ended December 31, 2018

	Permanent capital fund $'000	Reserve fund $'000	Retained earnings reserve $'000	Non-distributable reserve $'000	Credit facility reserve $'000	Investment revaluation reserve $'000	General reserve $'000	Retained earnings $000	Total capital and reserve $000
Balances at December 31, 2017	7,746,058	1,189,174	2,118,255	12,929	1,236,781	167,060	10,000	-	12,480,257
Impact on initial application of IFRS 9 (note 4)	-	-	-	-	(356,158)	(105,917)	-	(274,139)	(736,214)
Adjusted balances at January 1, 2018	7,746,058	1,189,174	2,118,255	12,929	880,623	61,143	10,000	(274,139)	11,744,043
Total comprehensive income for 2018									
Surplus for the year	-	-	-	-	-	-	-	940,727	940,727
Other comprehensive income:									
Unrealised gains on debt securities at FVOCI	-	-	-	-	-	(95,404)	-	-	(95,404)
Realised gains on debt securities at FVOCI	-	-	-	-	-	(27,049)	-	-	(27,049)
Gain on remeasurement of employee benefits asset and obligation, net of tax	-	-	-	203,630	-	-	-	-	203,630
Total other comprehensive income	-	-	-	203,630	-	(122,453)	-	-	81,177
Total comprehensive income for the year	-	-	-	203,630	-	(122,453)	-	940,727	1,021,904
Movements between reserves									
Credit facility reserve transfer	-	-	-	-	140,761	-	-	(140,761)	-
Other reserves [notes 27 and 28(i)]	-	78,874	446,953	-	-	-	-	(525,827)	-
Total movement between reserves	-	78,874	446,953	-	140,761	-	-	(666,588)	-
Balances at December 31, 2018	7,746,058	1,268,048	2,565,208	216,559	1,021,384	(61,310)	10,000	-	12,765,947

The accompanying notes are an integral part of the financial statements.

GROUP STATEMENT OF CASH FLOWS

Year ended December 31, 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Surplus for the year		1,218,132	1,032,774
Adjustments for:			
Depreciation and amortisation	18, 19, 20	344,896	240,788
Employee benefits asset and obligation		(59,500)	125,566
Interest income	32	(6,300,370)	(6,190,380)
Interest expense	32	2,079,926	2,173,859
Gain on disposal of investment property and property, plant and equipment		(303,568)	(6,511)
Share of profits of associate	17	(74,912)	(210,621)
Change in allowance for loan losses	12(b)	(55,756)	1,278
Income tax expense	37	484,717	258,666
		(2,666,435)	(2,574,581)
Unrealised exchange gains on foreign currency balances		611,827	(245,267)
Loan advances, net of repayments		(5,204,312)	(9,539,940)
Change in other assets		(1,625,082)	(604,594)
Employee benefits, net		(103,600)	241,511
Net receipts from shareholders and depositors		5,501,972	4,412,164
Due to specialised institution		1,129,659	1,265,236
Change in other liabilities		(1,602,856)	2,897,064
		(3,958,827)	(4,148,407)
Interest and dividends received		6,473,109	6,071,840
Interest paid		(2,019,357)	(2,172,588)
Income taxes paid		(507,353)	(254,855)
Net cash used by operating activities		(12,428)	(504,010)
Cash flows from investing activities			
Government of Jamaica securities		(6,199,978)	7,940,476
Other investments		(5,548,995)	(10,483,086)
Resale agreements		3,961,959	3,056,740
Purchase of intangible assets	18	(537,773)	(772,876)
Purchase of property, plant and equipment	20	(496,293)	(294,212)
Proceeds of disposal of property, plant and equipment		561,850	55,691
Repurchase agreements		2,134,816	(742,042)
Net cash used by investing activities		(6,124,414)	(1,240,009)
Cash flows from financing activities			
Loans payable, net		2,282,693	1,593,901
Proceeds from issuance of ordinary shares by subsidiary		(42,001)	683,887
Net cash provided by financing activities		2,240,692	2,277,788
Net (decrease)/increase in cash and cash equivalents for year		(3,896,150)	533,769
Cash and cash equivalents at beginning of year		12,214,487	11,499,829
Effect of exchange rate fluctuations on cash and cash equivalents		(615,401)	108,889
Cash and cash equivalents at end of year	8	7,702,936	12,214,487

The accompanying notes are an integral part of the financial statements.

SOCIETY STATEMENT OF CASH FLOWS

Year ended December 31, 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Surplus for the year		940,727	1,739,388
Adjustments for:			
Depreciation and amortisation	18,19,20	290,312	215,283
Unrealised exchange (losses)/gains on foreign currency balances		621,273	(207,781)
Employee benefits obligation		(65,700)	122,000
Interest income	32	(5,626,071)	(5,494,617)
Interest expense	32	1,686,586	1,745,273
Gain on disposal of property, plant and equipment		(318,370)	(6,511)
Gain on sale of investments		(177,845)	(593,043)
Loan impairment charge	12(b)	364,053	1,278
Income tax expense	37	280,954	73,347
		(2,004,081)	(2,405,383)
Loan advances, net of repayments		(5,061,328)	(9,569,873)
Interest in subsidiaries, (current account)		(189,026)	143,140
Change in other assets		(61,777)	1,679,481
Employee benefits, net		(103,600)	241,511
Net receipts from shareholders and depositors		5,691,659	3,729,361
Due to specialised institution		1,129,659	1,265,236
Change in other liabilities		147,418	(173,977)
		(451,076)	(5,090,504)
Interest and dividends received		5,688,481	3,682,316
Interest paid		(1,647,227)	(1,180,349)
Income taxes paid		(224,393)	(158,282)
Net cash provided/(used) by operating activities		3,365,785	(2,746,819)
Cash flows from investing activities			
Government of Jamaica securities		(3,999,408)	7,656,011
Other investments		(6,265,825)	(11,167,006)
Resale agreements		3,705,598	4,410,668
Purchase of intangible assets	18	(389,388)	(632,994)
Purchase of property, plant and equipment	20	(462,478)	(235,544)
Proceeds of disposal of property, plant and equipment		576,654	55,691
Net cash (used)/provided by investing activities		(6,834,847)	86,826
Cash flows from financing activity			
Loans payable, being cash provided by financing activity		2,338,282	614,018
Net decrease in cash and cash equivalents for year		(1,130,780)	(2,045,975)
Cash and cash equivalents at beginning of year		9,315,007	11,153,201
Effect of exchange rate fluctuations on cash and cash equivalents		(621,273)	207,781
Cash and cash equivalents at end of year	7	7,562,954	9,315,007

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2018

1. IDENTIFICATION

(a) The Victoria Mutual Building Society ("the Society") is incorporated under the Building Societies Act and domiciled in Jamaica. The registered office of the Society is located at 8-10 Duke Street, Kingston, Jamaica.

During the year, the principal activities of the Society and its subsidiaries [note 1(b)] comprised granting loans, accepting deposits, trading in foreign currencies, stockbroking and securities trading, asset management, pension fund management, providing money transfer services, investing funds, investment holding and real estate services.

(b) "Group" refers to the Society and its subsidiaries, which are as follows:

Entity	Country of incorporation	Nature of business	Percentage equity held by: The Society	Subsidiaries
Victoria Mutual Investments Limited and its wholly-owned subsidiary:	Jamaica	Investment holding company and select corporate finance services	80	-
Victoria Mutual Wealth Management Limited	Jamaica	Stockbroking, securities trading, asset management, corporate finance and investment advisory services	-	100
Victoria Mutual Pensions Management Limited	Jamaica	Pension fund management and administration	100	-
Victoria Mutual Properties Limited and its wholly-owned subsidiary:	Jamaica	Development and rental of real property	100	-
Victoria Mutual (Property Services) Limited	Jamaica	Valuations, property management, project management and realtor services	-	100
Victoria Mutual Finance Limited	United Kingdom	Provision of management services to the Society and specialised lending in the UK	100	-
VMBS Money Transfer Services Limited	Jamaica	Management of money transfer services	99	-
VMBS Overseas (UK) Limited	United Kingdom	Promotion of the business of the Society	100	-

(c) Interest in associated company

The Society has a 31.5% interest in British Caribbean Insurance Company Limited, which is a general insurance company incorporated in Jamaica. This investment is accounted for under the equity method as an associated company in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

December 31, 2018

2. REGULATIONS AND LICENCE

The Society is licensed by Bank of Jamaica, and these financial statements are delivered, under the Building Societies Act, the Banking Services Act 2014 and applicable Regulations.

The Society has two subsidiaries, Victoria Mutual Wealth Management Limited and Victoria Mutual Pensions Management Limited, which are licensed by the Financial Services Commission. Victoria Mutual Wealth Management Limited is a licensed investment advisor and securities dealer. It is also a member of the Jamaica Stock Exchange and is regulated as a securities broker/dealer. Victoria Mutual Pensions Management Limited is a licensed pension fund manager. VMBS Money Transfer Services Limited is licensed by Bank of Jamaica as a remittance service provider.

Victoria Mutual Investments Limited is listed on the main market of the Jamaica Stock Exchange.

3. BASIS OF PREPARATION

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and comply with the relevant provisions of the Building Societies Act and the Banking Services Act.

This is the first set of the Group's annual financial statements in which IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in note 4.

At the date of approval of these financial statements, certain new and amended standards and interpretations were in issue but were not effective at the reporting date and had not been early-adopted by the Group. The Group has assessed them and determined that the following may be relevant to its operations:

- IFRS 16 *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessees will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short- term leases and for low-value items with value of US$5,000 or less.

  Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

  The Group is assessing the impact that the standard will have on its 2019 financial statements.

3. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (cont'd)

- IFRIC 23 *Uncertainty Over Income Tax Treatments*, is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. IFRIC 23 clarifies that the accounting for income tax treatments that have yet to be accepted by tax authorities is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

  An entity has to consider whether it is probable that the relevant tax authority would accept the tax treatment, or group of tax treatments, that is adopted in its income tax filing.

  If the entity concludes that it is probable that the tax authority will accept a particular tax treatment in the tax return, the entity will determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment included in its income tax filings and record the same amount in the financial statements. The entity will disclose uncertainty.

  If the entity concludes that it is not probable that a particular tax treatment will be accepted, the entity has to use the most likely amount or the expected value of the tax treatment when determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates. The decision should be based on which method provides better prediction of the resolution of the uncertainty.

  If facts and circumstances change, the entity is required to reassess the judgements and estimates applied.

  IFRIC 23 reinforces the need to comply with existing disclosure requirements regarding:

  - judgements made in the process of applying accounting policy to determine taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates;
  - assumptions and other estimates used; and
  - potential impact of uncertainties that are not reflected in the financial statements.

  The Group is assessing the impact that the interpretation will have on its 2019 financial statements.

- Amendments to IFRS 9 *Financial Instruments*, effective retrospectively for annual periods beginning on or after January 1, 2019 clarifies the treatment of:

  (i) Prepayment features with negative compensation:

  Financial assets containing prepayment features with negative compensation can be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

3. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (cont'd)

- Amendments to IFRS 9 *Financial Instruments* (continued)

  (ii) Modifications to financial liabilities:

  If the initial application of IFRS 9 results in a change in accounting policy arising from modified or exchanged fixed-rate financial liabilities, retrospective application is required, subject to particular transitional reliefs. There is no change to the accounting for costs and fees when a liability has been modified, but not substantially. These are recognised as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

  The Group is assessing the impact that the amendment will have on its 2019 financial statements.

- Amendment to IAS 19, *Employee Benefits* is effective for annual periods beginning on or after January 1, 2019, and specifies how a Group should determine pension expenses when there are changes to a defined benefit pension plan.

  The amendment requires the Group to use updated actuarial assumptions to determine its current service cost and net interest for the remaining period when there is an amendment, curtailment or settlement of a defined benefit plan. The effect of the net asset ceiling is disregarded when calculating the gain or loss on the settlement of the defined benefit plan and is dealt with separately in other comprehensive income.

  The Group is assessing the impact that the amendment will have on its 2019 financial statements.

- *Annual Improvements to IFRS* 2015-2017 cycle contain amendments to *IFRS 3 Business Combinations*, *IFRS 11 Joint Arrangements, IAS 12 Income Taxes* and *IAS 23 Borrowing Costs* that are effective for annual periods beginning on or after January 1, 2019.

  (i) The amendments to IFRS 3 and IFRS 11 clarify how an increased interest in a joint operation should be accounted for. If a party maintains or obtains joint control, then the previously held interest is not remeasured. But if a party obtains control, this is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

  (ii) IAS 12 is amended to clarify that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently (either in profit or loss, OCI or equity) with the transactions that generated the distributable profits.

3. **BASIS OF PREPARATION (CONT'D)**

(a) Statement of compliance (cont'd)

- *Annual Improvements to IFRS (continued)*

  (iii) IAS 23 is amended to clarify that the general borrowings pool used to calculate eligible borrowing costs excludes borrowings that specifically finance qualifying assets that are still under development or construction. The change will apply to borrowing costs incurred on or after the date of initial adoption of the amendment.

  The Group is assessing the impact that the amendments in respect of income taxes and borrowing costs will have on its 2019 financial statements.

- Amendment to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* is effective for annual periods beginning on or after January 1, 2020, and provides a definition of 'material' to guide preparers of financial statements in making judgements about information to be included in financial statements.

  "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."

  The Group does not expect the amendment to have a significant impact on its financial statements.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis, except for the following:

(i) Debt instruments at fair value through other comprehensive income (FVOCI) measured at fair value (2017: available-for-sale securities measured at fair value).

(ii) Certain debt instruments mandatorily classified at fair value through profit or loss.

(iii) Equity securities measured at fair value through profit or loss.

(iv) Certain equity securities designated as at FVOCI measured at fair value.

(v) The employee benefits asset recognised as plan assets, less the present value of the defined-benefit obligation, limited as explained in note 5(h); and

(vi) The defined-benefit liability measured as the present value of the unfunded obligation.

3. **BASIS OF PREPARATION (CONT'D)**

(c) Functional and presentation currency

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The financial statements are presented in Jamaica dollars ($), which is the functional currency of the Society. The financial statements of other entities included in the consolidated financial statements that have different functional currencies are translated into Jamaica dollars in the manner set out in note 5(n). Amounts are rounded to the nearest thousand, unless otherwise stated.

(d) Estimates critical to reported amounts, and judgements in applying accounting policies

The preparation of the financial statements to conform to IFRS requires management to make estimates based on assumptions and judgements. Management also makes judgements, other than those involving estimates, in the process of applying the accounting policies. The estimates and judgements affect (1) the reported amounts of assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended, and (2) the carrying amounts of assets and liabilities in the next financial year.

The estimates and the assumptions underlying them, as well as the judgements, 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.

Judgements that have a significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amounts of assets and liabilities in the next financial year include the following:

(i) Key sources of estimation uncertainty

(1) Impairment of financial assets:

Applicable under IFRS 9 from January 1, 2018

A number of significant judgements are required in applying the accounting requirements for measuring expected credit loss (ECL), such as:

- Determining criteria for significant increases in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Detailed information about the judgements and estimates made by the Group in the above areas is set out in notes 4 and 6(a).

3. **BASIS OF PREPARATION (CONT'D)**

(d) Estimates critical to reported amounts, and judgements in applying accounting policies (cont'd)

(i) Key sources of estimation uncertainty (cont'd)

(1) Impairment of financial assets (cont'd):

Applicable for 2017 and prior years

In determining amounts, if any, to be recorded for impairment of securities and receivables in the financial statements for 2017 and prior years, management makes assumptions in assessing whether certain facts and circumstances, such as repayment default and adverse economic conditions, are indicators that there may be a measurable decrease in the estimated future cash flows from outstanding balances. Management also makes estimates of the likely estimated future cash flows from balances determined to be impaired, as well as the timing of such cash flows. If the balances are individually significant the amount and timing of cash flows are estimated for each receivable individually.

Where indicators of impairment are not observable on individually significant receivables, or on a group or portfolio of receivables that are not individually significant, management estimates the impairment by classifying each receivable or group of receivables according to their characteristics, such as credit risks and applying appropriate factors, such as historical loss experience, to each class with similar characteristics. The use of assumptions makes uncertainty inherent in such estimates.

(2) Pension and other post-employment benefits

Determining employee benefit amounts to be included in the financial statements requires management to estimate the amount of future benefits that employees have earned in current and prior periods, discounting that amount and deducting the fair value of any plan assets.

Making these estimates requires certain assumptions, including a discount rate, inflation rate, rate of future increases in medical claims, pensions and salaries, as more fully set out in notes 5(h) and 15. Management provides its appointed actuaries with some of the information, including key assumptions, used in estimating the employee benefit amounts. The uncertainty inherent in these assumptions could mean significant differences between actual results and the estimates determined by management.

(3) Goodwill

Goodwill is not amortised but is tested annually for impairment. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

3. **BASIS OF PREPARATION (CONT'D)**

(d) Estimates critical to reported amounts, and judgements in applying accounting policies (cont'd)

(i) Key sources of estimation uncertainty (cont'd)

(4) Residual values and useful lives of property, plant and equipment

The residual value and the useful life of each asset are reviewed at least at each financial year-end, and, if expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. The useful life of an asset is defined in terms of the asset's expected utility to the Group.

(5) Income taxes

In the ordinary course of the Group's business, it undertakes transactions, and is subject to events, the tax effects of which are uncertain. In the face of such uncertainty, the Group makes estimates and judgements in determining the provision for income taxes.

The final tax outcome attributable to matters subject to such estimates and judgements may be materially different from that which is initially recognised. Any such difference will impact the current and deferred income tax provisions in the period in which such determination is made.

