ANNUAL REPORT

2017

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Redesigning FOR Transformation

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

VISION

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

CORE VALUES

- Member Focus
- Integrity
- Teamwork
- Innovation
- Excellence

Redesigning FOR Transformation

Victoria Mutual Group (VM) is redesigning for transformation in its relentless mission to promote financial inclusion and empowerment of its Members. Led by Strategic Goals of being a Modern Mutual and a Strong Integrated Financial Group, VM purposefully pursues excellence with integrity and passion.

MISSION

We are a mutual financial organisation, whose purpose is to empower our Members globally to acquire their own homes and achieve their 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.

TABLE OF CONTENTS

STATEMENT OF MUTUALITY

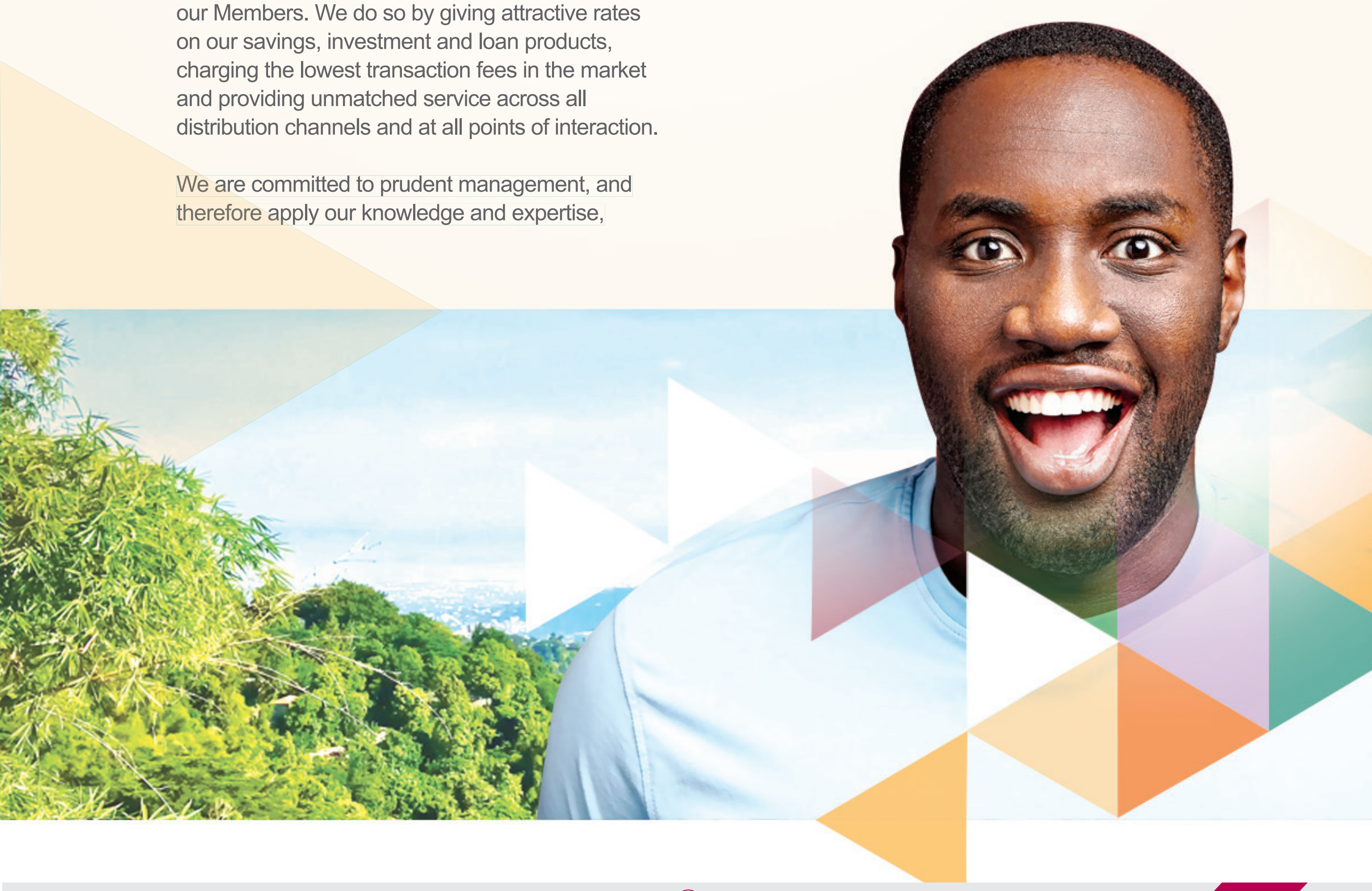
VICTORIA MUTUAL is a proud Jamaican mutual financial organisation that has been empowering its Members to acquire homes and achieve Financial Independence for over 139 years.

Our mutual status means that we are owned by and run for the benefit of all our Members, regardless of the size of their savings account or mortgage loan. We operate on the principle of 'One Member One Vote'; therefore each Member has an equal voice when voting on the business of the organisation.

We do not have external shareholders, so our main driver is creating value and improving the lives of our Members. We do so by giving attractive rates on our savings, investment and loan products, charging the lowest transaction fees in the market and providing unmatched service across all distribution channels and at all points of interaction.

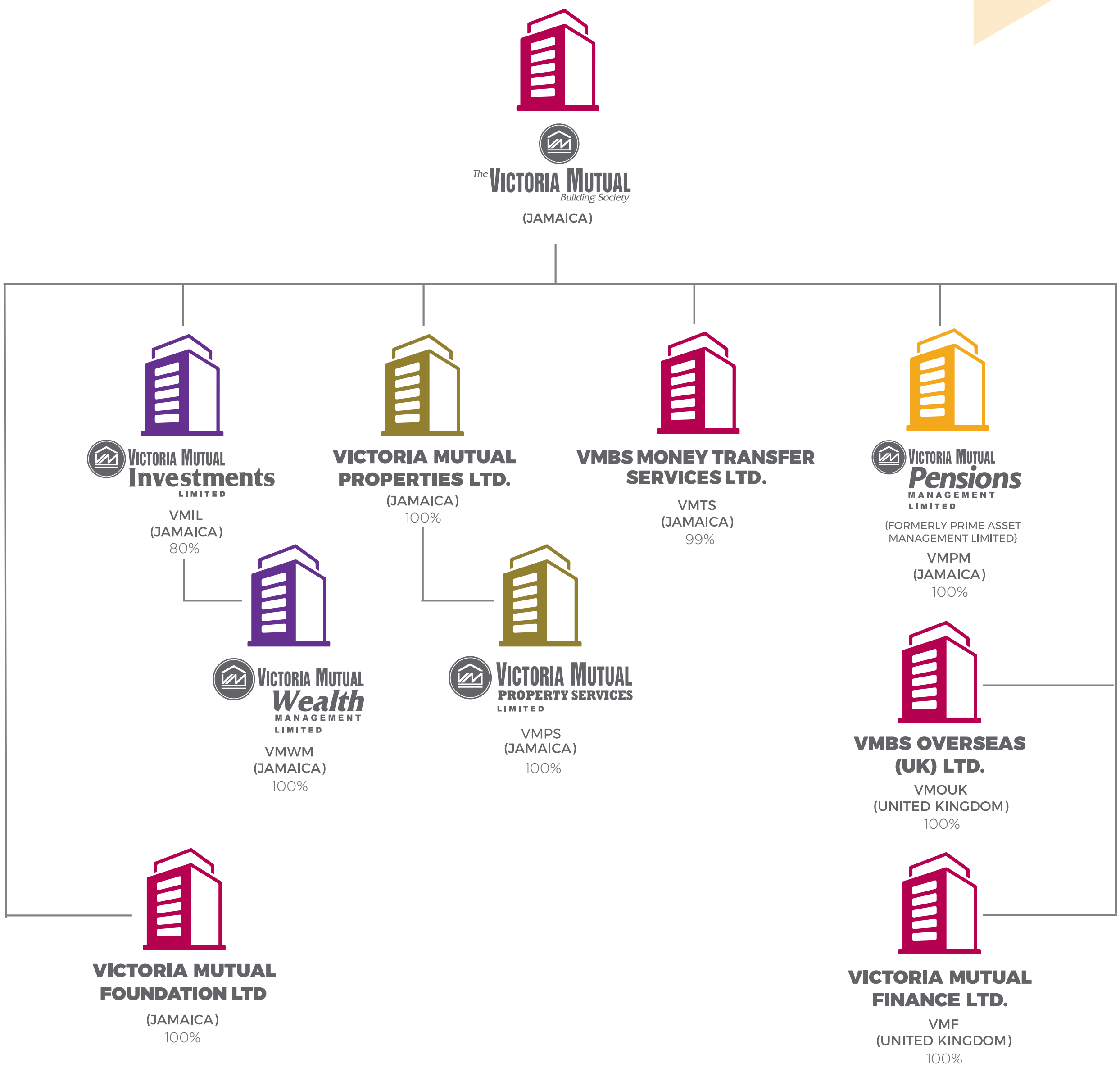
We are committed to prudent management, and therefore apply our knowledge and expertise, careful planning and measured risk, as we make sound investment decisions.

In addition to providing value to our Members, we also focus on being a Model Corporate Citizen, by encouraging greater inclusion and the advancement of individuals and families, so that we can foster sustainability within our communities and improve quality of life.



THE VICTORIA MUTUAL BUILDING SOCIETY

SUBSIDIARIES/ AFFILIATES



VM GROUP STRATEGY

The Victoria Mutual Group's long-term objectives are enunciated through a Vision Statement, a Mission Statement and Strategic Goals. We plan to achieve those objectives by living in accordance with our Core Values, and by executing specific projects and initiatives.

All of these elements are outlined below.

OUR OBJECTIVES

Our Vision

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

Our Mission

We are a mutual financial organisation whose purpose is to empower our Members globally to acquire their own homes and achieve their 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.

Our Strategic Goals

Our Strategic Goals are to become (1) a Strong, Integrated Financial Group, (2) a Modern Mutual, (3) an Employer of Choice, and (4) a Model Corporate Citizen. These goals are directly aligned with our Mission Statement.

Strong, Integrated Financial Group

This Strategic Goal relates to our intention to:

- grow consistently and prudently;
- be integrated, whereby the VM Group entities are cohesive, and individuals collaborate in teams to provide Members with effective solutions; and
- be strong, whereby the VM Group maintains a strong capital base, and upholds best practices in Enterprise Risk Management.

Modern Mutual

This Strategic Goal relates to our intention to:

- remain relevant, innovating products, services, processes and business models to meet the needs of our Members; and
- be Member Focused, ensuring that our Members' needs and desires shape all of our actions.

Employer of Choice

This Strategic Goal relates to our intention to:

- be a preferred place of work, and
- engage a group of talented Team Members.

Model Corporate Citizen

This Strategic Goal relates to our intention to:

- partner with you, and
- have a culture of good conduct and service to improve the quality of life of those in our communities.

HOW WE PLAN TO ACHIEVE OUR OBJECTIVES

Our Core Values

Member Focus: We are relentless in delivering exceptional service to our Members.

Integrity: We are ethical in all our dealings, and our word is our bond.

Teamwork: We actively collaborate with and support each other as we work towards our common purpose.

Innovation: We listen to our Members to identify their unfulfilled needs and we create and innovate to meet those needs.

Excellence: We consistently deal with our Members and colleagues in a professional manner; we plan and execute with excellence and efficiency; we aim to do things right the first time, every time.

OUR KEY PROJECTS & INITIATIVES

Brief descriptions of the key projects and initiatives that were completed in 2017, and those that are in progress, are provided below:

Projects & Initiatives to become **A STRONG, INTEGRATED FINANCIAL GROUP**

Name	Description	Timeline
Enterprise Risk Management (ERM)	Among other things, this initiative involved: (1) establishing an Enterprise Risk Management (ERM) Policy & Governance Framework, (2) conducting an Enterprise Risk Assessment, and (3) identifying specific actions to be taken.	Completed in 2017
VMIL IPO	This initiative was geared towards raising capital for VMIL through an Initial Public Offering (IPO). A total of $680 million was raised, and the company was listed on the Jamaica Stock Exchange in December 2017.	Completed in 2017
VMIL Product Expansion	This project involves establishing the formal infrastructure for VMIL to underwrite issues in the capital market and offer corporate loans, including insurance premium financing and lease financing.	2018
Overseas Expansion	In order to expand the business and diversify the Group's revenue streams, under this initiative VM will merge with, acquire, or partner with a financial entity that is based overseas.	2018
New VMBS Loan Products	This project involves establishing the structures and systems to offer (1) unsecured personal loans and (2) auto loans.	2018
International Card Services	This project involves expanding VMBS' current business to offer credit cards and international debit cards.	Credit cards - 2018 International debit cards - 2019
Customer Acquisition & Retention	This project will focus on putting in place the requisite technology, systems, processes and capabilities to streamline, automate and significantly enhance how we acquire and retain customers across the Group.	2019
Centre of Excellence for Sales	The main objectives of this initiative are to improve the effectiveness of sales practices across the Group and improve cross-selling.	2019

Projects & Initiatives to become a **MODERN MUTUAL**

Name	Description	Timeline
VMBS Rule Changes	Changes to the Society's rules were crafted in 2017 to allow it to expand its business activities, raise capital in more flexible ways, improve its operational efficiency, and protect its mutuality. The changes were approved unanimously by Members at the 138th Annual General Meeting held on 31 August 2017.	Completed in 2017

Name	Description	Timeline
VMBS Core System Upgrade	This project upgraded the core banking infrastructure and all supporting technologies for VMBS, and sets the stage for improved service delivery to Members.	Completed in 2017
Innovation Lab	The VM Innovation Lab was established in 2017. It will explore and test the viability of ideas for the Group, particularly those that have the potential to make a significant impact on the organisation.	Completed in 2017
Investment Management System	Under this project, a new Investment Management System will be implemented to support the Treasury activities of the Group. The system was implemented in VMBS in November 2016, and will go live in VMWM and VMPM in 2018.	2018
Online Financial Services 3	Under this project, an upgraded internet banking platform will be implemented, and will include an improved interface, mobile capability, online banking functionality for VMWM and VMPM, among other things.	Phased implementation with first feature set becoming available in 2018.
Onboarding 2	This project is geared towards improving the process of onboarding Members across the Group and includes establishing the ability for prospective Members to initiate account opening and request product information online.	2019
Branch of the Future	This project involves: (1) The upgrading of specific branches and (2) The installation of intelligent ABMs at specific branches.	2019

Projects & Initiatives to become a **MODEL CORPORATE CITIZEN**

Name	Description
VM Foundation Establishment	The VM Foundation was established in 2017. The projects listed below will be undertaken under the Foundation.
Social Enterprise in Schools Programme	This 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. This is being done so that young people at risk in Jamaica can have better opportunities to sustain themselves and their families.
Adopt-a-Clinic Programme	This programme is being led by the Ministry of Health, and the VM Foundation is a participant. The purpose of the programme is to reduce the incidence of Non Communicable Diseases, and to improve the lives of people already affected by these diseases across Jamaica. The VM Foundation has committed to adopting 15 health centres by the end of 2023.
Behaviour Change E-Counselling Programme	This programme involves a partnership with the UWI Solutions for Developing Countries (SODECO) and its collaborators at the University of Toronto, to support an innovative web-based behaviour change e-counselling programme. It is expected that the web-based programme will increase prevention and significantly improve the lives of persons with Non-Communicable Diseases.

Projects & Initiatives to become a Model Corporate Citizen (cont'd)

Name	Description
Social Housing	The VM Foundation will explore opportunities regarding social housing, in partnership with the School of Architecture at UTech.
Financial Literacy Programme	The VM Financial Literacy programme will provide Jamaicans with the knowledge, skills and confidence to make sound financial decisions and effectively manage their personal finances.

Projects & Initiatives to become an **EMPLOYER OF CHOICE**

Name	Description	Timeline
Performance Management & Appraisal System	This initiative involved developing: (1) a new incentive arrangement, (2) a robust process for performance improvement and (3) a Consequence Management Programme, amongst other things.	Completed in 2017
Employee Engagement	This initiative involved developing: (1) an Employee Engagement Framework, (2) an Employee Value Proposition (EVP), (3) a thorough description of the behaviours expected of Team Members, (4) a new methodology for measuring employee engagement aligned with the EVP and desired behaviours, and (5) a recognition programme.*	Completed in 2017
Talent Management	This initiative involves: (1) having Individual Development Plans (IDPs) prepared 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.	2018

**This is separate from ongoing employee engagement activities, such as Team lymes and wellness activities.*

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the One Hundred and Thirty-Ninth Annual General Meeting of The Victoria Mutual Building Society will be held in the Grand Jamaican Suite, Jamaica Pegasus Hotel, 81 Knutsford Boulevard, Kingston 5, Jamaica on Thursday, 31 May 2018 at 3.00 p.m. for the following purposes:-

1. To receive the Audited Group Accounts for the year ended 31 December 2017 and the Reports of the Directors and Auditors

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

Resolution No. 1

"THAT the Audited Accounts for the year ended 31 December 2017 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 Mr. Brian Goldson and Dr. Maurice McNaughton and being eligible, offer themselves for re-election.

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

Resolution No. 2 (a)

"THAT Mr. Brian Goldson be and is hereby re-elected a Director of the Society."

Resolution No. 2 (b)

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

(2) In accordance with Rule Number 60 of the Society's Rules, Mr. Phillip Silvera, having been appointed to the Board since the last Annual General Meeting, will retire from office and being eligible, offers himself for election.

Resolution No. 2 (c)

"That Mr. Phillip Silvera be and is hereby 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: 11th Day of April 2018

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.