(6) Fair value of financial instruments

There are no quoted market prices for a significant portion of the Group's financial assets. Accordingly, fair values of several financial assets are estimated using prices obtained from a yield curve.

The yield curve is, in turn, obtained from a pricing source which uses indicative prices submitted to it by licensed banks and other financial institutions in Jamaica. There is significant uncertainty inherent in this approach, which is categorised as a Level 2 fair value (see notes 9, 10 and 31). Some other fair values are estimated based on quotes published by broker/dealers, and these are also classified as Level 2. The estimates of fair value arrived at from these sources may be significantly different from the actual price of the instrument in an actual arm's length transaction.

(ii) Critical accounting judgements in applying the Group's accounting policies

For the purpose of these financial statements prepared in accordance with IFRS, judgement refers to the informed identification and analysis of reasonable alternatives, considering all relevant facts and circumstances, and the well-reasoned, objective and unbiased choice of the alternative that is most consistent with the agreed principles set out in IFRS.

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances, and the Group exercises judgement in carrying out such designation.

3. BASIS OF PREPARATION (CONT'D)

(d) Estimates critical to reported amounts, and judgements in applying accounting policies (cont'd)

(ii) Critical accounting judgements in applying the Group's accounting policies (cont'd)

Applicable under IFRS 9 from January 1, 2018

The assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding [see note 4(b)] requires management to make certain judgements on its business operations.

Applicable under IAS 39 for 2017 and prior years

- In classifying financial assets as "held-for-trading", the Group has determined that they meet the description of trading assets set out in accounting policy 5(b).
- In designating financial assets as "at fair value through profit or loss", the Group has determined that they have met the criteria for this designation.
- In classifying financial assets as "held-to-maturity", the Group has determined that it has both the positive intent and ability to hold the assets until their maturity date.
- In classifying financial assets as "loans and receivables" the Group has determined that, *inter alia*, they are not traded in an active market. This determination sometimes requires judgement.

4. CHANGE IN ACCOUNTING POLICIES

The Group has applied IFRS 9 and IFRS 15 from January 1, 2018. A number of other new standards are also effective from January 1, 2018, but they do not have a material effect on the Group's financial statements. Due to the transition methods chosen by the Group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group.

The effect of applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets;
- reclassification of fair value measurement of investment securities; and
- additional disclosures related to IFRS 9 [see note 6(a)].

4. CHANGE IN ACCOUNTING POLICIES (CONT'D)

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1 *Presentation of Financial Statements*, which require separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method.

Additionally, the Group has adopted consequential amendments to IFRS 7 *Financial Instruments: Disclosures* that are applied to disclosures about 2018, but have not been applied to the comparative information.

As permitted by the transitional provisions of IFRS 9, any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

(a) The impact, net of tax, of transition to IFRS 9 on the opening retained earnings, credit facility reserve and investment revaluation reserve is as follows:

(i) Retained earnings:

	Group $'000	Society $'000
Balance as at December 31, 2017	1,781,237	-
Reclassification of investment at FVOCI to FVTPL	247,097	247,097
Recognition of expected credit losses under IFRS 9: Investments, loans, other receivables and resale agreements	(585,701)	(521,236)
Opening balance under IFRS 9 at January 1, 2018	1,442,633	(274,139)

(ii) Credit facility reserve:

	Group and Society $'000
Balance as at December 31, 2017	1,236,781
Recognition of expected credit losses under IFRS 9: Loans receivable	(356,158)
Opening balance under IFRS 9 at January 1, 2018	880,623

4. CHANGE IN ACCOUNTING POLICIES (CONT'D)

IFRS 9, Financial Instruments (cont'd)

(a) (cont'd)

(iii) Investment revaluation reserve:

	Group $'000	Society $'000
Balance as at December 31, 2017 under IAS 39	416,181	167,060
Reclassification of investments at FVOCI to FVTPL:		
Investments, net of taxes	(244,102)	(247,097)
Recognition of expected credit losses:		
Investments and loans, net of taxes	169,295	141,180
Opening balance under IFRS 9 at January 1, 2018	341,374	61,143

(b) Classification and measurement of financial instruments

Financial assets

In applying IFRS 9, the Group classified its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost.

The classification requirements for debt and equity instruments are described below:

- *Debt instruments*

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- *Amortised cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described at note 5(m). Interest income from these financial assets is included in 'Interest and similar income' using the effective interest method.

4. CHANGE IN ACCOUNTING POLICIES (CONT'D)

IFRS 9, Financial Instruments (cont'd)

(b) Classification and measurement of financial instruments (cont'd)

Financial assets (cont'd)

- *Debt instruments (cont'd)*

- *Fair value through other comprehensive income (FVOCI):* Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL.

- *Fair value through profit or loss:* Assets that do not meet the criteria for amortised cost or FVOCI. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss within 'Net trading income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately in 'Net investment income'. Interest income from these financial assets is included in 'Interest income' using the effective interest method.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL.

Factors considered by the Group in determining the business model for a group of assets include:

1. Past experience on how the cash flows for these assets were collected;
2. How the asset's performance is evaluated and reported to key management personnel;
3. How risks are assessed and managed; and
4. How managers are compensated.

For example, securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVTPL.

Solely payments of principal and interest (SPPI): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test').

4. CHANGE IN ACCOUNTING POLICIES (CONT'D)

IFRS 9 Financial Instruments (cont'd)

(b) Classification and measurement of financial instruments (cont'd)

Financial assets (cont'd)

- *Debt instruments (cont'd)*

Solely payments of principal and interest (SPPI) (cont'd):

In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

- *Equity instruments*

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income.

Gains and losses on equity investments at FVTPL are included in the 'Other operating income' caption in the income statement.

The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories and amounts under IFRS 9 for each class of the Group's financial assets at January 1, 2018.

4. CHANGE IN ACCOUNTING POLICIES (CONT'D)

IFRS 9 Financial Instruments (cont'd)

Financial assets (cont'd)

(b) Classification and measurement of financial instruments (cont'd)

			Group			
	Note	Original classification under IAS 39	New classification under IFRS 9	IAS 39 Carrying amount at December 31, 2017	Impairment losses $'000	IFRS 9 carrying amount at January 1, 2018
				$'000		$'000
Financial assets						
Cash and cash equivalents		Loans and receivables	Amortised cost	12,214,487	-	12,214,487
Resale agreements		Loans and receivables	Amortised cost	14,320,770	(52,083)	14,268,687
Accounts receivable		Loans and receivables	Amortised cost	3,273,233	-	3,273,233
Corporate bonds	(ii),(iii)	Loans and receivables	FVOCI	11,467,552	(346,892)	11,120,660
Loans receivable	(iv)	Loans and receivables	Amortised cost	44,069,750	(360,630)	43,709,120
Quoted equities:						
FVTPL		FVTPL	FVTPL	87,374	-	87,374
Available-for-sale		Available-for-sale	FVOCI	372,300	-	372,300
Units in unit trust funds	(i)	FVTPL	Mandatory at FVTPL	1,701,751	-	1,701,751
Certificates of deposits JMD	(ii)	Loans and receivables	Amortised cost	1,408,230	(2,691)	1,405,539
Loans and receivables	(iv)	Loans and receivables	FVOCI	133,989	(446)	133,543
Available-for-sale		Available for sale	FVOCI	19,627,169	(57,668)	19,569,501
Foreign government securities		Available-for-sale	FVOCI	5,619,518	(118,361)	5,501,157
Certificate of deposit USD		Available-for-sale	FVOCI	1,370,847	(3,088)	1,367,759
Unquoted equities		Available for sale	FVOCI	3,361	-	3,361
Total financial assets				115,670,331	(941,859)	114,728,472

4. CHANGE IN ACCOUNTING POLICIES (CONT'D)

IFRS 9 Financial Instruments (cont'd)

Financial assets (cont'd)

(b) Classification and measurement of financial instruments (cont'd)

				Society		
	Note	Original classification under IAS 39	New classification under IFRS 9	IAS 39 Carrying amount at December 31, 2017	Impairment losses	IFRS 9 carrying amount at January 1, 2018
				$'000	$'000	$'000
Financial assets						
Cash and cash equivalents		Loans and receivables	Amortised cost	9,315,007	-	9,315,007
Resale agreements		Loans and receivables	Amortised cost	12,283,910	(45,106)	12,238,804
Accounts receivable		Loans and receivables	Amortised cost	2,336,539	-	2,336,539
Corporate bonds	(ii),(iii)	Loans and receivables	FVOCI	11,322,315	(346,892)	10,975,423
Loans receivable	(iv)	Loans and receivables	Amortised cost	44,118,134	(356,158)	43,761,976
Units in unit trust funds	(i)	FVTPL	Mandatory at FVTPL	1,518,115	-	1,518,115
Certificates of deposits JMD	(ii)	Loans and receivables	Amortised cost	861,055	(1,418)	859,637
Government of Jamaica securities:	(ii)					
Loans and receivables	(iv)	Loans and receivables	FVOCI	94,471	(328)	94,143
Available-for-sale		Available for sale	FVOCI	11,179,958	(32,270)	11,147,688
Foreign government securities		Available-for-sale	FVOCI	4,274,809	(95,128)	4,179,681
Certificate of deposit USD		Available-for-sale	FVOCI	333,550	(94)	333,456
Unquoted equities		Available for sale	FVOCI	39	-	39
Total financial assets				97,637,902	(877,394)	96,760,508

(i) Under IAS 39, certain investments in unit trusts were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. Other investments in unit trusts were classified as available-for-sale measured at FVOCI. These assets have all been classified as mandatorily measured at fair value through profit or loss (FVTPL) under IFRS 9.

(ii) Certain Government of Jamaica securities, corporate bonds and certificates of deposits were classified as held-to-maturity under IAS 39. Based on an assessment of the business model, it has determined that these securities are held within an overall portfolio to collect the contractual cash flows as well as to sell. These securities have therefore been reclassified to fair value through other comprehensive income (FVOCI) under IFRS 9, in accordance with the business model assessment.

4. CHANGE IN ACCOUNTING POLICIES (CONT'D)

IFRS 9 Financial Instruments (cont'd)

Financial assets (cont'd)

(b) Classification and measurement of financial instruments (cont'd)

(iii) Certain investments with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity were classified as held-to-maturity under IAS 39. As permitted by IFRS 9, the Group has designated these at the date of initial application as measured at amortised cost.

(iv) Loans receivable that were classified as loans and receivables under IAS 39 are now classified at amortised cost.

(c) Measurement gains and losses – non-derivative financial assets

The 'investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost which are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- equity investment securities mandatorily measured at FVTPL or designated as at FVTPL which are at fair value with changes recognised in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities irrevocably designated as at FVOCI.

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost:

- interest revenue using the effective interest method;
- ECL charges and reversals; and
- foreign exchange gains and losses.

When a debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

Gains and losses on equity instruments classified at FVOCI are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

(d) Identification and measurement of impairment of financial assets

Since January 1, 2018, the Group recognises loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments; and
- lease receivables.

4. CHANGE IN ACCOUNTING POLICIES (CONT'D)

IFRS 9 Financial Instruments (cont'd)

Financial assets (cont'd)

(d) Identification and measurement of impairment of financial assets (cont'd)

Framework

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. See below for a description of how the Group determines when a significant increase in credit risk has occurred.
- A financial asset is credit impaired ('Stage 3') when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. See below and note 6(a) for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. See note 6(a) for an explanation of how the Group has incorporated this in its ECL models.
- Purchased or originated credit-impaired financial assets (POCI) are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised costs are credit-impaired ('Stage 3'). Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that it would not consider otherwise;

4. CHANGE IN ACCOUNTING POLICIES (CONT'D)

IFRS 9 Financial Instruments (cont'd)

Financial assets (cont'd)

(d) Identification and measurement of impairment of financial assets (cont'd)

Credit-impaired financial assets (cont'd)

- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

In addition, a loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of the debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

4. CHANGE IN ACCOUNTING POLICIES (CONT'D)

IFRS 9 Financial Instruments (cont'd)

Financial assets (cont'd)

(d) Identification and measurement of impairment of financial assets (cont'd)

Measurement of ECL

The Group measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive;
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover; and
- trade and lease receivables: Loss allowances for trade and lease receivables are always measured at an amount equal to lifetime ECL.

4. CHANGE IN ACCOUNTING POLICIES (CONT'D)

IFRS 9 Financial Instruments (cont'd)

Financial assets (cont'd)

(d) Identification and measurement of impairment of financial assets (cont'd)

Presentation of allowance for ECL in the statement of financial position

Allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets.
- loan commitments and financial guarantee contracts: generally, as a provision.
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss is recognised in profit or loss as a reclassification from OCI.

The Group has determined that application of IFRS 9's impairment requirements at January 1, 2018 results in an additional allowance for impairment as follows:

	Group $'000	Society $'000
Loss allowance at December 31, 2017 under IAS 39	184,280	184,280
Impairment recognised at January 1, 2018 under IFRS 9 on:		
Investment securities and resale agreements	229,543	521,236
Loans and other receivables	356,158	356,158
Loss allowance at January 1, 2018 under IFRS 9	769,981	1,061,674

Financial liabilities

The adoption of IFRS 9 did not have a significant effect on the Group's accounting policies related to financial liabilities, as IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

5. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes described in note 4, the Group has consistently applied the accounting policies as set out below to all periods presented in these financial statements.

(a) Basis of consolidation

The Group's financial statements include the audited financial statements of the Society and its subsidiaries, after eliminating intra-group amounts and remeasuring its investment in associate using the equity method.

Subsidiaries are those entities controlled by the Group. Control exists when the Group has power over an investee, exposure or rights to variable returns from its involvement with the entity, and ability to use its power to affect those returns.

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of consolidation (cont'd)

Associated entities are those, other than a subsidiary or joint venture, over which the Group has significant influence, but not control, over financial and operating decisions. Significant influence is presumed to exist when the Group holds at least 20% but not more than 50% of the voting power of another entity.

The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, from the date significant influence commences until the date significant influence ceases.

(b) Financial instruments - Classification, recognition and de-recognition, and measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments are classified, recognised and measured in accordance with the substance of the terms of the contracts as set out herein.

Management determines the appropriate classification of investments at the time of purchase, taking account of the purpose for which the investments were purchased. The Group classifies non-derivative financial assets into the following categories:

(i) Classification of financial instruments

Financial assets

See note 4(b) for policy applicable under IFRS 9 from January 1, 2018.

Policy applicable under IAS 39 before January 1, 2018

Loans and receivables comprises securities acquired and loans granted with fixed or determinable payments and which are not quoted in an active market.

Held-to-maturity comprises securities with fixed or determinable payments and fixed maturities that the Group has the positive intent and ability to hold to maturity.

Fair value through profit or loss comprises securities that the Group acquires for the purpose of selling or repurchasing in the near term, or that it holds as part of a portfolio that is managed together for short-term profit or position taking, or that it designates as such at the time of acquisition.

Available-for-sale comprises securities with prices quoted in an active market or for which the fair values are otherwise determinable, or which are designated as such upon acquisition.

Financial liabilities

In both current and prior years, the Group classifies non-derivative financial liabilities into the "other financial liabilities" category. These are measured at amortised cost.

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Financial instruments - Classification, recognition and de-recognition, and measurement (cont'd)

(i) Recognition and derecognition - Non-derivative financial assets and liabilities

The Group recognises a financial instrument when it becomes a party to the contractual terms of the instrument.

The Group initially recognises debt securities on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers not retains all or substantially all the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income (OCI) is recognised in profit or loss.

The Group derecognises a financial liability when its contractual obligations expire or are discharged or cancelled.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when the Group has the legal right to offset the amounts and intends either to settle them on a net basis, or to realise the assets and settle the liabilities simultaneously.

Policy applicable under IAS 39 before January 1, 2018

Loans and receivables: On initial recognition these are measured at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses. Where securities classified as loans and receivables become quoted in an active market, such securities are not reclassified as available-for-sale securities. An active market is one where quoted prices are readily and regularly available from an exchange, dealer, broker or other agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Held-to-maturity: On initial recognition these are measured at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses.

5. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

(b) Financial instruments - Classification, recognition and de-recognition, and measurement (cont'd)

(ii) Recognition and derecognition - Non-derivative financial assets and liabilities (cont'd)

Policy applicable under IAS 39 before January 1, 2018 (cont'd)

Held-to-maturity (cont'd):

Any sale or reclassification of a significant amount of held-to-maturity investments that are not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the financial year in which sale or reclassification occurs and the following two financial years.

Financial assets at fair value through profit or loss: On initial recognition these are measured at fair value, with directly attributable transaction costs recognised in the income statement as incurred. Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value and changes therein, as well as any interest or dividend income, are recognised in the income statement.

Available-for-sale: On initial recognition, these are measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value, with unrealised gains and losses arising from changes in fair value treated as follows:

- Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss. Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income.
- When securities classified as available-for-sale are sold or impaired, and therefore derecognised, the fair value adjustments accumulated in other comprehensive income are reclassified to profit or loss.

(c) Financial instruments – Other

(i) Cash and cash equivalents

Cash comprises cash on hand and demand deposits, including unrestricted balances held with the central bank. Cash equivalents comprise short-term, highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term commitments, rather than for investment or other purposes. Highly liquid investments include deposits where the maturities do not exceed three months from the acquisition date.

Cash and cash equivalents are measured at amortised cost.

5. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

(c) Financial instruments – Other (cont'd)

(ii) Resale and repurchase agreements

Resale agreements are accounted for as short-term collateralised lending and classified at amortised cost (2017: loans and receivables). They are measured at fair value on initial recognition and subsequently at amortised cost. The difference between the purchase cost and the resale consideration is recognised in the income statement as interest income using the effective interest method.

The Group enters into transactions whereby it transfers assets but retains either, all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions. Repurchase agreements are accounted for as short-term collateralised borrowing, and are classified as other liabilities. On initial recognition and subsequently, the securities given as collateral are retained in the statement of financial position and measured in accordance with their original measurement principles. The proceeds of sale are reported as liabilities and are measured at amortised cost. The difference between the sale consideration and the repurchase price is recognised in the income statement over the life of each agreement as interest expense using the effective interest method.

(iii) Derivatives

Derivatives are financial instruments that derive their value from the price of the underlying items such as equities, interest rates, foreign exchange or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risk. The Group makes use of derivatives to manage its own exposure to foreign exchange risk.

Derivatives held for risk management purposes are initially recognised at fair value in the statement of financial position. Subsequent to initial recognition, derivatives are measured at fair value, and, if the derivative is not held for trading, and is not designated in a qualifying hedge relationship, changes in fair value are recognised immediately in profit or loss.

(iv) Other assets

Other assets are measured at cost or amortised cost, less impairment losses.

(v) Loans payable

Loans payable are recognised initially at cost less attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, with any difference between cost and redemption value recognised in profit or loss on the effective interest basis.

(vi) Other liabilities

Other liabilities are measured at amortised cost.

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Revenue recognition

Revenue arises in the course of the ordinary activities of the Group. The nature of the major items that comprise revenue and the recognition principles are as follow:

(i) Interest income under IFRS 9 from January 1, 2018

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

(a) Purchased or originated credit-impaired (POCI) financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'stage 3'), for which interest revenue is calculated by applying the effective interest rate to their adjusted amortised cost (i.e., net of the expected credit loss allowance).

(ii) Interest income under IAS 39 before January 1, 2018

Interest income is recognised in the income statement using the effective interest method, except as described in the following paragraph. The effective interest rate is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset to its carrying amount. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on treasury bills and other discounted instruments, and amortisation of premium on instruments bought at a premium.

Under both periods, where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the Banking Services Act (2014) stipulates that interest should be taken into account on the cash basis. IFRS requires that when loans become doubtful of collection, i.e., impaired, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Future interest receipts are taken into account in estimating future cash flows from the instrument; if no contractual interest payments are expected to be collected, then the only interest income recognised is the unwinding of the discount on those cash flows expected to be received.

For the Group and the Society, had interest income been recognised on past-due loans in accordance with IFRS, the interest income for the year would not have been materially different from the amount included in these financial statements.

(iii) Commissions and other income

Commission and other fee income, including account servicing fees, investment management fees, sales commissions, and placement fees, are recognised as the related services are performed. When a loan commitment fee is not expected to result in the draw-down of a loan, it is recognised on the straight-line basis over the commitment period.

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5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Interest expense

Interest expense is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability to its carrying amount.

(f) Fee and commission expenses

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

(g) Income tax

Income tax on the results for the year comprises current and deferred income tax. Taxation is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income (OCI), in which case it is also recognised in other comprehensive income.

Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted or substantively enacted as of the reporting date. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. For this purpose, the carrying amount of investment property measured at fair value is presumed to be recovered through sale. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets.

A deferred income tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be realised. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred income tax is not recognised for:

(i) temporary differences on the initial recognition of assets or liabilities in a transaction that is a business combination or that affects neither accounting nor taxable profit; and

(ii) temporary differences related to investments in subsidiaries, to the extent that it is probable that they will not reverse in the foreseeable future.

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Employee benefits

Employee benefits comprise all forms of consideration given by the Group in exchange for service rendered by employees. These include current or short-term benefits such as salaries, NIS contributions, annual vacation and sick leave, and non-monetary benefits, such as medical care and housing; post-employments benefits, such as pensions and medical care; other long-term employee benefits, such as long service awards; and termination benefits.

(i) General benefits

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as the related service is provided. The expected cost of vacation leave that accumulates is recognised over the period that the employee becomes entitled to the leave.

Post-employment benefits are accounted for as described in paragraphs (ii), (iii) and (iv) below. Other long-term benefits, including termination benefits, which arise when either: (1) the employer decides to terminate an employee's employment before the normal retirement date, or (2) an employee decides to accept voluntary redundancy in exchange for termination benefits, are accrued as they are earned during service and charged as an expense, unless not considered material, in which case they are charged when they fall due for actual payment.

The Group operates a defined-contribution pension plan and a defined-benefit pension plan (see note 15) to provide post-employment benefits.

The defined benefit plan was closed to new entrants effective December 31, 2016. The new defined contribution plan was approved by the Financial Services Commission and Tax Administration Jamaica with an effective date of January 1, 2017 and will benefit employees who were hired on or after January 1, 2017. Both the defined benefit plan and the defined contribution plan are funded by contributions from the Group and employees in accordance with the respective Trust Deed and Plan Rules.

(ii) Defined-contribution pension plan

Effective January 1, 2017, the Group provides post-employment pension benefits through a defined-contribution pension plan administered by trustees.

Under the plan, retirement benefits are based on the Group's and employees' accumulated contributions plus interest and, therefore, the Group has no further liability to fund benefits.

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Employee benefits (cont'd)

(iii) Defined-benefit pension plan

The defined-benefit plan provides benefits for retired employees of Group entities. In the financial statements of the Society the plan is accounted for as a defined-benefit plan, as described below, while in the financial statements of the individual participating subsidiaries, the plan is accounted for as a defined-contribution plan, that is, pension contributions by the subsidiary, as recommended by the actuary, are expensed as they become due. The reasons for this are that (1) although the plan exposes the participating subsidiaries to actuarial risks associated with current and former employees of Group entities, there is no stated policy for charging the net defined benefit cost among Group entities, and (2) all residual interest in the plan remains with the Society.

In respect of defined-benefit arrangements, the employee benefits asset and obligation included in the financial statements are determined by a qualified independent actuary, appointed by management. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuations are conducted in accordance with IAS 19, and the financial statements reflect the Society's post-employment benefit asset and obligation as computed by the actuary. In carrying out their audit, the auditors rely on the work of the actuary and the actuary's report.

The Group's net obligation in respect of the defined-benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on long-term government securities that have maturity dates approximating the terms of the Group's obligations. In the absence of such instruments in Jamaica, the rate is estimated by extrapolating from the longest tenure security on the market. The calculation is performed by the Group's independent qualified actuary using the Projected Unit Credit Method.

When the benefits of the plan are changed or when the plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in the income statement. The Group recognises gains and losses on the settlement of its defined benefit plan when the settlement occurs.

Remeasurements of the defined benefits asset, which comprise actuarial gains and losses and the effect of the asset ceiling (if any, excluding interest), are recognised in other comprehensive income. The Group determines the net interest income on the net defined benefit asset for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the year to the net defined benefit asset, taking into account any changes in the net defined benefit asset during the year as a result of the contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in the income statement.

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Employee benefits (cont'd)

(iii) Defined-benefit pension plan (cont'd)

When the calculation results in a potential asset to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

(iv) Other post-employment benefits

The Group provides post-employment medical and other benefits. The obligations with respect to these benefits are calculated on a basis similar to that for the defined-benefit pension plan.

(i) Interest in subsidiaries

Interest in subsidiaries is measured at cost less impairment losses, in the separate financial statements of the Society.

(j) Intangible assets

(i) Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

(ii) Computer software

Costs that are directly associated with acquiring identifiable software products which are expected to generate economic benefits beyond one year, are recognised as intangible assets. These assets are measured at cost, less accumulated amortisation and, if any, impairment losses. The assets are amortised using the straight-line method over their expected useful lives, estimated between five to seven years. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

(k) Investment and foreclosed properties

(i) Investment property, held to earn rental income and/or for capital appreciation, is measured at cost, less accumulated depreciation and impairment losses. Lease income from investment property is accounted for on the straight-line basis.

(ii) In certain situations, the Group repossesses properties arising from foreclosure on loans in respect of which the borrower is in default. On the date of foreclosure, the repossessed collateral is measured at the carrying amount of the defaulted loan. It is thereafter measured at the lower of carrying amount and fair value less cost to sell, and classified as held-for-sale.

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Property, plant and equipment and depreciation

(i) Cost

(a) Recognition and measurement

Items of property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the assets. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(b) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised as expenses, as incurred.

(ii) Depreciation

Property, plant and equipment, with certain exceptions, are depreciated on the straight-line method at annual rates estimated to write off depreciable amounts over the assets' expected useful lives. The exceptions are freehold land, on which no depreciation is provided, and equipment on lease and leasehold improvements, which are amortised over the shorter of their useful lives and the lease terms.

The depreciation rates are as follows:-

Buildings	2.5%
Office furniture and equipment	10 - 30%
Motor vehicles	20 - 25%

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

5. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

(m) Identification and measurement of impairment

See note 4(d) for policy applicable under IFRS 9 from January 1, 2018.

Policy applicable before January 1, 2018

(i) Non-derivative financial assets

At each financial year end, the Group assesses whether there is objective evidence that financial assets, other than those carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably. Objective evidence that financial assets are impaired includes the following:

(1) Default or delinquency by a debtor
(2) Restructuring of an amount due to the Group on terms that the Group would not otherwise consider
(3) Indications that a debtor or issuer will enter bankruptcy
(4) Adverse changes in the payment status of borrowers or issuers
(5) The disappearance of an active market for a security
(6) Observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets

Financial assets measured at amortised cost

The Group considers evidence of impairment for loans and receivables and held-to-maturity investment securities at both an individual and a collective level. All individually significant financial assets are assessed for impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Financial assets that are not individually significant are collectively assessed for impairment. Collective assessment is done by grouping together financial assets with similar risk characteristics.

In assessing collective impairment, the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than that suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Losses are recognised in the income statement and reflected in an allowance account. When the Group considers that there is no realistic prospect of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through the income statement.

5. **SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**

(m) Identification and measurement of impairment (cont'd)

(i) Non-derivative financial assets (cont'd)

Financial assets measured at amortised cost (cont'd)

In both the current and prior year financials, general loan loss provisions are established against the portfolio where a prudent assessment by the Group of adverse economic trends and losses inherent in its portfolio suggests that losses may occur, but such losses cannot be determined on an item-by-item basis. This provision is maintained at the minimum 0.5% of the portfolio for residential mortgages and 1% for all other loans, being the rates established by the regulator, Bank of Jamaica.

As set out above, IFRS permits only specific impairment allowances, based on assessment of individual loans and/or a portfolio of loans with similar risk characteristics, and requires that the future cash flows of impaired loans be discounted and, thereafter, the increase in the present value be reported as interest income. The portion of the loan loss provision required under the Banking Services Act (2014) which is in excess of the requirements of IFRS is treated as an appropriation of retained earnings and included in a non-distributable "credit facility reserve" [note 28(v)].

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to the income statement. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in the income statement. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through the income statement; otherwise subsequent increases in fair value are recognised through other comprehensive income.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Group considers a decline of 20% to be significant and a period of twelve months to be prolonged.

Equity-accounted investments

An impairment loss in respect of an equity-accounted investment is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in the income statement, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Identification and measurement of impairment (cont'd)

(i) Non-derivative financial assets (cont'd)

Write-off

Loans and debt securities are written off when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash generating units ("CGUs"). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 or CGU. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in the income statement. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversible. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

5. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Foreign currencies

(i) Transactions and balances

Foreign currency transactions are converted into the functional currencies of Group entities at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currencies and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are recognised in other comprehensive income.

(ii) Foreign subsidiaries

For the purpose of consolidating the financial statements of subsidiaries operating outside of Jamaica, assets and liabilities are translated at the closing rates and income and expenses at the average rates for the year. Translation differences are recognised in other comprehensive income and included in the currency translation reserve.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely to occur in the foreseeable future, then foreign currency differences arising from such an item form part of the net investment in the foreign operation. Accordingly, such differences are recognised in other comprehensive income and accumulated in the currency translation reserve.

6. FINANCIAL RISK MANAGEMENT

Introduction and overview

The Group's activities are principally related to the use of financial instruments. The Group, therefore, has exposure to the following risks from the use of financial instruments in the ordinary course of business:

- credit risk
- market risk
- liquidity risk
- operational risk

Notes 6(a) to (d) present information about the Group's exposure to each of the above-listed risks and the Group's objectives, policies and processes for measuring and managing risk.

6. **FINANCIAL RISK MANAGEMENT (CONT'D)**

Risk management framework

The Board of Directors of the Society has overall responsibility for approving and overseeing management's implementation of the Group's business strategy, risk appetite, enterprise risk management (ERM) framework and policies. The Board has established the following committees for risk management purposes:

(i) Group Finance and Risk Management Committee
(ii) Corporate Governance, Nomination and Compensation Committee
(iii) Audit Committee

These committees are responsible for developing and monitoring risk management policies in their specified areas. All Board committees are comprised of non-executive members and report to the Society's Board of Directors on their activities.

The Group Finance and Risk Management Committee is responsible for implementing an integrated approach to risk management across the Group and ensuring its effectiveness consistent with the strategic risk appetite of the Group. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which the Board, management, team members and all stakeholders of the Group understand their roles and obligations.

There are, in addition, an Asset and Liability Committee ("ALCO"), a Credit Committee and an Executive Enterprise Risk Management (ERM) Committee, comprising members of executive management. These Committees report to the Group Finance and Risk Management Committee of the Board. The ALCO has responsibility for liquidity management, interest rate and foreign exchange risk management, capital adequacy management and oversight of treasury performance. The Credit Committee has responsibility for the implementation of appropriate policies and procedures to support the credit review and approval process for the Group. The Executive ERM Committee provides oversight for the Group's ERM framework, including methods, policies and procedures to identify, assess, monitor and report on material risks to the Group's key performance objectives.

The Society, Victoria Mutual Investments Limited, Victoria Mutual Wealth Management Limited and Victoria Mutual Pensions Management Limited have audit committees. The Society's Audit Committee is responsible for monitoring the Group's compliance with the ERM policies and procedures. The Audit Committees are assisted in these functions by Group Internal Audit, which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committees.

The main risks to which the Group is exposed are managed as follows:

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from credit given to customers in lending activities, investing and stock-broking, and in deposits with other financial institutions. Financial assets arising from these activities include loans and other receivables, investment securities, resale agreements, cash and cash equivalents and accounts receivable.

6. **FINANCIAL RISK MANAGEMENT (CONT'D)**

(a) Credit risk (cont'd)

(i) Exposure to credit risk

The maximum credit exposure, that is, the amount of loss that would be suffered if all counter-parties to the Group's financial assets were to default at once, is represented as follows:

(1) For financial assets recognised in the statement of financial position:

The carrying amount of financial assets shown on the statement of financial position.

(2) For financial assets not recognised in the statement of financial position:

	Group and Society	
	2018	2017
	$'000	$'000
Loan commitments	1,468,359	639,237

(ii) Management of credit risk attaching to key financial assets

Loans receivable

Credit risk is the single largest risk for the Group's business. Credit risk management and control is delegated to the Group's Finance and Risk Management Committee. The Committee is responsible for oversight of credit risk, including formulating credit policies, establishing the authorisation structure for the approval of credit facilities, reviewing and assessing credit risk, and limiting concentration of exposure to counterparties.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9. (See note 4 for discussion on measurement of credit risk).

The management of credit risk exposure to the Group's financial assets is as follows:

6. FINANCIAL RISK MANAGEMENT (CONT'D)

Introduction and overview (cont'd)

Risk management framework (cont'd)

(a) Credit risk (cont'd)

(ii) Management of credit risk attaching to key financial assets (cont'd)

Maximum exposure to credit risk and credit quality analysis

The following table sets out information about the maximum exposure to credit risk and the credit quality of financial assets measured at amortised cost, FVOCI debt instruments (2018) and available-for-sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments, the amounts in the table represent the amounts committed.