FIVE YEAR STATISTICAL REVIEW

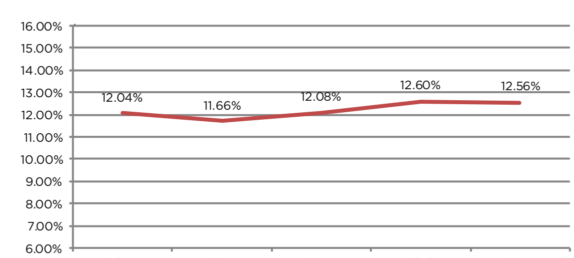
GROUP	2013	2014	2015	2016	2017
Balance Sheet ($'000)					
Earning Assets	81,346,911	92,651,995	97,904,190	105,230,188	115,670,331
Loans	27,169,852	30,925,659	32,902,398	34,531,088	44,069,750
Total Assets	86,178,720	97,302,033	103,638,266	112,207,742	123,174,146
Savings Fund	54,509,776	60,584,397	66,475,723	71,965,955	76,379,390
Capital and Reserves	10,374,320	11,346,756	12,515,457	14,134,017	15,468,478
Income Statement ($'000)					
Net Interest Income	3,523,454	3,740,342	3,716,033	3,816,620	4,016,521
Operating Revenue	4,661,858	4,964,049	5,330,528	5,547,502	6,532,968
Administration Expenses	3,369,744	3,591,933	4,032,290	4,319,318	5,211,361
Surplus before income tax	1,267,450	1,332,220	1,246,983	1,198,979	1,291,440
Surplus	942,881	1,006,182	961,665	856,598	1,032,774
Ratios					
Net Interest Margin	4.51%	4.30%	3.90%	3.76%	3.64%
Return on Capital	12.57%	12.27%	10.45%	9.00%	8.73%
Return on Assets	1.54%	1.45%	1.24%	1.11%	1.10%
Efficiency Ratio (Admin Exp:Total Assets)	4.09%	3.92%	4.01%	4.00%	4.43%
Efficiency Ratio (Cost:Income)	72.28%	72.36%	75.65%	77.86%	79.77%
Capital & Reserves as a percentage of assets	12.04%	11.66%	12.08%	12.60%	12.56%

$116B EARNING ASSETS

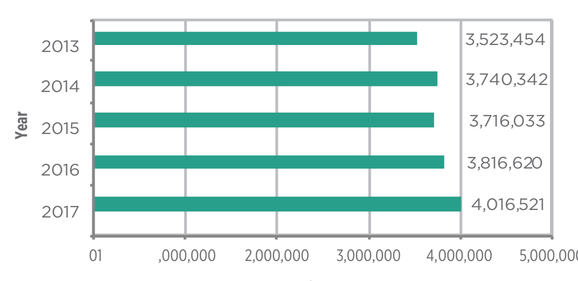
$6.5B OPERATING REVENUE

$15.47B CAPITAL & RESERVES

GROUP CAPITAL & RESERVES AS % OF ASSETS



NET INTEREST INCOME 2013 -2017

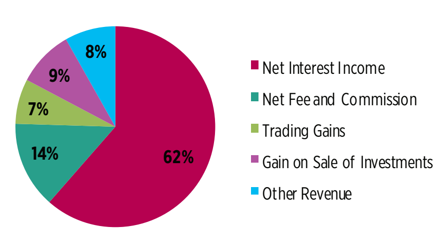


DEFINITIONS USED

Administrative Expenses	-	Administration + Personnel costs
Earning Assets	-	Cash & Cash Equivalents + 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 - 2017 Audited Financial Statements

OPERATING REVENUE 2017



DIRECTORS' REPORT

The Directors take pleasure in presenting the One Hundred and Thirty-Ninth Annual Report and Statements of Revenue and Expenditure of the Group and the Society, for the year ended 31 December 2017, 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 $8.797 billion (2016: $7.736 billion) and Net Surplus of $1,032.774 million (2016: $856.598 million).

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 George Dougall
Mr Paul Pennicook
Mrs Jeanne Robinson-Foster
Miss Sandra Shirley
Mr Mathew 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, Mr Brian Goldson and Dr Maurice McNaughton will retire by rotation and being eligible, will offer themselves for re-election.

In accordance with Rule Number 60 of the Society's Rules, Mr Phillip Silvera, having been appointed to the Board since the last Annual General Meeting, will retire from office and being eligible, offers himself for election.

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
24th day of April, 2018

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.

He 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 and VMBS Money Transfer Services Limited, First Vice President of the Jamaica Chamber of Commerce and Director of other commercial enterprises. Previously, Mr McMorris served as 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 the Deputy Chairman of The Victoria Mutual Building Society, Chairman of its Audit Committee, member of the Finance and Risk Management Committee, and Chairman of its subsidiary, Victoria Mutual Pensions Management Limited.

She has a PhD in Public Administration from New York University and records her prime areas of practice interest as organisational learning and 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 40 years, and is especially proud of her service in the 1970s as a director of the J.T.C. Employees Cooperative Credit Union Ltd. (now C&WJ Cooperative Credit Union Ltd.), first as Treasurer and then as President. 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, Caribbean Cement Company Limited and the National Water Commission, where she chaired the Audit Committees.

MrCourtney Campbell
MBA (Distinction), ACIB, BSc, JP
President and CEO

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 National Commercial Bank Jamaica Limited, 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 King's House Trust and 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).

Ms Sandra M Shirley
MBA, BSc (Hons), PMP

Ms Sandra Shirley, Business Facilitator/ Consultant, Sandra Shirley & Associates, has extensive experience spanning over 30 years in wealth management, trust banking, strategic planning and implementation in the United States and the Caribbean. She is also the Principal, Jamaica Stock Exchange e-Campus.

Ms Shirley is a former licensed securities dealer with experience in the Financial Services Sector, including entrepreneurship and SME development. Her training and experience span financial and strategic planning and implementation, wealth management and trust banking in Jamaica and the United States. After an extensive career in financial services, she is currently Principal of the Jamaica Stock Exchange e-Campus and serves as a Board Director of Victoria Mutual Building Society, Victoria Mutual Pensions Management Limited (formerly Prime Asset Management), British Caribbean Insurance Company, Victoria Mutual Investments Limited and Victoria Mutual Wealth Management Limited. She is also an approved Pension Fund Trustee.

She is former President, First Global Financial Services Limited, a former Commissioner on the Anti-Dumping and Subsidies Commission and a 2006 Fellow of the Jamaica Institute of Management. She is a former Board Chairman of the Council of Community Colleges of Jamaica, Director and Vice President of The Jamaica Chamber of Commerce and Past President of Soroptimist International of Jamaica. She has served on numerous technical assistance and training project teams funded by the private sector and multilateral agencies, among others.

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. He 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
CD, CVO, MMM, J.P.

Mr Brian Goldson
MBA, BSc

Rear Admiral Peter Brady has wide experience in senior and executive management in the military (Defence Force and Coast Guard) and marine administration, nationally, regionally and internationally. He served as Chief of Defence Staff in the Jamaica Defence Force (1990-1998) and was the Commanding Officer of the JDF Coast Guard from 1978-1988. Between 1988 and 1989, he was seconded from the Jamaica Defence Force to the Port Authority of Jamaica as a marine consultant to establish a marine secretariat. In 1989 he was appointed as Chairman of the Marine Board of Jamaica until its dissolution in 1998 with the passage of the Shipping Act. He was the team leader which developed Jamaica's National Security Strategy in 2005-2006. He continues to provide consultancy to the Government of Jamaica on marine policy issues including: maritime transportation relating to inter alia maritime safety and security, environmental protection, standards of training and competency for seafarers. In February 2018 he was appointed to the Police Services Commission.

He was commissioned as an officer for the Jamaica Defence Force at the Royal Canadian School of Infantry, is a graduate of the Royal Naval Staff College, Greenwich London, and has a graduate degree in Marine Management from Dalhousie University, Canada. Since 1 January 1999, he has been the Director General of the Maritime Authority of Jamaica. In 2006 he was appointed Chairman of the National Hydrographic Committee, and Honorary Consul of the Principality of Monaco. He is an Associate Fellow of The Nautical Institute. He is the Vice Chairman of the Board of Governors of the World Maritime University in Malmo, Sweden.

He served on the international maritime stage for almost 10 years as Chairman of the UN specialized agency with responsibility for regulating shipping, the International Maritime Organisation's (IMO) Sub-Committee that sets the global standards for the qualification and certification of Masters, Chief Engineers, Officers and other crew on international seagoing merchant ships. During that tenure he piloted the comprehensive revision of the International Convention governing the training and certification of seafarers (STCW Convention) which resulted in the 2010 Manila Amendments. He also presided over the Diplomatic Conference in Manila, Philippines in June 2010, where the major amendments of the STCW Convention and Codes were adopted. In December 2003, he was elected as Chairman of Committee 1 of the 23rd IMO Assembly.

He served as visiting lecturer at the World Maritime University in Malmo, Sweden between 2003 and 2004 and has been a serving member on the World Maritime University Board of Governors since 2007. In October 2015 he was elected as the Vice Chairman of the Board of Governors (BOG) and was the first non-Chancellor to chair the annual BOG meeting of the University in May 2016. He lectured at his alma mater, the Dalhousie University, Canada on Maritime Security and the International Ship and Port Facility Security (ISPS) Code. He was also instrumental in the training and implementation of the ISPS Code in Jamaica, which came into force on July 1, 2004.