- Loans receivable at amortised cost:

	Group				
	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	$'000	$'000	$'000	$'000	$'000
Credit grade					
Grade A- Low risk	35,263,254	-	-	35,263,254	35,654,619
Grade B	3,642,198	-	-	3,642,198	3,566,923
Grade C	-	3,143,881	2,383,509	5,527,390	718,184
Grade D - High risk	-	727,766	4,297,734	5,025,500	4,314,304
	38,905,452	3,871,647	6,681,243	49,458,342	44,254,030
Loss allowance	(56,117)	(37,827)	(390,738)	(484,682)	(184,280)
	38,849,335	3,833,820	6,290,505	48,973,660	44,069,750

6. FINANCIAL RISK MANAGEMENT (CONT'D)

Introduction and overview (cont'd)

Risk management framework (cont'd)

(a) Credit risk (cont'd)

(ii) Management of credit risk attaching to key financial assets (cont'd)

- Loans receivable at amortised cost (cont'd):

	Group				
	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	$'000	$'000	$'000	$'000	$'000
Ageing of loans receivable					
Current	38,699,878	-	1,629,662	40,329,540	33,386,090
Past due 1-30 days	205,574	2,484,190	792,156	3,481,920	7,975,630
Past due 31-60 days	-	1,383,539	968,806	2,352,345	1,995,880
Past due 60-90 days	-	3,918	3,323	7,241	-
Over 90 days	-	-	3,287,296	3,287,296	896,430
Total	38,905,452	3,871,647	6,681,243	49,458,342	44,254,030
Loan commitments					
Grades A: Low risk	1,468,359				
Loss allowance	(2,203)				

	Society				
	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	$'000	$'000	$'000	$'000	$'000
Credit grade					
Grade A - Low risk	35,168,654	-	-	35,168,654	35,703,003
Grade B	3,642,198	-	-	3,642,198	3,566,923
Grade C	-	3,143,881	2,383,509	5,527,390	718,184
Grade D - High risk	-	727,766	4,297,734	5,025,500	4,314,304
	38,810,852	3,871,647	6,681,243	49,363,742	44,302,414
Loss allowance	(56,117)	(37,827)	(390,738)	(484,682)	(184,280)
	38,754,735	3,833,820	6,290,505	48,879,060	44,118,134

6. FINANCIAL RISK MANAGEMENT (CONT'D)

Introduction and overview (cont'd)

Risk management framework (cont'd)

(a) Credit risk (cont'd)

(ii) Management of credit risk attaching to key financial assets (cont'd)

- Loans receivable at amortised cost (cont'd):

	Society				
	2018				2017
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000	Total $'000
Ageing of loans receivable					
Current	38,605,278	-	1,629,662	40,234,940	33,434,474
Past due 1-30 days	205,574	2,484,190	792,156	3,481,920	7,975,630
Past due 31-60 days	-	1,383,539	968,806	2,352,345	1,995,880
Past due 60-90 days	-	3,918	3,323	7,241	-
Over 90 days	-	-	3,287,296	3,287,296	896,430
Total	38,810,852	3,871,647	6,681,243	49,363,742	44,302,414
Loan commitments					
Grades A: Low risk	1,468,359				
Loss allowance	(2,203)				

- Debt securities and other financial assets at amortised cost:

	Group				
	2018				2017
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000	Total $'000
Credit grade					
Investment grade	3,409,861	-	-	3,409,861	677,710
Non-investment grade	26,883,744	-	-	26,883,744	18,445,310
	30,293,605	-	-	30,293,605	19,123,020
Loss allowance	(212,633)	-	-	(212,633)	-
	30,080,972	-	-	30,080,972	19,123,020

6. FINANCIAL RISK MANAGEMENT (CONT'D)

Introduction and overview (cont'd)

Risk management framework (cont'd)

(a) Credit risk (cont'd)

(ii) Management of credit risk attaching to key financial assets (cont'd)

- Debt securities and other financial assets at amortised cost (cont'd):

	Society				
	2018				2017
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000	Total $'000
Credit grade					
Investment grade	3,409,861	-	-	3,409,861	677,710
Non-investment grade	19,092,993	-	-	19,092,993	15,073,901
	22,502,854	-	-	22,502,854	15,751,611
Loss allowance	(218,428)	-	-	(218,428)	-
	22,284,426	-	-	22,284,426	15,751,611

- Debt securities at FVOCI:

	Group				
	2018				2017
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000	Total $'000
Credit grade					
Investment grade	2,936,878	-	-	2,936,878	2,522,822
Non-investment grade	29,363,338	807,110	-	30,170,448	32,839,418
Default	-	-	988,000	988,000	-
	32,300,216	807,110	988,000	34,095,326	35,362,240
Loss allowance	(156,527)	(7,406)	(644,234)	(808,167)	-
	32,143,689	799,704	343,766	33,287,159	35,362,240

6. **FINANCIAL RISK MANAGEMENT (CONT'D)**

Introduction and overview (cont'd)

Risk management framework (cont'd)

(a) **Credit risk (cont'd)**

(ii) **Management of credit risk attaching to key financial assets (cont'd)**

- Debt securities at FVOCI (cont'd):

	Society				
	2018				2017
	Stage 1	Stage 2	Stage 3	Total	Total
	$'000	$'000	$'000	$'000	$'000
Credit grade					
Investment grade	2,116,425	-	-	2,116,425	1,481,501
Non-investment grade	17,787,465	807,110	-	18,594,575	23,116,956
Default	-	-	790,925	790,925	-
	19,903,890	807,110	790,925	21,501,925	24,598,457
Loss allowance	(127,040)	(7,406)	(513,861)	(648,307)	-
	19,776,850	799,704	277,064	20,853,618	24,598,457

Policy applicable under IFRS 9 after January 1, 2018

The key judgements and assumptions adopted by the Group in addressing the requirements of IFRS 9 are discussed below:

Credit risk grades

The Group uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The Group uses internal rating models tailored to the various categories of counterparty.

Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

For debt securities in the Treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PD's associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group does not apply the low credit risk exemption to any other financial instruments.

6. **FINANCIAL RISK MANAGEMENT (CONT'D)**

Introduction and overview (cont'd)

Risk management framework (cont'd)

(a) **Credit risk (cont'd)**

(ii) **Management of credit risk attaching to key financial assets (cont'd)**

Determining whether credit risk has been increased significantly (Stage 2)

The Group uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in Probabilities of Default (PD). Credit risk is deemed to increase significantly where the probability of default on a security or a loan has moved by six (6) basis points.
- qualitative indicators; and
- a backstop of 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

Definition of default (Stage 3):

In assessing whether a borrower is in default, the Group considers indicators that are:
- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Group; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

6. **FINANCIAL RISK MANAGEMENT (CONT'D)**

Introduction and overview (cont'd)

Risk management framework (cont'd)

(a) **Credit risk (cont'd)**

(ii) **Management of credit risk attaching to key financial assets (cont'd)**

Incorporation of forward-looking information (cont'd)

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's Finance team on an annual basis and provide the best and worst estimate view of the economy.

The impact of these economic variables on the PD, EAD and LGD has been determined by performing a trend analysis and compared historical information with forecast macro-economic data to determine whether the indicator describes a positive, negative or stable trend and to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Group considers other possible scenarios and scenario weightings. At January 1, 2018 and December 31, 2018, the Group concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Each scenario considers the expected impact of interest rates, unemployment rates and gross domestic product (GDP).

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

The assumptions underlying the ECL calculation - such as how the maturity profile of the PDs and how collateral values change etc. - are monitored and reviewed on a quarterly basis.

6. **FINANCIAL RISK MANAGEMENT (CONT'D)**

Introduction and overview (cont'd)

Risk management framework (cont'd)

(a) **Credit risk (cont'd)**

(ii) **Management of credit risk attaching to key financial assets (cont'd)**

Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

- Debt securities, loans receivable and resale agreements at amortised cost:

	Group			
	2018			
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Balance at January 1, 2018 (IAS 39)	-	-	184,280	184,280
Remeasurement on January 1, 2018 (IFRS 9)	424,389	53,862	260,046	738,297
Transfer to Stage 2	(50,359)	50,359	-	-
Transfer to Stage 3	(5,266)	(4,804)	10,070	-
Net re-measurement of loss allowance	(88,342)	(65,022)	(63,658)	(217,022)
Balance at December 31, 2018	280,422	34,395	390,738	705,555

	Society			
	2018			
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Balance at January 1, 2018 (IAS 39)	-	-	184,280	184,280
Remeasurement on January 1, 2018 (IFRS 9)	415,774	60,637	260,046	736,457
Transfer to Stage 2	(50,359)	50,359	-	-
Transfer to Stage 3	(5,266)	(4,804)	10,070	-
Net re-measurement of loss allowance	(85,604)	(68,365)	(63,658)	(217,627)
Balance at December 31, 2018	274,545	37,827	390,738	703,110

6. **FINANCIAL RISK MANAGEMENT (CONT'D)**

Introduction and overview (cont'd)

Risk management framework (cont'd)

(a) **Credit risk (cont'd)**

(ii) **Management of credit risk attaching to key financial assets (cont'd)**

Loss allowance (cont'd)

Debt securities at FVOCI:

	Group			
	2018			
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Balance at January 1, 2018 (IAS 39)	-	-	-	-
Remeasurement on January 1, 2018 (IFRS 9)	80,612	111,965	-	192,577
Transfer to Stage 2	(2,158)	2,158	-	-
Transfer to Stage 3	(250)	(110,407)	110,657	-
Net re-measurement of loss allowance	78,004	6,806	531,409	616,219
Balance at December 31, 2018	156,208	10,522	642,066	808,796

	Society			
	2018			
	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Balance at January 1, 2018 (IAS 39)	-	-	-	-
Remeasurement on January 1, 2018 (IFRS 9)	52,687	88,250	-	140,937
Transfer to Stage 2	(2,158)	2,158	-	-
Transfer to Stage 3	(250)	(88,250)	88,500	-
Net re-measurement of loss allowance	76,761	5,248	425,361	507,370
Balance at December 31, 2018	127,040	7,406	513,861	648,307

6. **FINANCIAL RISK MANAGEMENT (CONT'D)**

Introduction and overview (cont'd)

Risk management framework (cont'd)

(a) **Credit risk (cont'd)**

(ii) **Management of credit risk attaching to key financial assets (cont'd)**

Policy applicable under IAS 39 before January 1, 2018

(1) Loans receivable

Quality of loans receivable

The credit quality of loans is assessed by reference to the extent to which loans are current or past due, and by the extent of impairment.

Definition of impaired loans

Impaired loans are those for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan.

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Group believes that impairment allowance is not appropriate on the basis of the level of security available and/or the stage of collection of amounts owed to the Group.

Past due and impaired loans

These are loans where contractual interest or principal payments are past due and the Group believes that impairment allowance is appropriate on the basis of the level of security available and/or the stage of collection of amounts owed to the Group.

	Group and Society	
	2018 $'000	2017 $'000
Past due and impaired loans		
3 months	249,430	35,994
Over 6 months - 12 months	168,900	-
Over12months	491,030	157,036
Total carrying amount	909,360	193,030

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd)

(ii) Management of credit risk attaching to key financial assets (cont'd)

(1) Loans receivable (cont'd)

Loans with renegotiated terms

Loans with renegotiated terms have been restructured due to deterioration in the borrowers' financial position and the Group has made concessions that it would not otherwise consider. Once a loan is restructured, it remains in this category irrespective of satisfactory performance after restructuring. The main restructuring activities were granting moratoria and rescheduling repayments. At December 31, 2018, the outstanding principal balances on loans that were restructured during the year amounted to $127,030,000 (2017: $128,080,000).

Allowances for impairment

The Group has established an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. Information on the impairment allowance is provided in note 12(b).

Write-off policy, applicable for both periods

The Group writes off loans (and any related allowances for impairment losses) when it determines that the loans are uncollectible. This determination is usually made after considering information such as changes in the borrowers' financial position, or that proceeds from collateral will not be sufficient to cover the entire exposure.

Collateral

Loan collateral represents mortgages over property, liens over motor vehicles and hypothecation of deposits held. The fair value of collateral that the Group held for loans past due (greater than three months) was $5,428,221,000 (2017: $3,577,692,000) [see note 5(a)(iii)].

Foreclosure

The Group sometimes acquires properties by way of foreclosure in the process of recovering amounts from defaulting borrowers. At the reporting date, the carrying amount of these assets was $188,523,000 (2017: $206,413,000). The Group's policy is, in accordance with regulatory requirements, to pursue realisation of the collateral in a timely manner, that is, within three years of foreclosure. No financial or other assets (other than real property mentioned herein) were obtained during the year by taking possession of collateral.

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd)

(ii) Management of credit risk attaching to key financial assets (cont'd)

(2) Cash and cash equivalents

These are held with regulated financial institutions and collateral is not required for such accounts, as management regards the institutions as strong.

(3) Investment securities

The Group manages the level of risk it undertakes by investing substantially in short-term investments, such as Government of Jamaica securities, and subsequently monitoring the financial condition and performance of the debtors/issuers. There is significant concentration in securities issued or guaranteed by Government of Jamaica.

Investment securities issued by the Government of Barbados were considered impaired at the reporting date.

(4) Resale agreements and certificates of deposit

Collateral is held for resale agreements other than those acquired from Bank of Jamaica, as set out in note 6(a)(iii) below.

(5) Accounts receivable

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet repayment obligations and by changing these lending limits where appropriate.

(iii) Collateral and other credit enhancements held against financial assets

The Group holds collateral against loans and advances to customers and others in the form of mortgage interests over property, other registered securities over other assets, and guarantees. Estimates of fair value of such collateral are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over balances with banks or broker/dealers, except when securities are held under resale agreements. Collateral is generally not held against investment securities.

6. **FINANCIAL RISK MANAGEMENT (CONT'D)**

(a) **Credit risk (cont'd)**

(iii) **Collateral and other credit enhancements held against financial assets (cont'd)**

An estimate, made at the time of borrowing, of the fair value of collateral and other security enhancements held against loans to borrowers and others is shown below:

	Group				Society			
	Loans and advances		Resale agreements		Loans and advances		Resale agreements	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Against neither past due nor impaired financial assets:								
Real property	135,751,701	88,236,596	-	-	135,371,539	88,236,596	-	-
Debt securities	-	-	16,858,992	17,498,063	-	-	12,436,572	13,774,902
Liens on motor vehicles	522,682	18,125	-	-	522,682	18,125	-	-
Hypothecation of deposits	2,614,581	2,076,283	-	-	2,614,581	2,076,283	-	-
Subtotal	138,888,964	90,331,004	16,858,992	17,498,063	138,508,802	90,331,004	12,436,572	13,774,902
Against past due (greater than 3 months) but not impaired financial assets:								
Real property	13,864,826	3,263,614	-	-	13,864,826	3,263,614	-	-
Against past due (greater than 3 months) and impaired financial assets:								
Real property	29,220,282	314,078	-	-	29,220,282	314,078	-	-
Total	181,974,072	93,908,696	16,858,992	17,498,063	181,593,910	93,908,696	12,436,572	13,774,902
Carrying amount								

There was no change in the types of exposures to credit risk to which the Group is subject or its approach to measuring and managing this risk during the year.

6. **FINANCIAL RISK MANAGEMENT (CONT'D)**

(b) **Market risks**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to the individual security or its issuer, or factors affecting all securities traded in the market. These arise mainly from changes in interest rates, foreign exchange rates, credit spreads and equity prices and will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

Management and monitoring of market risks

The Group separates its exposure to market risks between trading and non-trading portfolios. Market risks from trading activities are monitored by the ALCO. The ALCO monitors the price movement of securities on the local and international markets for both debt and equity securities. Market risk is managed through the use of Board-approved limits, offsetting of financial assets and liabilities and maintaining matched portfolios of foreign currency financial assets and liabilities with the maintenance of currency portfolio long and short gap position.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates and exchange rates. Interest rate risk and the other market risks associated with the non-trading portfolio are also monitored by the ALCO and managed in the following way:

(i) Interest rate risk

Interest rate risk is the potential for economic loss due to future interest rate changes within a specified period. It arises when there is a mismatch between interest-earning assets and interest-bearing liabilities. It can be reflected as a loss of future net interest income and/or a decline in current fair values.

The Group manages the risk by monitoring the savings fund to ensure its stability, by monitoring lending activity, by adjusting interest rates to the extent practicable within the overall policy of encouraging long-term savings and facilitating home ownership, and by carefully managing interest margins.

The following table summarises the carrying amounts of financial assets and liabilities in the statement of financial position to arrive at the Group's interest rate gap based on the earlier of contractual re-pricing and maturity dates.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

December 31, 2018

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd)

(i) Interest rate risk (cont'd)

A summary of the interest rate gap at the reporting date, using historical data as a basis, is as follows:

	Group					
	2018					
	Immediately rate sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 12 months $'000	Non-rate sensitive $'000	Total $'000
Cash and cash equivalents	4,496,670	950	-	-	3,205,316	7,702,936
Jamaica Government Securities	3,458,723	1,861,882	1,560,067	18,987,332	-	25,868,004
Investments	597,474	3,660,083	1,530,134	6,531,075	14,315,128	26,633,894
Resale agreements	3,776,924	4,091,172	2,427,973	-	-	10,296,069
Loans	-	48,973,660	-	-	-	48,973,660
Other assets	-	160,073	852,491	363,575	12,266,514	13,642,653
Total financial assets	12,329,791	58,747,820	6,370,665	25,881,982	29,786,958	133,117,216
Savings fund	50,888,445	8,538,658	22,251,700	-	263,127	81,941,930
Due to specialised institution	-	13,050,519	-	-	125,219	13,175,738
Other liabilities	-	-	-	-	8,031,415	8,031,415
Repurchase agreements	1,000,000	9,777,709	3,177,888	-	1,512	13,957,109
Total financial liabilities	51,888,445	31,366,886	25,429,588	-	8,421,273	117,106,192
Total interest rate sensitivity gap *	(39,558,654)	27,380,934	(19,058,923)	25,881,982	21,365,685	16,011,024
Cumulative gap	(39,558,654)	(12,177,720)	(31,236,643)	(5,354,661)	16,011,024	-

* The gap is in relation to items recognised in the statement of financial position. There are no "off balance sheet" exposures.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

December 31, 2018

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd)

(i) Interest rate risk (cont'd)

	Group					
	2017					
	Immediately rate sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 12 months $'000	Non-rate sensitive $'000	Total $'000
Cash and cash equivalents	2,309,676	6,040,242	247,164	-	3,617,375	12,214,487
Investments	350,231	5,559,144	9,977,186	23,382,771	2,081,703	41,351,035
Resale agreements	-	11,799,335	2,336,315	185,120	-	14,320,770
Loans	-	44,069,750	-	-	-	44,069,750
Other assets	-	613,987	34,365	295,742	425,647*	1,369,741
Total financial assets	2,659,907	68,082,458	12,595,030	23,863,633	6,124,725	113,325,753
Savings fund	-	53,285,248	14,452,844	8,641,298	-	76,379,390
Due to specialised institution	-	12,046,079	-	-	-	12,046,079
Other borrowings	-	-	1,593,901	-	-	1,593,901
Other liabilities	-	-	-	-	4,179,682	4,179,682
Repurchase agreements	-	8,837,731	2,984,562	-	-	11,822,293
Total financial liabilities	-	74,169,058	19,031,307	8,641,298	4,179,682	106,021,345
Total interest rate sensitivity gap *	2,659,907	(6,086,600)	(6,436,277)	15,222,335	1,945,043	7,304,408
Cumulative gap	2,659,907	(3,426,693)	(9,862,970)	5,359,365	7,304,408	-

* The gap is in relation to items recognised in the statement of financial position. There are no "off balance sheet" exposures.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

December 31, 2018

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd)

(i) Interest rate risk (cont'd)

	Society					
	2018					
	Immediately rate sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 12 months $'000	Non-rate sensitive $'000	Total $'000
Cash and cash equivalents	5,097,372	-	-	-	2,465,582	7,562,954
Jamaica Govt. securities	3,458,723	1,861,882	1,490,065	9,084,538	-	15,895,208
Investments	997,895	2,783,099	806,519	14,727,280	3,895,071	23,209,864
Resale agreements	3,776,924	2,584,187	2,217,201	-	-	8,578,312
Loans	-	48,879,060	-	-	-	48,879,060
Other assets	-	-	-	-	10,194,392	10,194,392
Total financial assets	13,330,914	56,108,228	4,513,785	23,811,818	16,555,045	114,319,790
Savings fund	50,888,445	8,538,658	23,141,906	-	263,128	82,832,137
Due to specialised institution	-	13,050,519	-	-	125,219	13,175,738
Other borrowings	-	2,476,269	-	-	-	2,476,269
Repurchase agreements	1,000,000	-	-	-	1,512	1,001,512
Other liabilities	-	-	-	-	2,068,187	2,068,187
Total financial liabilities	51,888,445	24,065,446	23,141,906	-	2,458,046	101,553,843
Total interest rate sensitivity gap *	(38,557,531)	32,042,782	(18,628,121)	23,811,818	14,096,999	12,765,947
Cumulative gap	(38,557,531)	(6,514,749)	(25,142,870)	(1,331,052)	12,765,947	-

* The gap is in relation to items recognised in the statement of financial position. There are no "off balance sheet" exposures.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

December 31, 2018

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd)

(i) Interest rate risk (cont'd)

	Society					
	2017					
	Immediately rate sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 12 months $'000	Non-rate sensitive $'000	Total $'000
Cash and cash equivalents	2,820,230	5,472,696	247,164	-	774,917	9,315,007
Investments	350,231	2,022,438	9,345,348	16,348,141	1,518,154	29,584,312
Resale agreements	-	10,012,248	2,086,542	185,120	-	12,283,910
Loans	-	44,118,134	-	-	-	44,118,134
Other assets	-	-	-	-	2,336,539	2,336,539
Total financial assets	3,170,461	61,625,516	11,679,054	16,533,261	4,629,610	97,637,902
Savings fund	-	54,006,977	14,452,844	8,641,298	-	77,101,119
Due to specialised institution	-	12,046,079	-	-	-	12,046,079
Other borrowings	-	-	1,087,792	-	-	1,087,792
Other liabilities	-	-	-	-	507,675	507,675
Total financial liabilities	-	66,053,056	15,540,636	8,641,298	507,675	90,742,665
Total interest rate sensitivity gap *	3,170,461	(4,427,540)	(3,861,582)	7,891,963	4,121,935	6,895,237
Cumulative gap	3,170,461	(1,257,079)	(5,118,661)	2,773,302	6,895,237	-

* The gap is in relation to items recognised in the statement of financial position. There are no "off balance sheet" exposures.

Sensitivity to interest rate movements

The following table shows the effect on surplus and reserves of a reasonably possible change in interest rates. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant. The analysis is performed on the same basis as for 2017.

	Group		Society	
	2018			
	Increase	(Decrease)	Increase	(Decrease)
Jamaica dollar	100bps	100bps	100bps	100bps
Foreign currencies	100bps	100bps	100bps	100bps
Effect on surplus	10,336	(10,451)	60,750	(60,750)
Effect on reserves	(1,980,205)	2,250,115	(1,540,842)	1,728,155

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(i) Interest rate risk (cont'd)

Sensitivity to interest rate movements

	Group 2017		Society 2017	
	Increase	(Decrease)	Increase	(Decrease)
Jamaica dollar	100bps	100bps	100bps	100bps
Foreign currencies	50bps	50bps	50bps	50bps
	$'000	$'000	$'000	$'000
Effect on surplus	(33,219)	32,664	(8,258)	7,703
Effect on reserves	(1,568,661)	1,836,480	(1,358,975)	1,617,910

(ii) Foreign currency risk

Foreign currency risk is the risk that the fair value of, or the cash flows from, financial instruments will vary because of exchange rate fluctuations in respect of transactions and balances that are denominated in currencies other than the Jamaica dollar. The main currencies giving rise to this risk are the United States dollar (USD), Canadian dollar (CDN) and the British Pound (GBP).

The Group manages this risk by ensuring that the net exposure is kept to an acceptable level through matching foreign currency assets and liabilities as far as practicable. At the reporting date, the net exposure, in nominal currencies, were as follows:

	Group					
	2018			2017		
	USD	GBP	CDN	USD	GBP	CDN
	'000	'000	'000	'000	'000	'000
Foreign currency assets	268,763	66,055	7,920	241,791	63,643	9,404
Foreign currency liabilities and capital	(259,206)	(66,196)	(8,238)	(239,788)	(67,523)	(9,006)
Net foreign currency assets	9,557	(141)	(318)	2,003	(3,880)	398

	Society					
	2018			2017		
	USD	GBP	CDN	USD	GBP	CDN
	'000	'000	'000	'000	'000	'000
Foreign currency assets	179,980	65,957	7,917	158,720	63,602	9,401
Foreign currency liabilities	(171,139)	(66,147)	(8,235)	(161,810)	(67,474)	(9,006)
Net foreign currency assets	8,841	(190)	(318)	(3,090)	(3,872)	395

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(ii) Foreign currency risk (cont'd)

Sensitivity to foreign exchange rate movements

The Group uses the average of Bank of Jamaica's buying and selling rates for balances denominated in foreign currencies [see policy 5(n)]; the rates are as follows:

	2018	2017
	J$	J$
United States Dollar	126.80	124.30
Pound Sterling	160.07	166.19
Canadian Dollar	90.15	96.30

A 2% (2017: 2%) strengthening of the Jamaica dollar against the relevant currencies at the reporting date would have increased/(decreased) surplus by the amounts shown below. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis as for 2017.

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
United States Dollar	(24,235)	(4,980)	(22,422)	7,682
Pound Sterling	452	12,898	608	12,763
Canadian Dollar	573	(762)	573	761
	(23,210)	7,156	(21,241)	21,206

A 4% (2017: 4%) weakening of the Jamaica dollar against the relevant currencies at the reporting date would have (decreased)/increased surplus by the amounts shown. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis as for 2017.

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
United States Dollar	48,471	9,961	44,843	(15,364)
Pound Sterling	(903)	(25,796)	(1,217)	(25,746)
Canadian Dollar	(1,146)	1,524	(1,147)	(1,522)
	46,422	(14,311)	42,479	(42,632)

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd)

(iii) Equity price risk

Equity price risk arises from equity securities held by the Group as part of its investment portfolio. Management monitors the mix of debt and equity securities in its investment portfolio based on market expectations. The primary goal of the Group's investment strategy is to maximise investment returns.

The equity securities which the Group holds are listed on the Jamaica Stock Exchange. An increase or decrease of 10% (2017: 15%) in share prices would result in an increase or an equal decrease, respectively, in profit or loss of $68,102,000 (2017: $207,709,000) for the Group and $12,263,000 (2017: $ Nil) for the Society.

There was no change during the year in the nature of the market risks to which the Group is exposed or the way in which it measures and manages these risks.

(c) Liquidity risk

Liquidity risk is the risk that the Group is unable to raise cash to settle its financial obligations as they fall due or to meet its lending obligations to maintain public and stakeholder confidence. Liquidity risk could result from the Group's inability to manage unplanned decreases or changes in funding sources and the failure to recognise or address changes in market conditions that affect the Group's ability to liquidate assets quickly and with minimal loss in value. Prudent liquidity risk management requires the Group to maintain sufficient cash and high quality marketable securities, monitor future cash flows and liquidity on a daily basis and have funding available through an adequate amount of committed facilities.

The management of the Group establishes and implements procedures to ensure that the Group maintains sufficient liquidity, including a buffer of unencumbered, high quality liquid assets, to meet liabilities that fall due in the short term; to meet any demands for funds by its members and creditors and to withstand a range of stress events, including those involving loss or impairment of both secured and unsecured funding sources.

The daily liquidity position is monitored by reports covering the positions of the Group. All liquidity policies and procedures are subject to review and approval by the Group Finance and Risk Management Committee.

The Society is subject to externally imposed liquidity ratios. These ratios are taken into account by management in its measurement and management of liquidity risk.

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd)

(i) The key measure used for managing liquidity risk of the Society is the ratio of net liquid assets to prescribed liabilities. For this purpose, liquid assets include cash, cash equivalents and investment in debt securities for which there is an active and liquid market, less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. This calculation is used to measure the Society's compliance with the liquidity limit established by Bank of Jamaica.

	Ratio of net liquid assets to deposits from customers	
	2018	2017
Regulator's minimum required ratio	5.00%	5.00%

	Ratio of net liquid assets to deposits from customers	
	2018	2017
Actual ratios:		
As at December 31	9.95%	11.42%
Average for the year	10.42%	13.18%
Highest % attained for the year	12.17%	16.77%
Lowest % attained for the year	8.54%	11.11%

(ii) The securities dealer subsidiary, Victoria Mutual Wealth Management Limited, manages liquidity risk by keeping a pre-determined portion of its financial assets in liquid form. The key measure used for monitoring liquidity risk is the ninety-day liquidity gap ratio. The numerator is calculated by subtracting the total assets maturing within ninety days from the total liabilities which fall due in ninety days. The denominator is total liabilities. The ninety day liquidity gap ratio at the end of the year was as follows:

	Ninety-day liquidity gap ratio	
	2018	2017
Regulator's minimum required ratio	25.00%	25.00%
Actual ratio	33.84%	38.28%

(iii) Maturity profile

The following table presents the contractual maturity profile of financial liabilities, including interest payments, on the basis of their earliest possible contractual maturity.

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd)

(iii) Maturity profile (cont'd)

	Group						
	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	Over 5 years $'000	Contractual cash flows $'000	Carrying amount $'000
				2018			
Due to savers	43,792,612	15,058,674	17,674,868	12,432,557	-	88,958,711	81,941,931
Due to specialised institution	7,887,538	155	1,089	512,786	5,282,108	13,683,676	13,175,738
Other liabilities	2,501,003	-	-	-	-	2,501,003	2,576,826
Repurchase agreements	1,001,525	9,777,709	3,337,095	-	-	14,116,329	13,957,109
Other borrowings	-	25,691	173,101	4,129,566	-	4,328,358	3,876,594
				2017			
Due to savers	-	54,006,978	14,452,844	3,278,791	5,362,506	77,101,119	76,379,390
Due to specialised institution	6,450,432	699	1,234	121,817	5,471,897	12,046,079	12,046,079
Other liabilities	4,193,197	-	-	-	-	4,193,197	4,179,682
Repurchase agreements	-	10,013,890	3,344,260	-	-	13,358,150	11,822,293
Other borrowings	10,018	-	526,411	1,287,792	-	1,824,221	1,593,901

	Society						
	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	Over 5 years $'000	Contractual cash flows $'000	Carrying amount $'000
				2018			
Due to savers	43,792,611	15,948,880	17,674,868	12,432,557	-	89,848,916	82,832,137
Due to specialised institutions	7,987,623	153	1,089	512,786	5,282,108	13,783,759	13,175,738
Other liabilities	655,081	-	-	-	-	655,081	655,093
Repurchase agreements	1,001,512	-	-	-	-	1,001,512	1,001,512
Other borrowings	-	-	-	2,476,269	-	2,476,269	2,476,269
				2017			
Due to savers	-	54,006,978	14,452,844	3,278,791	5,362,506	82,544,497	77,101,119
Due to specialised institutions	6,450,432	699	1,234	121,817	5,471,897	12,772,071	12,046,079
Other liabilities	507,675	-	-	-	-	507,675	507,675
Repurchase agreements	51,707	-	-	-	-	51,707	51,707
Other borrowings	-	-	-	1,087,792	-	1,087,792	1,087,792

There was no change to the Group's approach to managing liquidity risk during the year.

(d) Operational risk

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

6. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Operational risk

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

The primary responsibility for the development and implementation of controls to identify operational risk is assigned to Executive ERM Committee with oversight given by the Group Finance and Risk Management Committee. This responsibility is supported by overall Group standards for the management of operational risk to minimise exposure to key operational risk areas, including new products and marketing initiatives, continuity of critical services and processes, talent retention and development, information security and internal and external fraud. Where these risks arise, the Group will consider the impact to its reputation and take measures to mitigate the risk, within the context of its relevant risk appetite.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Group Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to senior management of the Group and the Audit Committees.

7. CAPITAL MANAGEMENT

Capital risk is the risk that the Group fails to comply with mandated regulatory requirements, resulting in a breach of capital adequacy ratios and the possible suspension or loss of one or more licenses. The Group's objectives when managing capital, which is a broader concept than the "capital" mentioned on the face of the statement of financial position are:

- To comply with the capital requirements set by the regulators;
- To safeguard the Society's ability to continue as a going concern so that it can continue to provide benefits for members and other stakeholders; and
- To maintain a strong capital base to support the development of its business.

(a) The Society

Bank of Jamaica requires that building societies maintain a minimum of 10% (2017: 10%) of their risk weighted assets in capital.

	Society	
	2018 $'000	2017 $'000
Regulatory capital (note 29)	16,254,737	14,435,484
Qualifying capital	14,104,190	13,019,889
On balance sheet risk weighted assets	62,042,255	58,728,337
Off balance sheet risk weighted assets –Loan commitments	465,770	639,237
Foreign exchange exposure	1,126,339	787,813
Total risk assessed assets	63,634,364	60,155,387
Risk based capital adequacy ratio	22.16%	21.64%
Regulatory requirement	10.00%	10.00%

7. CAPITAL MANAGEMENT (CONT'D)

(b) Victoria Mutual Wealth Management Limited

The Financial Services Commission monitors compliance with the capital requirements established for entities involved in non-deposit taking financial services. The subsidiary's regulatory capital position as at the reporting date was as follows:

	2018 $'000	2017 $'000
Tier 1 Capital	1,771,632	1,655,624
Tier 2 Capital	52,334	40,067
Total regulatory capital	1,823,966	1,695,691
Risk weighted assets		
Per statement of financial position	10,544,598	9,506,948
Foreign exchange exposure	53	530,910
	10,544,651	10,037,858
Operational risk-weighted assets	273,419	247,527
	10,818,070	10,285,385

Capital ratios	Minimum required 2018	Minimum required 2017	Actual 2018	Actual 2017
Total regulatory qualifying capital Total risk weighted assets	10.00%	10.00%	16.86%	16.49%
Tier 1 Capital/Total regulatory capital	50.00%	50.00%	97.13%	97.64%
Capital base/Total assets	6.00%	6.00%	10.65%	9.92%

(c) Victoria Mutual Pensions Management Limited

Victoria Mutual Pensions Management Limited is regulated by the Financial Services Commission. The subsidiary's regulatory capital position as at the reporting date was as follows:

	2018 $'000	2017 $'000
Tier 1 Capital	173,002	125,037
Risk-Weighted Assets:		
Operating assets	209,999	178,595
Per statement of financial position	219,653	235,430
Foreign exchange exposure	32,659	60,108
	462,311	474,133

7. CAPITAL MANAGEMENT (CONT'D)

(c) Victoria Mutual Pensions Management Limited (cont'd)

Capital adequacy ratios:	Minimum required 2018	Minimum required 2017	Actual 2018	Actual 2017
Total regulatory capital/risk-weighted assets	10.00%	10.00%	37.42%	26.95%
Tier 1 Capital/Total regulatory capital	50.00%	50.00%	100%	100%
Actual capital base /total assets	6.00%	6.00%	66.91%	48.51%

8. CASH AND CASH EQUIVALENTS

	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Cash in hand and at banks and other financial institutions	4,855,618	5,761,458	4,715,636	2,861,977
Statutory reserves held at Bank of Jamaica	782,068	733,170	782,068	733,170
Term deposits at banks	2,065,250	5,719,859	2,065,250	5,719,860
	7,702,936	12,214,487	7,562,954	9,315,007

Statutory reserves, required by regulation to be held at Bank of Jamaica, comprise cash reserves. They are not available for use by the Society in the ordinary course of business. The amounts are determined as a percentage of specified liabilities stipulated by Bank of Jamaica. For the rate to remain at no more than one per cent of specified liabilities, as defined, the Society must have qualifying assets of 40% (2017: 40%) of specified liabilities.

9. INVESTMENTS - JAMAICA GOVERNMENT SECURITIES

These are securities issued or guaranteed by Government of Jamaica and comprise the following:

	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
FVOCI (2017: available-for-sale securities)				
Securities denominated in United States dollars:				
Bonds	8,665,280	6,176,340	3,803,764	1,707,950
Pound Sterling:				
Bonds	-	166,189	-	166,189
Securities denominated in Jamaica dollars:				
Bonds	8,514,856	9,305,819	8,514,856	9,305,819
Certificates of deposit	7,488,727	4,398,820	2,377,447	861,055
Treasury bills	906,080	84,980	906,080	84,980
	16,909,663	13,789,619	11,798,383	10,251,854
Carried forward	25,574,943	20,132,148	15,602,147	12,125,993

9. INVESTMENTS - JAMAICA GOVERNMENT SECURITIES (CONT'D)

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Brought forward	25,574,943	20,132,148	15,602,147	12,125,993
Amortised cost (2017: Loans and receivables)				
Securities denominated in United States dollars:				
Bonds	96,824	133,989	96,824	94,471
Amortised cost (2017: Held-to-maturity)				
Securities denominated in:				
Jamaica dollars:				
Bonds	497,559	-	497,559	-
Less: Allowance for impairment on amortised cost	(301,322)	-	(301,322)	-
	196,237	-	196,237	-
	25,868,004	20,266,137	15,895,208	12,220,464

Government securities mature, in relation to the reporting date, as follows:

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Within 3 months	906,080	1,147,823	906,080	1,147,823
From 3 months to 1 year	2,121,152	2,317,517	2,051,150	2,053,308
From 1 year to 5 years	8,943,891	5,783,828	5,191,679	3,425,962
Thereafter	13,896,881	11,016,969	7,746,299	5,593,371
	25,868,004	20,266,137	15,895,208	12,220,464

Certain Government of Jamaica securities are pledged by the Group as collateral for repurchase agreements (note 24).