His service in other areas includes:

- Member - Board of Management, Caribbean Maritime Training Institute
- Secretary – Environment Foundation of Jamaica
- Member /Vice Chairman – National Council on Ocean & Coastal Zone Management
- Justice of the Peace
- Member, Marine Pilots Disciplinary Committee

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). In the international maritime arena, he was awarded the prestigious IMO Themed Award for World Maritime Day 2015, at the Seatrade Awards Ceremony in London in May 2015 for his contribution to the development of global standards for maritime education and training.

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 last 27 years.

A Caribbean-focused entrepreneur with investments in Fintech companies, Mr. Goldson has more than 27 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. 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.

Mr Noel daCosta
CD., MASc, MBA, BSc, ACII

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

He is a consultant with over 15 years' experience in corporate relations, and has over three decades of experience in technical and engineering leadership. He 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, Brewmaster, and Technical Director for the Red Stripe Brewery.

He has postgraduate degrees in Engineering, Business Administration and Insurance, and is a Fellow of the Jamaica Institution of Engineers, as well as the Institution of Chemical Engineers (UK).

A founding partner in 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 contribution to engineering and manufacturing.

Mr Paul Pennicook
BSc

Mr Paul Pennicook, an experienced hotelier, has held several executive management positions in the hotel and tourism industry including management positions at the Holiday Inn, Montego Bay 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, 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 previously held the position of Director of Tourism for Jamaica and has also served as Senior Vice President at Air Jamaica. He now serves as President of International Lifestyles Inc, the Worldwide Representative for SuperClubs Resorts. He is a Board Member of the Victoria Mutual Building Society and Victoria Mutual Property Services.

A wine connoisseur, he has visited Vineyards in California, Australia and Europe studying blends indigenous to these regions.

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

Mrs Jeanne P Robinson-Foster studied at the University of the West Indies where she earned a Bachelor of Arts degree, followed by a Bachelor 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 30 years' experience and is the founding partner of Robinson-Foster & Associates. Although 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. 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 rural based high schools. A Past President of the Soroptimist Club of Jamaica, she 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 organisation 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 organisations and is a Deacon of the Calvary Baptist Church.

Mr Phillip G Silvera
FCCA, FCA

Mr 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 Financial Controller, Chief Accountant and Divisional President.

Mr Silvera is a fellow of the Association of Chartered Certified Accountants (FCCA) UK and the Institute of Chartered Accountants (FCA) Jamaica. He was a licensed Security Dealer for over five years and up to 2006, served as a registered Public Accountant.

He is currently Chairman of the Board of Directors of Topaz Christian Fellowship and the immediate past President of the Golden Acres Citizens Association. He also serves on the Boards of VMBS Money Transfer, Victoria Mutual Investments and Victoria Mutual Wealth Management.

Ms Keri-Gaye Brown
MBA (Dist), LL.B (Hons)
Corporate Secretary

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, and securities laws. She is also adept in the development of compliance and corporate governance policies.

Prior to joining Victoria Mutual, Ms Brown worked in the financial sector and as a litigation practitioner in the various courts of Jamaica.

Mr Mathew Wright
MPhil, MA, BA

Mr Mathew Wright is the Principal of IWC Capital Management LLC, a New York based private equity firm specialising in multi-family residential and commercial real estate investments in New York City. Mr Wright has over 13 years' experience in corporate finance, credit risk management and real estate management. He is the 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 and Corporate Bank for Citibank Jamaica.

A former Cambridge Commonwealth Scholar, he 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 a Bachelor of Arts Degree in Economics from Williams College, Massachusetts. He serves as a Board member for Victoria Mutual Building Society and Victoria Mutual Wealth Management.


MODERN
MUTUAL
#VMStrategicGoals

CHAIRMAN'S REPORT

Dear Valued Members,

I am honoured to present the Annual Report on behalf of the Board of The Victoria Mutual Building Society (VMBS), for what was a transformative 2017. An important part of our business is forging and maintaining deep relationships – with our Members and clients, our Team Members, our communities and various associates. It is these connections which have enabled us to provide you with the products, services, tools and advice to help you build your Financial Independence and improve your quality of life – for over 139 years.

FINANCIAL PERFORMANCE

I am pleased to report that The Victoria Mutual Building Society and its subsidiaries delivered a solid performance in 2017. After-Tax Surplus increased by 20.6% for the year ended 31 December 2017, to end the year at $1,032.774 million compared to $856.598 million in the prior year. In addition, the Group's Assets increased by $24.054 billion or 14.8%

THE OPERATING ENVIRONMENT

The VM Group operated in a stable environment with indicators predominantly trending in a positive direction. GDP was 0.5%, down from 1.5% in 2016, as a direct result of adverse weather during the first half of the year. Inflation was 5.25%, a recovery from the low of 1.64% in November 2016. Since the drastic reduction in global oil prices during that year, inflation has remained within the target range. The J$ appreciated against the US$ in 7 out of the 12 months, starting the year at $128.44 and ending at $125.00. As a direct result of tight fiscal management, progress was made in reducing public debt and establishing macroeconomic stability. The government successfully re-tapped the debt market by re-opening its 6.75% 2028 bond and 7.875% 2024 bond, to successfully raise US$869 million in August 2017. Interest Rates were at historic lows. The 180-day weighted average Treasury bill yield declined from 6.27% in January, by 163.60 basis points, to end the year at 4.63%.

The International Monetary Fund (IMF) highlighted the need for stronger reforms, as well as a refocus of expenditure on infrastructure, security for citizens and developing resilience to weather-related shocks if economic growth is going to be achieved. While the records demonstrate fiscal improvement, failure to implement these reforms will see a continued gap in economic growth. All quantitative performance criteria under the Stand-by Agreement with the IMF were met; the IMF identified the 7% primary surplus and the 10.4% unemployment rate, a ten year low, as major accomplishments. It is also projected that the debt ratio will decline to less than 100% of GDP by the end of March 2019.

The low inflation and declining unemployment rate resulted in business and consumer confidence remaining high in 2017. Consumers are optimistic about job prospects and income expectations, although there were mixed views about overall economic growth. With the continual reduction in lending rates and improving access to equity financing for local businesses, business owners are making robust plans to improve their capacity. This highlights the unrelenting optimism of businesses around the future prospects of the country.

BUILDING A MODERN MUTUAL

VMBS Rule Changes

The making of VM into a Modern Mutual requires that we are Member Focused; we provide our Members and clients with innovative products and services; and we transform digitally to remain relevant especially in this technology-driven era. With this in mind, we applied to the Bank of Jamaica (BOJ) for approval to amend the Rules of our Building Society. This was a critical revision, as the financial landscape had changed significantly in the 30 years since the Rules were last updated, and importantly, the needs of our Members have evolved. In this digital age, it is necessary for us to provide you with more dynamic products and enhanced services. The New Rules were presented to our Members at the Annual General Meeting in August 2017 and were unanimously approved.

The Rules were revised with four main pillars in mind. These are:

1. **Modernisation of the Rules of the Society**
   - to expand our product offerings, modernise our service delivery and implement more self-service channels; and
   - to enable VM to be more competitive in the marketplace and gain deeper wallet share.

2. **Compliance with the new Banking Services Act, 2014**
   - to take advantage of benefits such as the focus on Deposit Taking Institutions being adequately capitalised to meet their obligations, as well as agency banking, to expand our reach across Jamaica.

3. **Administrative Efficiencies**
   - refining our administrative processes to ensure increased flexibility and responsiveness to market conditions to achieve a competitive advantage.

4. **To Safeguard the Society from Demutualisation**
   - including a mechanism to guard against any hostile demutualisation, safeguarding VMBS as a target for acquisition by outsiders.

To date, our business has spent $2.2 billion on digital transformation and will continue to invest in modernising our processes to the benefit of our Members and clients.

VMIL Initial Public Offering (IPO) Listing

A significant initiative in 2017 was the Victoria Mutual Investments Limited (VMIL) IPO, which was opened on 11 December 2017, in keeping with our mission of financial inclusion and charting the course towards our strategic goal of becoming a Modern Mutual. The offer was closed earlier than expected on 12 December due to oversubscription, and eclipsed our target of just under $700 million, with total subscriptions of $2.8 billion. This was the first time in Jamaica's history that a mutual financial institution listed a subsidiary on the Jamaica Stock Exchange. The tremendously successful IPO will better enable VMIL to grow its business of providing financial solutions for Small and Medium-Sized Enterprises, and capitalise on new business opportunities.

OUTLOOK FOR 2018

The outlook for 2018 is generally positive. Many of the economic metrics point to an improving economy with macroeconomic stability established, stable and low inflation, declining interest rates, increasing employment, and a stable and functioning foreign exchange market of floating rates, among others. The main sticking point seems to be the inability to translate this into real economic growth.

With that in mind, the government has bolstered the Economic Growth Council by appointing Aubyn Hill as its new CEO, who has indicated that he will be targeting growth of 2.3% in 2018, as compared to 0.9% estimated for Q3 this year. This is an ambitious target, which undoubtedly doesn't account for any setbacks from exogenous shocks, and is more aggressive than the Planning Institute's (PIOJ) projection for growth in the range of 1.5%-2.5%.

The Central Bank's new foreign exchange mechanism, B-FXITT has promoted greater transparency and has delivered adequate supplies of foreign exchange to the market. This has resulted in a steady appreciation of the dollar, and the BOJ has posited a new era of two-way movement in the exchange rate going forward.