Reclassified Financial Assets

As at October 1, 2008, the Group reclassified certain investment securities, previously classified as available-for-sale, to loans and receivables, in accordance with paragraph 50(E) of IAS 39. The standard required that the reclassification be made at fair value of the assets at the date of the reclassification. These securities, amounting to $133,989,000 for the Group and $94,471,000 for the Society, were reclassified at amortised cost for the Society and FVOCI for a subsidiary on January 1, 2018, on adoption of IFRS 9.

10. INVESTMENTS – OTHER

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Investments securities at fair value through profit or loss:				
Quoted equities	326,356	187,927	122,629	-
Units in unit trust funds	3,808,084	-	3,772,402	-
	4,134,440	187,927	3,895,031	-
Amortised cost (2017: loans and receivables)				
Bank deposits	-	547,175	-	-
Bonds	-	145,237	-	-
	-	692,412	-	-
Amortised cost (2017: held to maturity securities):				
Bonds	6,304,422	5,862,979	5,862,979	3,223,230
Preference shares	860,070	150,000	860,070	150,000
Ordinary shares – quoted	10,468	-	-	-
Ordinary shares – unquoted	3,733	-	-	-
Treasury bills	3,411,195	-	3,411,195	-
	10,589,888	3,373,230	10,134,244	3,373,230
FVOCI (2017: available-for-sale):				
Bonds	11,262,255	14,661,897	9,180,550	12,223,894
Treasury bills	-	248,570	-	248,570
Ordinary shares - quoted	535,500	399,386	-	-
Ordinary shares - unquoted	3,439	3,361	39	39
Units in unit trusts	-	1,518,115	-	1,518,115
	11,801,194	16,831,329	9,180,589	13,990,618
Net investment in finance lease	108,371	-	-	-
	26,633,893	21,084,898	23,209,864	17,363,848

Bank deposits include certificates of deposit issued by Bank of Jamaica.

Other investments mature, in relation to the reporting date, as follows:

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Immediately	597,474	940,867	-	350,231
Within 3 months	3,660,083	945,167	3,409,952	873,615
From 3 months to 1 year	1,530,134	7,840,795	1,030,112	7,292,040
From 1 year to 5 years	6,531,075	8,695,913	5,619,628	7,329,808
Thereafter	14,315,127	2,662,156	13,150,172	1,518,154
	26,633,893	21,084,898	23,209,864	17,363,848

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

December 31, 2018

11. RESALE AGREEMENTS

Government and corporate securities are purchased under agreements to resell them on specified dates and at a specified prices on maturity ('resale agreements').

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Denominated in Jamaica dollars	9,020,174	8,258,498	5,760,174	6,415,659
Denominated in Sterling	1,064,316	1,090,972	1,064,316	1,090,972
Denominated in United States dollars	211,979	4,971,300	1,754,178	4,777,279
Less allowance for impairment	(400)	-	(356)	-
	10,296,069	14,320,770	8,578,312	12,283,910

Under resale agreements, the securities obtained as collateral may themselves be sold under repurchase agreements (see note 24). At December 31, 2018, such securities had a fair value of $16,886,671,000 (2017: $17,462,185,000) and $12,436,572,000 (2017: $13,774,902,000) for the Group and the Society, respectively.

12. LOANS

(a) Composition of loans

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Conventional mortgage loans	46,887,715	42,713,647	46,793,115	42,713,647
Mortgage escrow (see below)	399,124	382,068	399,124	382,068
Total conventional mortgage loans	47,286,839	43,095,715	47,192,239	43,095,715
Share loans	1,155,179	992,900	1,155,179	992,900
Commercial loans	-	20,119	-	20,119
Consumer loans*	694,190	-	694,190	-
Staff loans	322,134	145,296	322,134	193,680
Total gross carrying value of loans	49,458,342	44,254,030	49,363,742	44,302,414
Less: allowance for impairment	(484,682)	(184,280)	(484,682)	(184,280)
Total loans, net	48,973,660	44,069,750	48,879,060	44,118,134

*Auto and unsecured loans launched in August 2018.

Mortgage escrow represents insurance premiums paid by the Society on behalf of mortgagors. These amounts are recoverable over one year and are collected as part of monthly mortgage instalments.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

December 31, 2018

12. LOANS (CONT'D)

(b) Allowance for impairment

	Group and Society	
	2018 $'000	2017 $'000
Balances at the beginning of the year	184,280	183,002
Adjustment on initial application of IFRS 9 (note 4)	356,158	-
Net remeasurement of allowance for ECL	(55,756)	1,278
Balances at the end of the year [see (c) below]	484,682	184,280

(c) Credit facility reserve

	Group and Society	
	2018 $'000	2017 $'000
Regulatory loan loss provision	1,506,066	1,421,061
Less: Impairment allowance based on IFRS 9/IAS 39 [see (b) above]	(484,682)	(184,280)
Credit facility reserve at end of year	1,021,384	1,236,781

The loan loss provision in excess of the impairment allowance required under IFRS is included in a non-distributable credit facility reserve [note 28(v)].

(d) Loan principal repayments and mortgage escrow payments are projected to be received, in relation to the reporting date, as follows:

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Within three months	1,403,680	227,632	1,403,680	276,016
3 months to 1 year	388,368	155,813	388,368	155,813
From 1 year to 5 years	3,180,115	7,777,731	3,180,115	7,777,731
Thereafter	44,001,497	35,908,574	43,906,897	35,908,574
	48,973,660	44,069,750	48,879,060	44,118,134

13. OTHER ASSETS

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Interest receivable	1,117,716	1,180,458	936,141	998,551
Income tax recoverable	866,667	905,712	854,468	895,506
Late fees	68,321	59,239	68,321	59,239
Margin loans receivable	1,314,837	441,057	-	-
Customer receivable	868,721	503,037	-	-
Sundry receivables and prepayments	1,103,109	624,786	476,976	383,243
	5,339,371	3,714,289	2,335,906	2,336,539

14. DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets

Deferred tax assets are attributable to the following:

	Group						
	2016 $'000	Recognised in income $'000	Recognised in OCI $'000	2017 $'000	Recognised in income $'000	Recognised in OCI $'000	2018 $'000
Investments	89,443	(3,217)	(21,095)	65,131	66,704	56,514	188,349
Other receivables	(52,333)	7,014	-	(45,319)	5,018	-	(40,301)
Property, plant and equipment	1,852	2,092	-	3,944	8,444	-	12,388
Other liabilities	28,479	5,687	-	34,166	(9,248)	-	24,918
Employee benefit obligation	17,074	2,558	2,267	21,899	1,841	(7,158)	16,582
Unrealised foreign exchange loss	(5,432)	10,636	-	5,204	(5,628)	-	(424)
Provision for vacation leave	436	-	-	436	(36)	-	400
Unused tax loss	-	-	-	-	10,783	-	10,783
	79,519	24,770	(18,828)	85,461	77,878	49,356	212,695

Deferred tax assets of approximately $6,456,679 (2017: $3,727,000) have not been recognised in respect of tax losses of certain subsidiaries [note 37(b)], as management does not consider that it is probable that taxable profits will be available against which the asset will be realised within the foreseeable future.

(b) Deferred tax liabilities

Deferred tax liabilities are attributable to the following:

	Group						
	2016 $'000	Recognised in income $'000	Recognised in OCI $'000	2017 $'000	Recognised in income $'000	Recognised in OCI $'000	2018 $'000
Other receivables	(45)	(131)	-	(176)	108	-	(68)
Employee benefits asset	(708,153)	9,450	14,310	(684,393)	240	(14,220)	(698,373)
Property, plant and equipment	30,083	52,865	-	82,948	(172,446)	-	(89,498)
Employee benefits obligation	239,097	35,369	28,560	303,026	40,094	(74,030)	269,090
	(439,018)	97,553	42,870	(298,595)	(132,004)	(88,250)	(518,849)

	Society						
	2016 $'000	Recognised in income $'000	Recognised in OCI $'000	2017 $'000	Recognised in income $'000	Recognised in OCI $'000	2018 $'000
Employee benefits asset	(708,153)	9,450	14,310	(684,393)	240	(14,220)	(698,373)
Property, plant and equipment	30,083	52,865	-	82,948	(169,559)	-	(86,611)
Employee benefits obligation	239,097	35,369	28,560	303,026	39,214	(73,050)	269,190
	(438,973)	97,684	42,870	(298,419)	(130,105)	(87,270)	(515,794)

15. EMPLOYEE BENEFITS ASSET/OBLIGATION

The Group operates a defined-benefit plan, under which retirement benefits are calculated by reference to, inter alia, final salary. The plan is subject to a triennial actuarial funding valuation, the most recent being as at December 31, 2016. For purposes of determining the employee benefit asset or obligation included in the financial statements at the end of the period and the costs for the period, an IAS 19 actuarial valuation is done each year.

The Group also provides post-employment medical benefits to retirees.

The amounts in the statement of financial position in respect of the defined-benefit pension plans and post-employment medical benefits are as follows:

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Employee benefits asset (i)	2,327,900	2,176,900	2,327,900	2,176,900
Post-employment medical benefit obligation (ii)	950,400	1,276,700	897,300	1,206,500

(i) Employee benefits asset

(a) Amount recognised in the statement of financial position

	Group and Society	
	2018 $'000	2017 $'000
Present value of funded obligations	(4,280,800)	(4,775,100)
Fair value of plan assets	7,775,000	6,952,000
Unrecognised amount due to limitation	(1,166,300)	-
	2,327,900	2,176,900

(b) Movements in the present value of defined benefit obligations

	Group and Society	
	2018 $'000	2017 $'000
Balance at beginning of year	4,775,100	3,611,489
Benefits paid	(238,900)	(169,400)
Voluntary contributions	52,400	47,811
Past service cost	-	119,000
Transfer in	3,800	3,300
Service cost	249,600	186,400
Interest cost	388,900	347,200
Gain on curtailment	(124,100)	-
Remeasurement loss/(gain) arising from:		
Experience adjustments	18,600	387,200
Financial assumptions	(844,600)	242,100
Balance at end of year	4,280,800	4,775,100

15. EMPLOYEE BENEFITS ASSET/OBLIGATION (CONT'D)

(i) Employee benefits asset (cont'd)

(c) Movement in plan assets

	Group and Society 2018 $'000	Group and Society 2017 $'000
Fair value of plan assets at beginning of year	6,952,000	6,234,400
Contributions paid into the plan	129,800	121,900
Benefits paid by the plan	(246,000)	(169,400)
Net interest income on plan assets	551,500	558,700
Refunds to sponsor	-	(210,000)
Remeasurement gain on assets included in other comprehensive income	387,700	416,400
Fair value of plan assets at end of year	7,775,000	6,952,000
Plan assets consist of the following:		
Equity securities	3,785,300	3,024,300
Government securities	2,426,500	2,509,600
Real estate fund	1,463,200	1,315,100
Other assets	100,000	103,000
	7,775,000	6,952,000

(d) (Credit)/charge recognised in the income statement

	2018 $'000	2017 $'000
Current service costs	179,200	117,300
Interest on obligation	399,800	347,200
Past service cost	-	119,000
Interest on effect of asset ceiling	-	13,600
Gain on curtailment	(124,100)	-
Net interest income on plan assets	(551,500)	(558,700)
	(96,600)	38,400

(e) Items recognised in other comprehensive income

	Group and Society 2018 $'000	Group and Society 2017 $'000
Remeasurement (gain)/loss on obligations	(826,000)	629,300
Remeasurement gain on assets	(387,700)	(416,400)
Change in effect of asset ceiling	1,166,300	(165,200)
	(47,400)	47,700

15. EMPLOYEE BENEFITS ASSET/OBLIGATION (CONT'D)

(i) Employee benefits asset (cont'd)

(f) Principal financial assumptions at the reporting date (expressed as weighted averages)

	Group and Society 2018 %	Group and Society 2017 %
Discount rate at December 31	7.0	8.0
Future salary increases	4.0	6.0
Future pension increases	2.5	4.5

(g) Sensitivity analysis

A one-half percentage (2017: one percentage) point change at the reporting date to one of the relevant financial assumptions, holding other assumptions constant, would have affected the defined benefit obligations by amounts shown below:

	Group and Society			
	2018		2017	
Financial assumptions	0.5% point increase $'000	0.5% point decrease $'000	1% point increase $'000	1% point decrease $'000
Discount rate	(306,900)	352,000	(741,050)	826,900
Rate of salary escalation	133,300	(122,500)	368,550	(313,350)
Future rate of pension	200,500	(183,000)	555,750	(458,850)

(h) The Group expects to pay $13,393,773 in contributions to the defined-benefit plan in 2019.

(ii) Other post-employment benefits

The employee benefits obligation represents the present value of the constructive obligation to provide medical and other benefits to retirees.

(a) Movement in present value of defined benefit obligation

	Group 2018 $'000	Group 2017 $'000	Society 2018 $'000	Society 2017 $'000
Present value of obligation at the start of the year	1,276,800	1,036,104	1,206,500	981,304
Interest cost	100,000	97,100	94,100	91,800
Past service cost/(income)	(75,500)	5,600	(72,500)	5,300
Current service cost	50,100	44,000	46,700	41,300
Benefits paid	(16,700)	(16,600)	(16,500)	(16,400)
Gain on curtailment	(117,500)	-	(117,500)	-
Remeasurement gain arising from:				
Changes in demographic assumptions	-	(904)	-	(904)
Experience adjustments	(58,900)	107,300	(58,900)	107,300
Financial assumptions	(207,900)	4,100	(184,600)	(3,200)
	950,400	1,276,700	897,300	1,206,500

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
December 31, 2018

15. EMPLOYEE BENEFITS ASSET/OBLIGATION (CONT'D)

(ii) Other post-employment benefits (cont'd)

(b) Charge/(credit) recognised in the income statement

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Gain on curtailment	-	-	(117,500)	-
Interest cost	91,200	97,100	94,100	91,800
Past service (income)/cost	(3,000)	5,600	(72,500)	5,300
Current service cost	45,500	44,000	46,700	41,300
Benefits paid	(200)	-	-	-
	133,500	146,700	(49,200)	138,400

(c) Items in other comprehensive income

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Remeasurement (gain)/loss on obligation	(266,800)	110,496	(243,500)	103,196

(d) Principal actuarial assumptions at the reporting date (expressed as weighted averages)

	Group and Society	
	2018	2017
	%	%
Financial assumptions:		
Discount rate	7.0	8.0
Medical claims growth	5.0	7.0

Statistical assumptions:

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining life expectancy of an individual retiring at age 65 is 21 years for males and 26 years for females.

(e) Sensitivity to changes in financial assumptions

A one-half percentage (2017: one percentage) point change at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by amounts shown below:

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
December 31, 2018

15. EMPLOYEE BENEFITS ASSET/OBLIGATION (CONT'D)

(ii) Other post employment benefits (cont'd)

(e) Sensitivity to changes in financial assumptions (cont'd)

	Group			
	2018		2017	
	0.5% point increase	0.5% point decrease	1% point increase	1% point decrease
	$'000	$'000	$'000	$'000
Medical cost trend rate and rate of salary escalation	5,600	(167,500)	302,900	(223,800)
Discount rate	(167,500)	5,600	(223,800)	302,900

	Society			
	2018		2017	
	0.5% point increase	0.5% point decrease	1% point increase	1% point decrease
	$'000	$'000	$'000	$'000
Medical cost trend rate and rate of salary escalation	700	(162,000)	283,300	(209,300)
Discount rate	(462,000)	700	(209,300)	283,000

16. INTEREST IN SUBSIDIARIES

	Society	
	2018	2017
	$'000	$'000
Shares, at cost [see note 1(b)]	811,888	811,888
Current accounts	458,532	269,506
	1,270,420	1,081,394

17. INTEREST IN ASSOCIATE

The carrying amount of interest in associated company represents the cost of shares acquired and the Group's share of post acquisition reserves in British Caribbean Insurance Company Limited (BCIC), as follows:

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Shares, at cost	659,200	659,200	659,200	659,200
Share of post-acquisition profits	413,472	435,620	-	-
Share of investment revaluation reserve	61,783	47,558	-	-
	1,134,455	1,142,378	659,200	659,200

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

December 31, 2018

17. INTEREST IN ASSOCIATE (CONT'D)

The following table summarises the financial information of BCIC showing fair value adjustments on acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in this associate.

	2018 $'000	2017 $'000
Percentage ownership interest	**31.5%**	**31.5%**
Assets	12,878,761	11,119,254
Liabilities	(9,592,784)	(7,733,968)
Net assets (100%)	3,285,977	3,385,286
Group's share of net assets	1,035,083	1,066,365
Fair value adjustments and elimination of differences in accounting policies and intra-group transactions	99,372	76,013
Carrying amount of interest in BCIC	1,134,455	1,142,378
Revenue	9,920,968	8,042,949
Profit for the year	237,828	668,637
Other comprehensive income/(loss), net of tax	51,592	(301,971)
Total comprehensive income	289,420	366,666
Group's share of profit for year	74,916	210,621
Impact of IFRS 9 on share of profit	12,924	-
	87,840	210,621
Group's share of total comprehensive income	94,531	115,500

18. INTANGIBLE ASSETS

	Group				Society		
	Goodwill $'000	Computer software $'000	Work in progress $'000	Total $'000	Computer software $'000	Work in progress $'000	Total $'000
Cost							
December 31, 2016	609,215	918,907	513,287	2,041,409	832,577	446,993	1,279,570
Additions	-	146,119	626,757	772,876	6,235	626,759	632,994
Transfers	-	(82,784)	82,784	-	(82,784)	82,784	-
December 31, 2017	609,215	982,242	1,222,828	2,814,285	756,028	1,156,536	1,912,564
Additions	-	148,386	389,387	537,773	-	389,388	389,388
Transfers (see note 20)	-	822,337	(747,602)	74,735	747,602	(747,602)	-
December 31, 2018	609,215	1,952,965	864,613	3,426,793	1,503,630	798,322	2,301,952

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

December 31, 2018

18. INTANGIBLE ASSETS (CONT'D)

	Group				Society		
	Goodwill $'000	Computer software $'000	Work in progress $'000	Total $'000	Computer software $'000	Work in progress $'000	Total $'000
Amortisation							
December 31, 2016	-	382,477	-	382,477	331,508	-	331,508
Charge for year	-	79,460	-	79,460	73,944	-	73,944
December 31, 2017	-	461,937	-	461,937	405,452	-	405,452
Charge for year	-	170,619	-	170,619	140,481	-	140,481
December 31, 2018	-	632,556	-	632,556	545,933	-	545,933
Carrying value							
December 31, 2018	609,215	1,320,409	864,613	2,794,237	957,697	798,322	1,756,019
December 31, 2017	609,215	520,305	1,222,828	2,352,348	350,576	1,156,536	1,507,112
December 31, 2016	609,215	536,430	513,287	1,658,932	501,069	446,993	948,062

Goodwill comprises the excess of cost over fair value of the net assets of Victoria Mutual Pensions Management Limited acquired in 2013. In testing goodwill for impairment, the recoverable amount of the cash-generating unit is estimated based on value-in-use. Where the recoverable amount exceeds the carrying amount, no impairment allowance is made. The recoverable amount of the cash-generating unit is arrived at by estimating the future cash flows and discounting those cash flows using long-term discount rates applicable to Jamaica. Future sustainable cash flows are estimated based on the most recent projections, after taking account of past experience. The cash flow projections include specific estimates for each of the five years following the reporting date, and a terminal value thereafter. These annual estimates and the terminal value are calculated using an assumed growth rate.

The key assumptions used in the discounted cash flow projections are as follows:

	2018	2017
Discount rate	24.6%	24.8%
Growth rate	18.5%	18.5%
Jamaica dollar inflation rate	3%	3%

19. INVESTMENT AND FORECLOSED PROPERTIES

	Group			Society		
	Investment properties $'000	Foreclosed properties $'000	Total $'000	Investment properties $'000	Foreclosed properties $'000	Total $'000
Cost						
December 31, 2016	444,178	176,714	620,892	444,178	294,034	738,212
Disposals	-	(55,972)	(55,972)	-	(55,972)	(55,972)
December 31, 2017	444,178	120,742	564,920	444,178	238,062	682,240
Disposals	(309,797)	(14,163)	(323,960)	(309,797)	(14,163)	(323,960)
December 31, 2018	134,381	106,579	240,960	134,381	223,899	358,280
Depreciation						
December 31, 2016	88,599	31,492	120,091	88,599	31,492	120,091
Charge for the year	7,051	6,948	13,999	7,052	6,948	14,000
Eliminated on disposals	-	(6,792)	(6,792)	-	(6,792)	(6,792)
December 31, 2017	95,650	31,648	127,298	95,651	31,648	127,299
Charge for the year	5,859	5,021	10,880	5,859	5,021	10,880
Eliminated on disposals	(64,384)	(1,293)	(65,677)	(64,384)	(1,293)	(65,677)
December 31, 2018	37,125	35,376	72,503	37,126	35,376	72,502
Net book values						
December 31, 2018	97,256	71,203	168,459	97,255	188,523	285,778
December 31, 2017	348,527	89,094	437,621	348,527	206,414	554,941
December 31, 2016	355,579	145,222	500,801	355,579	262,542	618,121

The fair values of properties were determined, in the case of properties acquired by way of foreclosure, by several different VMBS-approved qualified independent property valuers, having appropriate recognised professional qualifications and recent experience in the locations and categories of the property being valued, and, in the case of investment properties, by Victoria Mutual (Property Services) Limited (note 1). This fair value measurement has been categorised as Level 3, based on the inputs to the valuation techniques used.

(a) Reconciliation of opening to closing fair value

	Group and Society						
	2016 $'000	Additions $'000	Disposals $'000	2017 $'000	Additions $'000	Disposals $'000	2018 $'000
Investment properties	1,994,700	92,300	-	2,087,000	-	(710,000)	1,377,000
Foreclosed properties	718,899	-	(55,972)	662,927	-	(15,600)	647,327
	2,713,599	92,300	(55,972)	2,749,927	-	(725,600)	2,024,327

19. INVESTMENT AND FORECLOSED PROPERTIES (CONT'D)

(b) Valuation techniques and significant unobservable inputs

The fair value of investment properties was determined generally by the comparison method, taking account of what similar properties in similar locations have been sold for in the recent past (or near similar properties and locations, with appropriate adjustments made) and current market conditions.

20. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold and freehold land and buildings $'000	Office furniture and equipment $'000	Motor vehicles $'000	Work in progress $'000	Total $'000
Cost					
December 31, 2016	471,040	1,827,580	34,639	50,614	2,383,873
Translation adjustments	5,587	3,203	-	-	8,790
Additions	3,458	13,197	-	277,557	294,212
Disposals	-	-	(2,351)	-	(2,351)
Transfers	27,243	126,826	-	(154,069)	-
December 31, 2017	507,328	1,970,806	32,288	174,102	2,684,524
Translation adjustments	13,647	(2,214)	-	-	11,433
Additions	6,348	35,091	-	454,938	496,377
Disposals	-	-	(280)	-	(280)
Transfers (see note 18)	-	110,005	-	(184,740)	(74,735)
December 31, 2018	527,323	2,113,688	32,008	444,300	3,117,319
Depreciation					
December 31, 2016	120,408	1,190,822	22,737	-	1,333,967
Translation adjustments	(4,567)	2,991	-	-	(1,576)
Charge for year	18,396	124,788	4,144	-	147,328
Eliminated on disposal	-	-	(2,351)	-	(2,351)
December 31, 2017	134,237	1,318,601	24,530	-	1,477,368
Translation adjustments	(4,550)	(5,817)	-	-	(10,367)
Charge for year	18,457	142,302	2,638	-	163,397
Eliminated on disposal	-	-	(196)	-	(196)
December 31, 2018	148,144	1,455,086	26,972	-	1,630,202
Net book values					
December 31, 2018	379,179	658,602	5,036	444,300	1,487,117
December 31, 2017	373,091	652,205	7,758	174,102	1,207,156
December 31, 2016	350,632	636,758	11,902	50,614	1,049,906

20. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Society				
	Leasehold and freehold land and buildings $'000	Office furniture & equipment $'000	Motor vehicles $'000	Work in progress $'000	Total $'000
Cost					
December 31, 2016	422,998	1,677,388	34,234	21,947	2,156,567
Additions	-	4,056	-	288,053	292,109
Disposals	-	-	(2,351)	-	(2,351)
Transfer from work in progress	27,243	126,826	-	(210,634)	(56,565)
December 31, 2017	450,241	1,808,270	31,883	99,366	2,389,760
Additions	5,966	1,574	-	454,938	462,478
Transfer from work in progress	-	110,005	-	(110,005)	-
December 31, 2018	456,207	1,919,849	31,883	444,299	2,852,238
Depreciation					
December 31, 2016	93,035	1,089,026	22,563	-	1,204,624
Charge for year	9,801	113,475	4,063	-	127,339
Disposals	-	-	(2,351)	-	(2,351)
December 31, 2017	102,836	1,202,501	24,275	-	1,329,612
Charge for year	10,378	125,960	2,613	-	138,951
December 31, 2018	113,214	1,328,461	26,888	-	1,468,563
Net book values					
December 31, 2018	342,993	591,388	4,995	444,299	1,383,675
December 31, 2017	347,405	605,769	7,608	99,366	1,060,148
December 31, 2016	329,963	588,362	11,671	21,947	951,943

21. SHAREHOLDERS' SAVINGS

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
General investment ("B") shares	892,860	886,473	1,783,066	1,608,202
Paid up investment ("C") shares	75,151,187	70,854,938	75,151,187	70,854,938
	76,044,047	71,741,411	76,934,253	72,463,140
Deferred shares [notes 28(i) and 29]	4,675,423	3,381,997	4,675,423	3,381,997
	80,719,470	75,123,408	81,609,676	75,845,137

Deferred shares are issued on terms that they shall not be withdrawable before the expiration of five years and may be interest bearing.

21. SHAREHOLDERS' SAVINGS (CONT'D)

Included in shareholders' savings are accounts with the following maturity profile:

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
On demand to 3 months	58,521,529	52,750,996	58,521,529	52,750,996
Three to 12 months	16,908,111	14,452,844	16,908,111	14,452,844
Over 12 months	5,289,830	7,919,568	6,180,036	8,641,297
	80,719,470	75,123,408	81,609,676	75,845,137

22. DEPOSITORS' SAVINGS

	Group and Society	
	2018 $'000	2017 $'000
Due to depositors	1,222,461	1,255,982
Percentage of the Society's mortgage loan balances*	2.61%	3.77%

* Per section 27(B) of the Building Societies' Act.

23. OTHER LIABILITIES

	Group		Society	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Deposits – private treaty sales	22,838	16,751	22,838	16,751
Customers' and clients' funds	115,318	3,309,293	115,318	80,333
Accrued expenses and other payables	2,438,670	853,638	516,937	410,591
	2,576,826	4,179,682	655,093	507,675

24. REPURCHASE AGREEMENTS

The Group sells Government and corporate securities, or interests therein, and agrees to repurchase them on specified dates and at specified prices prior to their maturity ("repurchase agreements").

	Group	
	2018 $'000	2017 $'000
Denominated in Jamaica dollars	6,065,320	4,635,624
Denominated in United States dollars	7,891,789	7,186,669
	13,957,109	11,822,293

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
December 31, 2018

24. REPURCHASE AGREEMENTS (CONT'D)

	Society	
	2018	2017
	$'000	$'000
Denominated in Jamaica dollars	1,001,512	51,707

At December 31, 2018, securities obtained under resale agreements and certain investments (see notes 8 and 10) and interest accrued thereon are pledged as collateral for repurchase agreements. These financial instruments have a carrying value of $16,850,331,000 (2017: $15,762,961,000) for the Group and $1,077,668,000 (2017: $51,707,000) for the Society.

25. DUE TO SPECIALISED INSTITUTION

	Group and Society	
	2018	2017
	$'000	$'000
Conventional mortgage loans	13,175,738	12,046,079

This represents the balance of loans disbursed by the National Housing Trust under joint financing arrangements with borrowers of the Group.

26. OTHER BORROWINGS

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Deferred shares	2,476,269	1,087,792	2,476,269	1,087,792
Other variable rate bonds	1,000,000	-	-	-
Other fixed rate bonds	400,325	506,109	-	-
	3,876,594	1,593,901	2,476,269	1,087,792

27. PERMANENT CAPITAL FUND

The Regulations (see note 2) require that every building society should maintain a minimum subscribed capital of $25,000,000. At least four-fifths of such subscribed capital is to be paid up in cash. In view of the non-applicability of "subscribed capital" to a mutual society, and in accordance with an agreement with Bank of Jamaica, pending passage of appropriate legislation, a "Permanent Capital Fund" has been established in lieu of subscribed capital [see note 28(i)].

28. RESERVES

(i) Reserve fund

The Banking Services Act and Regulations require the Society to transfer at least 15% of its net surplus after income tax each year to the reserve fund until the amount of the reserve fund is equal to the amount paid up on its Permanent Capital Fund [which, though not formally recognised, is the fund substituted for the capital shares referred to in the Regulations (see notes 27 and 29)] and its deferred shares (note 21).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
December 31, 2018

28. RESERVES (CONT'D)

(ii) Retained earnings reserve

The Regulations permit the Society to transfer a portion of its profits to a retained earnings reserve, which constitutes a part of the capital base (see note 29). Transfers of profits to the retained earnings reserve are made at the discretion of the Directors, but must be communicated to Bank of Jamaica to be effective.

(iii) Non-distributable reserve

This represents the transfer of net accumulated remeasurement gains on the Group's employee benefits assets and obligations.

(iv) Capital reserve on consolidation

Capital reserve on consolidation represents primarily subsidiaries' post acquisition retained earnings capitalised by the issue of bonus shares.

(v) Credit facility reserve

Credit facility reserve represents provisions for loan losses required under the Building Societies Act in excess of the requirements of IFRS [see notes 5(m)(i) and 12(c)].

(vi) Investment revaluation reserve

Investment revaluation reserve represents cumulative unrealised gains, net of losses, arising from the changes in fair value of available-for-sale investments until the investment is derecognised or impaired.

(vii) Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Society's net investment in foreign operations.

29. REGULATORY CAPITAL

	Group and Society	
	2018	2017
	$'000	$'000
Permanent capital fund (note 27)	7,746,058	7,746,058
Reserve fund [note 28(i)]	1,268,048	1,189,174
Retained earnings reserve [note 28(ii)]	2,565,208	2,118,255
Deferred shares (note 21)	4,675,423	3,381,997
Total regulatory capital [note 7(a)]	16,254,737	14,435,484

"Regulatory capital" has the meaning ascribed in the Regulations.

30. NON-CONTROLLING INTEREST

On December 27, 2017, Victoria Mutual Investments Limited (VMIL) issued 20% of its ordinary shares to the public. The shares were listed on the Jamaica Stock Exchange on December 29, 2017.

The following table summarises information relating to the Group's material non-controlling interest (NCI) in VMIL, before any intra-group eliminations:

(a) Statement of financial position

	2018 $'000	2017 $'000
NCI percentage	20%	20%
Total assets	21,610,199	20,068,454
Total liabilities	(18,837,775)	(17,484,432)
Net assets	2,772,424	2,584,022
Carrying amount of NCI	722,364	684,684

(b) Profit and loss account and other comprehensive income:

	2018 $'000	2017 $'000
Revenue	1,306,775	1,455,131
Profit	397,598	346,303
Other comprehensive income	23,551	138,306
Impact of IFRS 9 on NCI	(4,549)	-
Profit allocated to NCI	79,520	569
Other comprehensive income allocated to NCI	4,710	228

(c) Statement of cash flows

	2018 $'000	2017 $'000
Cash flows from operating activities	(1,586,077)	870,289
Cash flows from investment activities	(1,783,763)	1,452,487
Cash flows from financing activities	694,512	797,129
Net (decrease)/increase in cash and cash equivalents	(2,675,328)	3,119,905

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Definition and measurement of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In measuring fair value of an asset or liability, where a quoted market price is available, fair value is computed by the Group using the quoted bid price at the reporting date, without any deduction for transaction costs or other adjustments. Where a quoted market price is not available, fair value is computed using alternative techniques making use of observable data as far as possible. Fair values are categorised into different levels in a three-level fair value hierarchy, based on the degree to which the inputs used in the valuation techniques are observable. The different levels in the hierarchy have been defined as follows:

31. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

(a) Definition and measurement of fair values (cont'd)

Level 1 refers to financial assets and financial liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market 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.

Level 2 refers to financial assets and financial liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in funds with fair values obtained via fund managers, and assets that are valued using a model whereby the majority of assumptions are market observable.