The BOJ reduced the policy rate from 3.5% to 3.25% in 2017. With the achievement of inflation targets, the BOJ continued to adjust the interest rate downward by March 2018 to 2.75%; an increase is not probable in the short-term. In September, the continuous target rate for inflation was approved at 4%-6%. There is a renewed focus on inflation by the Central Bank, which has formally adopted inflation targeting. Perhaps with the expectation of a moderate increase in energy prices over the short-term, this target will be achieved for 2018.

With the attractive returns provided to investors, the appeal for investors and companies to become involved in the stock market is even greater. Already there is information on companies which will be coming to market in the short-term. This implies increased market activity and greater market returns.

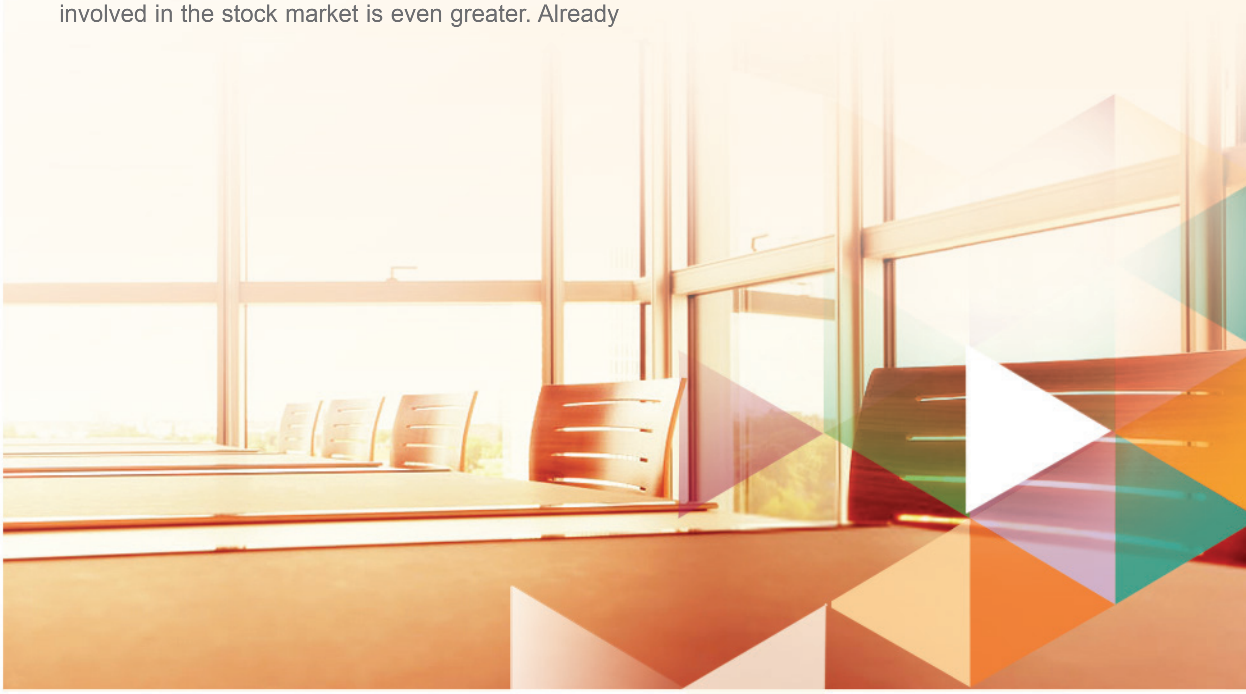
Victoria Mutual ended 2017 with significant momentum across our businesses lines, and there are strong indicators that this will continue into the year ahead. With everyone working together as a Strong Integrated Financial Group, it is my expectation that we will continue to deliver results that will propel us to our key targets.

Against this backdrop, we will maintain a tenacious focus on streamlining our operations, and delivering technology-inspired Member experiences, as we continue to transform to a Modern Mutual.

In closing, I must say thank you to our dynamic Team Members, who give our business its competitive edge. Your commitment to innovation and your willingness to adapt to change, even as it accelerates, are two of the differentiators which set our business apart. We appreciate all you do.

The Board also wishes to thank you, our Members, clients and shareholders, for your faith in us to represent your interests. We take great pride in Victoria Mutual, and we consider it a privilege to serve you.

MICHAEL A McMORRIS
Chairman



CORPORATE GOVERNANCE

VICTORIA MUTUAL is fully committed to achieving best practice in corporate governance. To this end, principles, practices and processes have been established to ensure that the Group is managed well and held to the highest ethical standards.

The Board of Directors is charged with oversight responsibility to monitor Management's performance in accordance with approved strategic plans and objectives. The Board also ensures compliance with legal and regulatory requirements.

BOARD COMPOSITION

The Board is composed of 12 board members, with 11 members as non-executives. The Board is chaired by an independent Chairman, Mr Michael McMorris.

The Board is composed of directors with diverse skill sets, experiences and backgrounds to provide sound strategic direction for the Society. The skill sets include banking, diverse business experience, strategic management, accounting and technology.

BOARD RESPONSIBILITIES

The Corporate Governance Framework was revised in 2017 in keeping with best practices. The framework requires Boards and Board Committees to provide direction and oversight for the Group.

The main responsibilities of the Board are to:

1. Establish strong governance framework of principles and guidelines for the Board and Management.
2. Approve, oversee and monitor the strategic plan to achieve the key business targets and results.
3. Review and evaluate the financial results with comparison to the business strategy and plans and recommend changes if required.
4. Oversee the implementation of the appropriate risk management policies and systems to monitor and mitigate the principal business risks.
5. Oversee the integrity of the Group's internal controls and management information systems.
6. Oversee the overall succession plan for Directors and Senior Management. In relation to Board candidates, to identify, evaluate and select candidates to fulfil the Board mandate.
7. Establish Committee with approved charters to guide the roles and responsibilities of the relevant committees.

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 and Compliance;
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 and Compliance 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

Dr Judith Robinson – Chair
Ms Sandra Shirley
Mr Peter Brady

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:

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

Mr Mathew Wright – Chairman
Mr Micheal McMorris
Dr Juith Robinson
Mr Brian Goldson

The Group Governance, Nomination and Compensation Committee

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

- **a)** Designing an effective Corporate Governance Framework, undertaking periodic reviews and making recommendations for reform, if necessary, to ensure the practice of good corporate governance;
- **b)** 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;
- **c)** 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;
- **d)** The formulation and oversight of performance incentive systems for all business units and;
- **e)** The establishment of a policy framework to deal with related party transactions and conflicts of interest.

COMMITTEE MEMBERS

Mr Michael McMorris - Chairman
Mr Paul Pennicook
Mrs Jeanne Robinson - Foster
Dr Maurice McNaugthon
Mr Brian Goldson

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 interest and obtain guidance
4. Corporate disclosures to be accurate and timely. Victoria Mutual's corporate governance policies and practices are designed to ensure that the Society operates in a sustainable and responsible manner at all times.

2017 PERFORMANCE HIGHLIGHTS

Group **Total Assets** increased by

14.7% OR $24B

The Society's **Deposit Liabilities** grew by

7% OR $5.5B

Group's **Off Balance Sheet Assets** grew by

26.18% OR $13.08B

The Society's **Mortgage Portfolio** increased by

27.9% OR $9.4B

Mortgage Loan Quality IMPROVED

1.9%

Loan Quality of the mortgage portfolio improved, as loans in arrears greater than 90 days as a percentage of total mortgage loans, fell from

2.98% TO $1.9%

Victoria Mutual Investments Limited

RAISED OVER $2.8B

through an Initial Public Offering

Victoria Mutual Investments Limited

Off balance sheet assets grew by **30%** from

$15.34B - $19.88B

Victoria Mutual Property Services

Completed 786 valuations at a combined value of

$12.8B

Victoria Mutual Pensions Management

FUM increased by 19.2% from

$37.60B - $44.82B

Victoria Mutual Money Transfer

After Tax (PAT) increased by

93% - $20.13M

PRESIDENT & CEO'S REPORT

COMMITTED TO DELIVERING EXCEPTIONAL SERVICE TO OUR MEMBERS

I am pleased to report that the Victoria Mutual Group performed well in 2017 as we continued to place you, our Members, at the heart of everything we do.

As a Mutual organisation, we are owned by and run for the benefit of all Members, regardless of the size of their savings account or loan. We seek to create value for Members and improve their lives. This is reflected in the fact that we offer attractive rates on savings, investment and loan products, and charge amongst the lowest transaction fees in the market. We also aim to provide stellar service to our Members at all points of interaction.

BUILDING A STRONG INTEGRATED FINANCIAL GROUP

The VM Group remained in a strong position in 2017. Net Surplus was $1.03 billion, 20.6% above the $857 million achieved the previous year. In addition to this, an estimated $337 million in value was created and delivered to Members through favourable interest rates and fees, as well as discounts offered to Members by the Society's subsidiaries. During the year, deposit liabilities increased by 6.9% to $88.4 billion. The Group's Total On-Balance Sheet Assets increased by 9.8% to end 2017 at $123.2 billion, whilst Total Off Balance Sheet Assets increased by 14.7 % to $63.1 billion. The increase in Off Balance Sheet Assets was due primarily to the growth in Victoria Mutual Pensions Management Limited's (VMPM's) Funds Under Management, and a new suite of Unit Trust products introduced by Victoria Mutual Wealth Management Limited (VMWM) in September 2016. The Unit Trusts' Funds Under Management grew by $7.7 billion, or 235% in 2017.