Level 3 refers to financial assets and financial liabilities that are measured using non-market observable inputs. This means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

(b) Valuation techniques for investment securities classified as Level 2

The following table shows the valuation techniques used in measuring the fair value of investment securities:

Type	Valuation techniques
United States Dollar denominated Government of Jamaica, Bank of Jamaica securities and Foreign Government securities	• Obtain bid price provided by a recognised broker/dealer, namely, Oppenheimer • Apply price to estimate fair value
Jamaica Dollar denominated securities issued or guaranteed by Government of Jamaica and Bank of Jamaica	• Obtain bid price provided by a recognised pricing source (which uses Jamaica-market-supplied indicative bids) • Apply price to estimate fair value
Units in unit trusts	• Obtain prices quoted by unit trust managers • Apply price to estimate fair value

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

December 31, 2018

31. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

(c) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Group 2018					
		Carrying amount			Fair value		
	Notes	FVOCI $'000	Fair value through profit or loss $'000	Total $'000	Level 1 $'000	Level 2 $'000	Total $'000
Financial assets measured at fair value:							
Bank of Jamaica securities	9	1,064,177	-	1,064,177	-	1,064,177	1,064,177
Government of Jamaica	9	22,291,416	-	22,291,416	-	22,291,416	22,291,416
Certificates of deposit	9	2,377,447	-	2,377,447	-	2,377,447	2,377,447
Treasury bills	9,10	906,080	-	906,080	-	906,080	906,080
Ordinary shares - unquoted	10	39	-	39	-	39	39
Ordinary shares – quoted	10	535,500	155,429	690,929	690,929	-	690,929
Investments - other	10	10,198,078	-	10,198,078	-	10,198,078	10,198,078
Units in unit trust	10	-	3,979,011	3,979,011	-	3,979,011	3,979,011
		37,372,737	4,134,440	41,507,177	690,929	40,816,248	41,507,177

		2017					
		Carrying amount			Fair value		
	Notes	FVOCI $'000	Fair value through profit or loss $'000	Total $'000	Level 1 $'000	Level 2 $'000	Total $'000
Financial assets measured at fair value:							
Government of Jamaica	9	15,742,819	-	15,742,819	-	15,742,819	15,742,819
Certificates of deposit	9	4,398,820	-	4,398,820	-	4,398,820	4,398,820
Ordinary shares - quoted	10	399,386	187,927	587,313	587,313	-	587,313
Treasury bills	9,10	333,550	-	333,550	-	333,550	333,550
Ordinary shares - unquoted	10	3,361	-	3,361	3,361	-	3,361
Investments - other	10	14,661,897	-	14,661,897	-	14,661,897	14,661,897
Units in unit trust	10	1,518,115	-	1,518,115	-	1,518,115	1,518,115
		37,057,948	187,927	37,245,875	590,674	36,655,201	37,245,875

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

December 31, 2018

31. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

(c) Accounting classifications and fair values (cont'd)

		Society 2018					
		Carrying amount			Fair value		
	Notes	FVOCI $'000	Fair value through profit or loss $'000	Total $'000	Level 1 $'000	Level 2 $'000	Total $'000
Financial assets measured at fair value:							
Government of Jamaica securities	9	12,318,620	-	12,318,620	-	12,318,620	12,318,620
Certificates of deposit	9	2,377,447	-	2,377,447	-	2,377,447	2,377,447
Treasury bills	9	906,080	-	906,080	-	906,080	906,080
Ordinary shares – quoted	10	-	122,629	122,629	122,629	-	122,629
Ordinary shares - unquoted	10	39	-	39	-	39	39
Investments - other	10	9,180,550	-	9,180,550	-	9,180,550	9,180,550
Units in unit trust	10	-	3,772,402	3,772,402	-	3,772,402	3,772,402
		24,782,736	3,895,031	28,677,767	122,629	28,432,509	28,555,138

		2017					
		Carrying amount			Fair value		
	Notes	Available-for-sale $'000	Fair value through profit or loss $'000	Total $'000	Level 1 $'000	Level 2 $'000	Total $'000
Financial assets measured at fair value:							
Government of Jamaica securities	9	11,274,429	-	11,274,429	-	11,274,429	11,274,429
Certificates of deposit	9	861,055	-	861,055	-	861,055	861,055
Treasury bills	9,10	333,550	-	333,550	-	333,550	333,550
Ordinary shares unquoted	10	39	-	39	-	39	39
Investments - other	10	12,223,894	-	12,223,894	-	12,223,894	12,223,894
Units in unit trust	10	1,518,115	-	1,518,115	-	1,518,115	1,518,115
		26,211,082	-	26,211,082	-	26,211,082	26,211,082

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
December 31, 2018

32. NET INTEREST INCOME

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Interest income, calculated using the effective interest method:				
Investment securities	2,654,454	2,851,196	1,991,514	2,171,911
Loans to customers	3,645,916	3,339,184	3,634,557	3,322,706
	6,300,370	6,190,380	5,626,071	5,494,617
Interest expense				
On borrowings	(397,215)	(449,382)	(3,875)	(20,796)
To shareholders	(1,458,144)	(1,451,405)	(1,458,144)	(1,451,405)
To depositors	(224,567)	(273,072)	(224,567)	(273,072)
	(2,079,926)	(2,173,859)	(1,686,586)	(1,745,273)
Net interest income	4,220,444	4,016,521	3,939,485	3,749,344

33. NET FEE AND COMMISSION INCOME

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Fee and commission income				
Customers	1,227,963	832,362	235,674	149,976
Associated company	109,813	99,964	109,813	99,694
Other	10,421	71,356	10,421	71,626
	1,348,197	1,003,682	355,908	321,296
Fee and commission expenses				
Inter-bank transaction fees	(38,678)	(54,193)	(38,678)	(54,193)
Other	(60,587)	(35,838)	-	-
	(99,265)	(90,031)	(38,678)	(54,193)
Net fee and commission income	1,248,932	913,651	317,230	267,103

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
December 31, 2018

34. OTHER OPERATING REVENUE

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Foreign exchange trading gains, net	454,644	470,365	266,603	299,791
Fines for late payments	50,340	46,052	50,340	46,052
Rent	36,402	21,087	47,999	48,139
Dividends - from subsidiaries and associates	-	-	401,290	338,357
- distribution from Westin International Insurance Company Limited	-	-	-	1,148,835
- other	13,854	19,005	13,854	18,316
Gain on sale of investments	178,043	593,334	177,845	593,044
Gain on disposal of property, plant and equipment	303,484	6,511	318,371	6,511
Unrealised fair value gains on units held in unit trust	642,942	26,111	642,942	-
Other income	445,601	420,331	44,230	45,408
	2,125,310	1,602,796	1,963,474	2,544,453

35. PERSONNEL COSTS

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Salaries	1,757,349	1,681,772	1,214,352	1,220,556
Statutory payroll contributions	260,155	234,578	215,269	196,934
Pension and medical benefits (note 15)	(119,941)	185,100	(145,800)	176,800
Termination payments	144,271	59,977	144,271	59,977
Other staff benefits	911,477	986,677	844,814	784,277
	2,953,311	3,148,104	2,272,906	2,438,544

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
December 31, 2018

36. OTHER OPERATING EXPENSES

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Asset taxes	290,515	264,348	244,610	225,742
Overseas business development	227,404	54,690	227,404	241,370
Irrecoverable GCT	262,909	261,160	254,171	256,030
Marketing	92,853	229,492	178,997	178,650
Computer maintenance	261,079	213,181	223,942	182,124
Maintenance – buildings, furniture and fixtures	101,894	126,873	158,320	151,778
Insurance	136,248	132,268	134,675	131,033
Administration	195,149	233,143	221,646	273,437
Postage, courier and stationery	90,452	96,951	75,210	84,919
Electricity, water and telephone	148,249	116,644	130,755	110,743
Consultancy and other professional fees	144,151	115,739	59,205	78,743
Audit fees	64,652	44,168	35,656	29,176
Directors' fees [note 38(e)]	44,878	37,196	16,924	17,274
Security	44,226	41,407	39,006	37,322
Service contracts	59,945	29,701	30,824	29,701
Direct operating expenses for investment property that generated rental income	39,894	46,128	39,892	46,128
	2,204,498	2,043,089	2,071,237	2,074,170

37. INCOME TAX EXPENSE

(a) Income tax expense is based on the surplus for the year, as adjusted for tax purposes, and is computed at statutory rates of 30% for the Society, 33⅓% for regulated local subsidiaries and 25% for certain foreign and local non-regulated subsidiaries [note 36(c)]. In computing taxable income of the Society, transfers to general reserves (as defined in the Income Tax Act) are exempt from income tax if the general reserves after such transfers do not exceed 5% of assets. The charge is made up as follows:

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
(i) Current tax expense:				
Current tax at 30%	150,849	171,031	150,849	171,031
Current tax at 25% and 33⅓%				
- provision for current year	279,288	209,874	-	-
- adjustment for prior year's over provision	454	84	-	-
	430,591	380,989	150,849	171,031

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
December 31, 2018

37. INCOME TAX EXPENSE (CONT'D)

(a) (cont'd)

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
(ii) Deferred tax expense:				
Origination and reversal of temporary differences [notes 14(a) and (b)]	54,126	(122,323)	130,105	(97,684)
Actual tax expense recognised	484,717	258,666	280,954	73,347

(b) At the reporting date, taxation losses of certain subsidiaries, subject to agreement by the tax authorities in the relevant jurisdictions, amounted to approximately $36,621,000 (2017: $21,459,000). These losses may be carried forward indefinitely, but in any one year, prior year losses can be used to offset only 50% of chargeable income (before the deduction of any prior year losses).

(c) Reconciliation of actual tax charge

The effective tax rate, that is, the income tax expense as a percentage of the reported surplus, is different from the statutory rates [note 37(a)] being 28.46% (2017: 22.13%) for the Group and 22.99% (2017: 4.046%) for the Society. The actual income tax expense differs from the expected income tax expense for the year, as follows:

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Surplus before income tax	1,702,849	1,291,440	1,221,681	1,812,735
Computed "expected" income tax at 30%	510,855	387,432	366,504	543,820
Effect of different tax rates for subsidiaries	168,714	85,727	-	-
Tax effect of treating the following items differently for income tax than for financial statement purposes:				
Depreciation charge and capital allowances	(140,801)	(13,889)	(141,963)	(17,092)
Capital distribution from subsidiary	-	-	-	(344,650)
Disallowed expenses	88,128	84,637	79,719	77,657
Other	(142,633)	(285,325)	(23,306)	(186,388)
	484,263	258,582	280,954	73,347
Adjustment for prior years	454	84	-	-
Actual tax expense recognised	484,717	258,666	280,954	73,347

38. RELATED PARTY TRANSACTIONS

(a) Definition of related party

A related party is a person or entity that is related to the Group.

(i) A person or a close member of that person's family is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled, or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is part, provides key management personnel services to the group.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

(b) Identity of related parties

The Society has related party relationships with its subsidiaries, with its Directors, executives and senior officers, as well as those of its subsidiaries, and with its associated company [note 1(c)]. The Directors, senior officers and executives are collectively referred to as "key management personnel".

38. RELATED PARTY TRANSACTIONS (CONT'D)

(c) The Society's statement of financial position includes balances, arising in the ordinary course of business, with related parties, as follows:

	2018 $'000	2017 $'000
Subsidiaries:		
Resale agreements	1,499,379	1,299,571
Loan receivable	142,015	48,384
Shareholders' savings	(1,039,541)	(717,276)
Securities sold under repurchase agreements	(1,000,000)	-
Key management personnel:		
Mortgage loans	150,086	173,921
Other loans	62,870	38,842
Shareholders' savings	(83,061)	(45,183)
Non-executive directors:		
Mortgage loans	41,664	-
Shareholders' savings	(18,810)	-
Associate:		
Shareholders' savings	(336,445)	(345,589)

Average interest rates charged on loans are lower than the rates that would be charged in an arm's length transaction.

The mortgages and secured loans granted are secured on property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

In relation to balances owing by key management personnel, or their immediate relatives, there has not been any specific allowance for impairment or general provision for losses.

(d) The Society's income statement includes income earned/(expenses incurred) from transactions with related parties, as follows:

	2018 $'000	2017 $'000
Directors:		
Interest from loans	3,605	7,141
Interest expense	(56)	-
Key management personnel:		
Interest from loans	11,676	8,962
Interest expense	(29)	(36)
Subsidiaries:		
Interest and dividends from investments	310,927	1,466,389
Interest on loans	9,809	1,737
Other operating revenue	31,965	20,587
Interest expense	(10,567)	(3,593)
Other operating expenses	(2,116)	(235,183)
Associate:		
Dividends	119,194	65,318
Interest expense	(18,219)	(17,875)
Other operating income	114,136	99,694
Other operating expenses	(12,600)	-
	557,725	1,413,141

38. RELATED PARTY TRANSACTIONS (CONT'D)

(e) Key management personnel compensation

In addition to directors' fees paid to non-executive directors (note 36), compensation of key management personnel, included in personnel costs (note 35), is as follows:

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Short-term employee benefits	333,011	242,370	217,350	155,442
Post employment benefits	1,358	98	1,358	-
	334,369	242,468	218,708	155,442

In addition to their salaries, key management personnel are provided with non-cash benefits, as well as post-employment benefits under a defined-benefit pension plan (note 15). In accordance with the rules of the plan, key management personnel retire at age 62 (or 65 if joining after January 1, 2006) and may continue to receive medical benefits, at the discretion and approval of the Board of Directors. In the case of preferential staff rates on loans, this benefit continues to age 65 when the rate is adjusted with reference to market.

Under the Society's rules, retired non-executive directors who have served the Board continuously for at least five years and have attained the age of 65 receive a pension at a specified percentage of the gross annual average director's fee received during the five years immediately preceding retirement, or alternatively, a gratuity in lieu of pension, based on a percentage of the annual pensions.

39. COMMITMENTS

(a) Operating lease commitments at the reporting date expire as follows:

	Group		Society	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Within one year after that date	35,070	44,779	17,516	40,539
Subsequent years	113,695	81,079	32,315	81,079
	148,765	125,858	49,831	121,618

(b) Commitments for capital expenditure for the Group and the Society amount to approximately $270,799,000 (2017: $154,967,000) at the reporting date.

The Group leases a number of branch and office premises under operating leases. A lease typically runs for a period of 3 years, with an option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals.

40. MANAGEMENT FUNDS AND CUSTODIAL ARRANGEMENTS

Victoria Mutual Wealth Management Limited acts as agent and earns fees for managing clients' funds on a non-recourse basis under management agreements. The Group has no legal or equitable right or interest in these funds and, accordingly, they have been excluded from the financial statements. At December 31, 2018, these funds amounted to $24,313,239,000 (2017: $19,875,308,000).

Additionally, at December 31, 2018, there were custodial arrangements for assets totalling $76,800,120,000 (2017: $66,377,031,000).

VMBS CORPORATE DATA

EXTERNAL AUDITORS

KPMG Chartered Accountants

BANKERS

CIBC First Caribbean International Bank of Jamaica Ltd.

Citibank N.A. (Jamaica Branch)

National Commercial Bank Jamaica Ltd.

Sagicor Bank Jamaica Ltd.
Bank of Jamaica

PANEL OF ATTORNEYS-AT-LAW

Delroy Chuck & Company
DunnCox
Phillips, Malcolm, Morgan & Matthies
O.G. Harding & Company
Livingston, Alexander & Levy
Murray & Tucker
Myers, Fletcher & Gordon
Nunes, Scholefield, DeLeon & Company
Rattray, Patterson, Rattray
Robertson, Smith, Ledgister & Company
Robinson, Phillips & Whitehorne
Grant, Stewart, Phillips & Malcolm
Nicholson Phillips
Samuda & Johnson
Matthew Hogarth & Co.
Harrison & Harrison
Lex Caribbean
L. Howard Facey & Co.
Scott, Bhoorasingh & Bonnick
Russell & Russell
Earle & Wilson
Palomino, Gordon-Palomino
G. Anthony Levy & Company

VMBS BRANCH LEADERSHIP

Group Executives:

- Courtney Campbell, MBA (Distinction), ACIB, BSc, JP
  President & Chief Executive Officer
- Janice McKenley, FCCA, FCA, MBA, BSc
  Group Chief Financial Officer
- Devon Barrett, MBA, BSc
  Group Chief Investment Officer
- Peter Reid, BA (Hons.)
  Chief Operating Officer, Building Society Operations
- Keri-Gaye Brown, LL.B Group Chief Legal & Compliance Officer & Corporate Secretary
- Laraine Harrison, MBA, BA
  Group Chief Human Resources Officer
- Judith Forth- Blake, MBA, BA (Hons.)
  Group Chief Customer & Brand Officer
- Rickardo Ebanks, BSc. (Hons.)
  Group Chief Operations Officer
- Kathya Beckford, CFA, MSc (Dist.), BSc (Hons.)
  Group Chief Strategy Officer
- Renee Allen Casey
  Group Chief Audit Officer

Chief Executive Officers of Subsidiaries

- **Victoria Mutual Pensions Management**
  Rezworth Burchenson, MBA, BSc
  Chief Executive Officer
- **Victoria Mutual Investments Limited**
  Devon Barrett, MBA, BSc
  Chief Executive Officer
- **Victoria Mutual Wealth Management Limited**
  Devon Barrett, MBA, BSc
  Chief Executive Officer
- **VMBS Money Transfer Services Limited**
  Michael Howard, MBA, BA
  Chief Executive Officer
- **Victoria Mutual Property Services Limited**
  Michael Neita, MBA, BEng, BSc
  Chief Executive Officer

BUILDING SOCIETY OPERATIONS

- Mr. Christopher Denny, MBA, BSc
  Vice President, Service and Sales Support
- Mr. Paul Elliott, AICB, MBA, BSc (Hons)
  Vice President, Sales
- Conroy Rose, CSC, MBA, BSc
  Assistant Vice President, Sales
- Audley Knight, PFP, MBA, BBA
  Assistant Vice President, Service and Sales Support
- Karlene Waugh, BSc, CiAPM
  Assistant Vice President - Business Operations
- Clive Newman, MBA, FICB
  Assistant Vice President, Credit
- Mr. Leighton Smith, MBA, BBA
  Chief Representative Officer, VMBS United Kingdom

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Santa Cruz
Erica Robinson
Branch Manager
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Allison Shields
Branch Manager (appointed February 1, 2018)
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Ruth Oliver
Manager
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Manager
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Regional Managers
Suzette Ramdanie-Linton
Regional Manager (Western) Sales & Service

Simon George-Davey,
Regional Manager (Eastern) Sales & Service

CONTACT INFORMATION

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Free Phone (from UK)
0-800-068-VMBS (8627)

Opening Hours
Mondays - Fridays: 7:00 a.m. - 8:00 p.m.
Saturdays: 10:00 a.m. - 6:00 p.m.
Sundays: 10:00 a.m. - 3:00 p.m.

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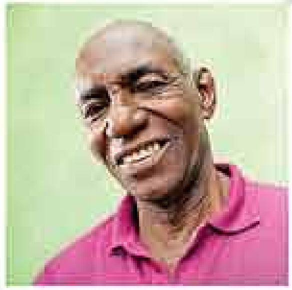

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