The Group remained well capitalised during the year. Total Capital and Reserves as a percentage of Total Assets was 12.6% at the end of the year, the same as the figure reported for the end of the previous year. In December 2017, Victoria Mutual Investments Limited (VMIL) offered 20% of its share capital to the public through an Initial Public Offering. This was the first IPO of an entity owned by a mutual financial institution in Jamaica and was almost four times oversubscribed: the company sought to raise $0.68 billion, and subscriptions totaled $2.8 billion.

The offer was supported by 4,320 applicants, and we are heartened by the confidence demonstrated by Members of the Victoria Mutual family and the wider public, who supported this capital raising initiative. The funds raised will allow us to play a greater role in financing well-run Small and Medium Enterprises within Jamaica.

As the Group expands into new lines of business, it is even more important for us to continuously strengthen our Enterprise Risk Management practices to ensure that appropriate protocols are in place. During 2017, we conducted a Group-wide evaluation of our risk management. A new Enterprise Risk Management framework was adopted and it was rolled out in keeping with our objective of remaining prudent in all our undertakings.

EMPOWERING OUR MEMBERS THROUGH HOME OWNERSHIP

For 139 years, VMBS has been helping ordinary Jamaicans achieve their Financial Independence through home ownership, and 2017 was no exception. We disbursed a total of 825 mortgages valuing $8.0 billion, which was 78% above the $4.5 billion disbursed the previous year. This growth was positively influenced by the opening of the VMBS Mortgage Centre in Liguanea in June 2017 and the introduction of the First Time Home Buyer and the iSave for Home products, both of which were launched in February of that year.

During 2017 we also purchased a mortgage portfolio from another local financial institution, allowing our mortgage book to grow by a further $4.4 billion. In total, the mortgage portfolio grew by 28.3% in 2017, closing the year at $42.7 billion.

DELIVERING WORLD-CLASS SERVICE TO OUR MEMBERS

We remain committed to delivering world class service to our Members. During the year, we formalised service standards for the Group that are aimed at having the highest standard of service delivered to Members and clients at all points of contact on a consistent basis. During the year we also formed a Customer Experience Improvement Council to put the Group in a better position to provide outstanding customer service.

When I joined Victoria Mutual in 2016, I, along with other members of the Victoria Mutual leadership team, met with Members and clients across Jamaica, the United Kingdom and Florida, and received valuable feedback. This feedback led us to update our Rules which, you, our Members, approved at the last Annual General Meeting on 31 August 2017. Following that, we have been modernising our processes for faster, more efficient service delivery, and are in the final stages of developing new loan products – auto loans, unsecured loans, and credit cards – all of which will be introduced in 2018.

In addition, activities under our Innovation Lab are progressing well. The Lab received over 100 ideas from Team Members during 2017, some of which provide particularly exciting opportunities for the Group. The ideas that can be implemented quickly and easily have either already been implemented, or are in train, whilst specific potentially high-impact ideas are being explored to assess their viability. Certainly, we remain excited about the possibilities.

Digital technology continues to change consumer behaviour and drive demand for accessibility, convenience and speed. To ensure that we continue to meet your needs, in 2017 we upgraded VMBS' core banking system and made enhancements to our online banking channel to provide greater functionality. In 2018, we will continue to upgrade our online banking, roll out a new customer onboarding system, and complete the implementation of a new Investment Management System across the Group.

EMPLOYER OF CHOICE

Our delivery of best-in-class products and services is the direct result of employing and developing highly talented and engaged people. During 2017, we continued to use a well-established Talent Management methodology to guide the development of our Team Members' careers, and Team Members spent 3,000 hours developing their skills. Additionally, the incentive system was adjusted to allow for greater alignment with the Group's strategic objectives, and in May, our first annual 'I AM VM' awards ceremony was held to recognise high performers.

We are proud of the fact that, in the last quarter of the year, two of VMWM's Team Members emerged as the first and third place winners in the 2017 Jamaica Stock Exchange (JSE) Market Research Competition. We are also proud that our Team Members were crowned champions in the Jamaica Moves Corporate Challenge, a competition that saw Team Members from 16 companies participating in six 5K races held between September and December 2017.

Near the close of the year, 455 Team Members participated in VMIL's Initial Public Offering, receiving a discount of 15% on the offer price of the shares. We believe that actions such as these will elevate us to the rank of Employer of Choice.

SUPPORTING THE COMMUNITIES WE SERVE

Victoria Mutual has a history of partnering with communities to improve quality of life. In 2017, we continued this tradition, providing scholarships for students, hosting the Marriage and the Family Series, and sponsoring a range of organisations and events. The VM Foundation was also established during the year to provide greater structure to our philanthropic activities. The areas of focus for the Foundation are (1) youth empowerment, (2) leadership and nation building, and (3) health and family.
You can expect to hear much more about the activities of the Foundation throughout 2018 and beyond.

OUTLOOK

The Jamaican economy has been showing positive signs. However, intense competition in the local financial industry, increasing regulations, and the likelihood that financial technology firms (fintechs) and other innovations will enter the market, mean that the VM Group will need to continue on its journey of transformation to remain relevant and thrive.

The projects outlined earlier are geared to do just that. As such, we will continue these projects to enhance our service delivery and efficiency, manage our risks well, and innovate. We will also continue to diversify our revenue streams, not only by offering new loan products, but also by expanding overseas.

We are confident that with these actions, the benefits you experience from having us as your financial partner will only expand in time.

THANK YOU

Our strong performance in 2017 was due to the diligence of a number of individuals. I take this opportunity to thank all Team Members for their hard work and dedication, and the Society's Board of Directors for their invaluable contributions. I also thank you, our Members, for continuing to choose VM as your financial partner. Indeed, without you, there would be no Victoria Mutual.

At VM we are Customer Obsessed. This is ingrained in our Cultural Beliefs and is a guiding principle behind our operations, declaring that we will relentlessly deliver an exceptional service experience to ALL customers to grow mutually beneficial relationships. This is our promise to you.

COURTNEY CAMPBELL
President and CEO


VM
EMPLOYER OF
CHOICE
#VMStrategicGoals

GROUP EXECUTIVES

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

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

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), CLE
Group Chief Legal, Compliance and Risk Officer & Corporate Secretary

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

Peter Reid
BA (Hons)
Chief Operating Officer,
Building Society Operations

Rezworth Burchenson
MBA, BSc
Chief Executive Officer, VMPM
Deputy Chief Executive Officer, VMWM

Vivienne Bayley-Hay
BSc (Hons)
Group Chief Corporate Affairs &
Communications Officer

Michael Howard
MBA, BA
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 Property Services Limited

SENIOR LEADERS
WITH GROUP FUNCTIONS

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

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

Joan Brown
DIFA, FCCA, M.Fin., MBA
Assistant Vice President, Risk Management

Sheally Solomon
FCCA, BBA
Assistant Vice President, Group Finance

LEADERSHIP TEAM

The VICTORIA MUTUAL Building Society

Peter Reid
BA (Hons)
Chief Operating Officer, Building Society Operations

Christopher Denny
MBA, BSc
Vice President
Service and Sales Support

Paul Elliott
AICB, MBA, BSc (Hons)
Vice President
Sales

Clive Newman
MBA, FICB
Assistant Vice President
Credit

Karlene Waugh
BSc
Assistant Vice President
Business Operations

Leighton Smith
MBA, BBA
Chief Representative Officer
VMBS United Kingdom

Conroy Rose
CSC, MBA, BSc
Assistant Vice President
Sales

Audley Knight
PFP, MBA, BBA
Assistant Vice President
Service and Sales Support

LEADERSHIP TEAM

Victoria Mutual Wealth Management

Devon Barrett
MBA, BSc
Chief Executive Officer

Rezworth Burchenson
MBA
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

Hekima K Reece
ACCA
Manager
Business Operations

Evette Bryan
MBA
Manager
Treasury and Trading

Nicole Adamson
CFA, FRM, MSc
Manager
Research and Stockbroking

Sharon Sterling
MBA
Manager
Marketing

LEADERSHIP TEAM

Victoria Mutual Pensions Management

Rezworth Burchenson
MBA, BSc
Chief Executive Officer

Lennox Turner
FCCA, FCA, MBA
Financial Controller

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

Judi-Anne Marzouca
BAA
Manager
Pensions Administration

Tamieka Reece
Fcca, MSc, BSc
Manager
Risk & Compliance

LEADERSHIP TEAM

VICTORIA MUTUAL PROPERTY SERVICES

Michael Neita
MBA, BEng, BSc.
Chief Executive Officer

Marcia Sterling
Assistant Manager
Sales/Valuations
& Office Administration

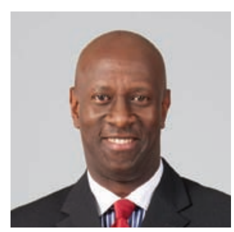
Louis R. Christie
MRCIS
Qualifying Director

Jermaine Williamson
BSc.
Senior Valuer

LEADERSHIP TEAM

VICTORIA MUTUAL MONEY TRANSFER

Michael Howard
MBA, BA
Chief Executive Officer



Owen Bruce
Manager
Distribution

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, namely the United Kingdom and The United States. The Company has been in the business of helping average Jamaicans families achieve Financial Independence through home ownership for over 139 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 2017 operations and how our Strategic Business Units (SBUs) performed during that period. Our leadership team also discusses the upcoming year, outlining VM's future goals and approaches to new initiatives.

THE OPERATING ENVIRONMENT

Local Economy

In 2017, the Jamaican economy underwent a number of major changes, as the government persisted with its efforts to achieve growth of 5% in four years. Results were mixed and included several positive outcomes, against the backdrop of sluggish growth.

- GDP was 0.5%, down from 1.5% in 2016, as a direct result of adverse weather during the first half of the year.
- Inflation was 5.25%, a recovery from the low of 1.64% in November 2016. Since the drastic reduction in global oil prices during that year, inflation has remained within the target range.
- The J$ appreciated against the US$ in 7 out of the 12 months, starting the year at $128.44 and ending at $125.00.
- As a direct result of tight fiscal management, progress was made in reducing public debt and establishing macroeconomic stability. The government successfully re-tapped the debt market by re-opening its 6.75% 2028 bond and 7.875% 2024 bond, to successfully raise US$869 million in August 2017.
- Interest Rates were at historic lows. The 180-day weighted average Treasury bill yield declined from 6.27% in January, by 163.60 basis points, to end the year at 4.63%.

The International Monetary Fund (IMF) highlighted the need for stronger reforms, as well as a refocus of expenditure on infrastructure, security for citizens and developing resilience to weather related shocks, if economic growth is going to be achieved. While the records demonstrate fiscal improvement, failure to implement these reforms will see a continued gap in economic growth. All quantitative performance criteria under the Stand-by Agreement with the IMF were met; the IMF identified the 7% primary surplus and the 10.4% unemployment rate, a 10 year low, as major accomplishments. It is also projected that the debt ratio will decline to less than 100% of GDP by the end of March 2019.

Overseas

In December, the Federal Reserve increased its benchmark interest rate by 25 basis points to a range of 1.25-1.5%. This represented the third increase for the year, with the Fed predicting three more increases in 2018. In like manner, the UK increased its policy rate to 0.50% in November and Canada implemented two increases in 2017, with the latest being in September to 1.00%. The US will launch three market benchmarks in 2018 – the Secured Overnight Financing Rate, the Triparty General Collateral Rate and the Broad General Collateral Rate. This is in response to the phasing out of the London Interbank Offered Rate.

OPEC has agreed to extend production cuts until the end of 2018. However, talks have yet to be concluded as the deal needs to consider how phasing out of the extension will occur. This was also a concern for Russia, a major Non-OPEC stakeholder in these talks.

Although it was a year of sluggish growth, Jamaica made progress in maintaining macro stability and the economy is expected to rebound in 2018 with growth of 1.7%.

OUR OPERATIONS

Customer Experience

The VM Group is committed to Service Excellence, and we have been working hard to showcase this dedication in all that we do. Some of the strategies we employed in 2017 to show that we are Customer Obsessed, a key differentiator for the VM Group, included:

- the recruitment of a Customer Experience Manager;
- the development and roll out of Customer Service Standards;
- the implementation of a Customer Experience Governance Structure; and
- the development and roll out of our Complaints Handling Policy and Procedures.

The recruitment of a Customer Experience Manager for the VM Group took place in February 2017, following the establishment of the Unit within the newly formed Customer and Brand department.

The Group Service Standards and Manual were developed and launched by way of an internal team event in October. The new standards outline, among other things, the VM Group's Service Mission, Vision and Service Motto, which is '**Member and Client focused with Service Excellence as Our Standard'**. It also details the key principles underpinning our new service culture, and provides a detailed guide on how to handle a vast array of service interactions – from greeting and serving clients to handling complaints. All Team Members were asked to acknowledge receipt of the standards and to accept them formally. New Team Members are introduced to the new service culture and standards during orientation.

A new Customer Experience Governance Framework was also introduced, which saw the establishment of a cross-functional team, the Customer Experience Council, which convenes monthly and is chaired by the Manager, Customer Experience. The Council's mandate is to identify major systemic pain points being experienced by our Members and clients and engage with the relevant units across the Group to drive effective and sustainable improvement. Issues from the Council are escalated to a newly formed Customer Experience Steering Committee, chaired by the President and CEO, who maintains visibility around the experience of VM Members and clients.

Finally, a Complaints Policy was developed and approved by the Board in July 2017, as a precursor to the development of the Complaints Management Procedures. The establishment of the policy and procedures during the year serves to: (1) ensure that the Group is fully aligned to the Mission and Core Values of the organisation in relation to Service Excellence and Member Focus; and (2) meet the requirements of our regulators for the establishment of internal mechanisms and procedures for handling customer complaints and disputes.

Our customers are at the core of everything that we do and are our reason for being. Every day our Team Members are asked to ensure that they show up **Customer Obsessed** to deliver excellence at all points of contact. This is who we are.

Group Information Communication & Technology and Projects

The Victoria Mutual Group, having set itself the Strategic Goal of becoming a Modern Mutual, executed on several projects and initiatives to realise this vision. Key among these were:

- Upgrade of Core Systems
  The multi-year project to modernise our core banking infrastructure was successfully completed in August 2017 with a smooth go-live across all VM branches and overseas representative offices. This upgraded platform is now being leveraged to deploy advanced ABMs, payment systems and new products that have been requested by our Members.

- Payment Processing
  Having joined the SWIFT and RTGS networks previously, we completed the deployment of local and international transfers on our internet banking platform in 2017. Now ALL Members are able to transfer funds locally and internationally from their home or office at the best rates in the market.

- Mobile Money
  After conducting a pilot of Mobile Money, we concluded that the market is not ready for that particular solution and will be exploring other opportunities to bring convenient payments to our Members.

In addition to these successful deliveries in 2017, your Society is working on several exciting projects to digitally transform your experience and give us the ability to offer you new products and services. Other projects are underway as follows:

- Investment Management System. Your Society manages your deposited funds to maximise the returns through a range of investment activities, including the offering of mortgages and participating in local and international bond, FX and equity markets. To better manage your portfolio, we have implemented a best in class Investment Management System which went into operation in 2016 for the VMBS investment book. This solution is now being deployed in the Pensions and Wealth management companies as we look to bring new product and service offerings from these group companies.

- Onboarding Systems. This project will improve our data collection and management of records for our Members. Most significantly, it will allow a Member to be onboarded for products and services across the Victoria Mutual Group. This project is expected to be delivered in the first half of 2018. These capabilities will be further enhanced to allow for online onboarding and digital capture of signatures.

- Mobile and Internet Banking. We have selected a new vendor for mobile and internet banking and will start the implementation in 2018. The new platform will allow us to meet the expectations of our Members for a fast and user friendly mobile banking platform.

- Branch of the Future. The look and feel of the branches will be brought into the 21st century, and powerful new ABMs will be installed to provide a range of services typically only possible at a teller station such as real-time cash deposit. The first of these machines will be deployed in four branches in the first half of 2018.

- Credit Master. In response to our Members' demands, we will be deploying a range of new credit products to better assist our Members in achieving their Financial Independence.

- Credit Cards. We are partnering with an international card brand to provide credit card capabilities to our Members in Jamaica and the Diaspora.

OUR PEOPLE

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

As part of our Strategic Goal to be Employer of Choice, we implemented 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

CULTURE AND EMPLOYEE ENGAGEMENT

It is said that 'organisational culture eats strategy for breakfast'. This phrase, coined by management guru Peter Drucker, effectively captures the important role culture plays in successful organisations. At the Victoria Mutual Group, we are extremely proud of our Culture of Accountability programme, which embeds clearly defined tools aligned to our Core Values, and Cultural Beliefs focused on achieving the desired results. Employee engagement was another critical area for us. Here are some of the strategies we employed to build on our culture and increase employee engagement in 2017.

Development of Employee Value Proposition

To ensure a clear articulation of what differentiates the VM Group in the offerings to our People and what we expect from our People, we developed an Employee Value Proposition (EVP). The EVP states that, *"We are committed to being an Employer of Choice, supported by robust Talent and Career Development programmes, structured to promote job fulfilment and professional growth, while aggressively pursuing home ownership for our Team Members. We are dedicated to the highest levels of productivity across our Group, driven by a common purpose and sense of belonging, as one Empowered, Results-driven Team, consistently delivering an excellent Member experience."*

Modernised HREI Methodology

In August 2017, we modernised the Human Resource Engagement Index (HREI) process based on our Strategic Goals of **Employer of Choice** and **Modern Mutual.** This was done in alignment with global best practices and, importantly, with our continuous listening strategy, which involved valuable feedback from our President's listening tours and the Group Human Resources road shows. The HREI measures six drivers, namely leadership; EVP; work life; reward and recognition; opportunity; and culture.

Talent Management

Talent management is an important part of our strategy to achieve our business objectives and retain a high-performing Team. In 2017, we continued to advance the talent management agenda to ensure that we have the right people, with the right skills and knowledge in the right jobs, at the right time. Our talent management strategy is linked to the VM Group's focus on rigorous succession management, as well as our EVP and commitment to aid Team Members to develop personally and professionally. During the review period, we ran a robust talent and career development programme, and significantly increased the opportunities for experience-based learning and stretch assignments for our people, in addition to the number of hours of training Team Members received. The average annual training hours for Team Members in 2017 was 3,000 compared with 1,191 in 2016.

Strengthening Change Management Capability

Change management – the process, tools and techniques used to manage the 'people side' of change within an organisation to achieve required business outcomes – was a critical part of our activities as we continued our redesigning for transformation programme to a Modern Mutual. This involved putting in place a methodology that empowers Team Members with information and skills to manage change. The goal is to create and support an environment where change occurs in an effective manner, as we move with purpose in pursuit of our business targets. In 2017, 35 Team Members were certified as Prosci Change Managers.

PERFORMANCE MANAGEMENT AND RECOGNITION & REWARDS

Implemented a New Incentive Plan

We implemented a new Team Member incentive plan which is aligned with our transformation programme and high-performance thrust. The plan, which is important to talent retention, rewards Team Members for both individual and organisational performance. In addition to what is achieved by the Team Member and the organisation, the plan also considers how the results are attained. This is part of the promotion and reinforcement of our Core Values and Cultural Beliefs.

Desired Behaviours Reflect Core Values

The VM Group developed a series of Desired Behaviours linked to our organisation's Core Values. Desired Behaviours are actions that guide how we, as a Team, achieve desired results. Team Members are expected to display these Desired Behaviours daily, both internally during their interactions with fellow Team Members, and externally in their engagement with our valued Members. The display of Desired Behaviours now forms part of our performance management and appraisal system, in addition to the achievement of results. This reflects the critical nature of behaviour in the pursuit of our key results and the VM Group's commitment to our **Cultural Beliefs**.

Inaugural #IAMVM AWARDS Recognition Ceremony

The I AM VM Awards, a Team Member recognition ceremony, was held on 13 May 2017. Team Members of the Victoria Mutual Group were celebrated for their excellence, dedication, loyalty and for being champions of the VM Brand. The I AM VM Awards event was held under the theme 'Building on Our History, Transforming for the Future'. The awards included the Champion Branch of the Year Award; Service Excellence Award; and the coveted President's Award.

Mortgage and Investment Boot Camps

The VM Group is committed to financial inclusion and helping Team Members achieve financial independence. To this end, Victoria Mutual hosted a series of Mortgage and Investment Boot Camps, aligned with our EVP. The mortgage and investment boot camps were dedicated to assisting our Team Members with understanding the steps to home ownership and the rules of investing, and to articulate VM staff benefits in these areas. Team Members were able to access advice and guidance from in-house experts for extended periods of focused consultations.

VM Team Members were also able to access discounted rates at the Victoria Mutual Investments Limited's Initial Preference Offering. These facilities were made available to Team Members as part of our commitment to them made clear in the EVP.

AREAS OF FOCUS – 2018

These achievements have helped pave the way for even greater wins in 2018 and beyond. As we continue the race to our 2020 Key Results, our areas of focus for 2018 include the embedding of our Culture of Accountability programme, and implementation of targeted Training and Development initiatives aligned with our Talent Management Programme. We also intend to focus on our Total Rewards Framework by enhancing the Team Member experience in relation to Recognition, Wellness, Financial Independence and Performance-Based Rewards. All of these efforts will continue to be guided by our Strategic Goals, Core Values and our Cultural Beliefs.

RISK GOVERNANCE

ENTERPRISE RISK MANAGEMENT

Risk Management Framework

The Risk Management Framework is designed to ensure that VMBS' strategies and risk appetite are aligned to achieve the balance between risk and reward, to achieve sustainable return and value. 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.

The Framework includes Three Lines of Defence:

1. The Business Lines through daily operations act as the first line of defence to identify, assess, and manage through mitigation, activities to reduce or eliminate risk exposures.
2. The Group Risk Management Unit as the second line of defence provides oversight through monitoring and measurement to ensure control of risk.
3. The Internal Audit Department as the third line of defence provides assurance that controls are effective and adequate throughout the organisation.

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, and all risks are identified, measured, assessed, monitored, controlled and mitigated within the context of VMBS' risk appetite.

The enterprise-wide application of the framework involves these key elements:

- **Risk Governance** - A robust structure comprising The Board of Directors supported by the Senior Management Team to provide strategic decision-making through the Group Finance and Risk Management Committee.
- **Risk Appetite** - The Board has approved an appropriate risk appetite which guides the amounts and types of risks VMBS undertakes, aligned with the execution of the strategic objectives. The risk appetite establishes the risk boundaries whilst 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 to 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 the Group. The process also includes robust and regular reviews in keeping with the established risk profiles for the Group.
- **Risk Culture** - VMBS' risk culture is robust, with Team Members being exposed to the key requirements and responsibilities, and is influenced by the governance structures, risk management techniques and the guiding risk appetite statements for key areas.

KEY RISK ELEMENTS	RISK MANAGEMENT STRATEGIES
STRATEGIC RISK - The risk that business strategies do not achieve the correct objective; poor execution; or weak and inadequate response to the global business environment.	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 of penalties, fines, or other liabilities arising from breaches of applicable laws, regulations, or contractual obligations.	The 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, and other relevant key	The VM Group Reputation Risk is managed and controlled through various measures which include robust governance framework, business code of conduct guidelines, policies

KEY RISK ELEMENTS (CONT'D)	RISK MANAGEMENT STRATEGIES (CONT'D)
stakeholders may adversely affect VM Group revenues, operations or customer base, which will require the implementation of cost-defensive measures.	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 defence, 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 which 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. (Note 5 (a))
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.	The VM Group buys and sells currencies, equities and bonds in keeping with the investment strategies guided by policies, established maturity profiles, and gap limits with appropriate risk tolerances. Foreign Currencies Risks are mitigated by maintaining assets and borrowing in the same currencies. (Note 5 (b)) 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 regularly assessing the Value at Risk (VaR) with comparison to the actual profit and loss.

KEY RISK ELEMENTS (CONT'D)	RISK MANAGEMENT STRATEGIES (CONT'D)
LIQUIDITY RISK – The risk that the Group 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. (Note 5 (c)) 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 $10.966 billion or 9.8% year on year to total $123.174 billion at 31 December 2017. This increase was primarily as a result of growth in the book of loans by $9.538 billion or 27.6%.

Loans, investments and other interest earning assets totalled $115.67 billion, which was an increase of $10.44 billion or 9.9% over that reported for 2016.

The loan portfolio at the end of the year totalled $44.069 billion, up from $34.531 billion reported at December 2016. Net of repayments and redemptions, the mortgage book grew by $9.359 billion, of which disbursements totalled $12.568 billion, offset by repayments of $3.21 billion. The disbursements include the mortgage portfolio purchased during the year at a value of $4.144 billion. The improved quality of the mortgage loan portfolio resulted in the overall loan quality ratio moving from 2.89% in 2016 to 1.90% at the end of 2017.

The Group's off-balance sheet assets amounted to $63.087 billion as at December 2017, which was $13.087 billion or 26.18% over that reported for 2016.

ON & OFF BALANCE SHEET ASSETS FOR THE VM GROUP

Figures in '000s	2017	2016
Group on balance sheet assets	123,174,146	112,207,742
VMWM off balance sheet assets	18,268,988	12,396,118
VMPM off balance sheet assets	44,819,000	37,604,000
TOTAL	**186,262,134**	**162,207,860**
Growth in on off balance & sheet assets (%)	14.8%	16.3%

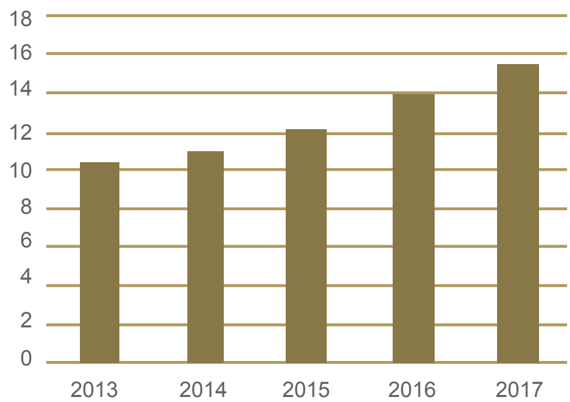
FUNDING

The depositors and customers of the group continued to recognise the value of our services, which resulted in the $4.4 billion or 6% 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 clients by way of savings and repurchase agreements.

CAPITAL & RESERVES

The Group's total Capital & Reserves grew from $14.134 billion to $15.468 billion in 2017. The Society continues to transfer 100% of Net Surplus to capital after allocation is made to the Credit Facility Reserve, and in 2017, transferred $1,432.443 million to the Retained Earnings Reserve, and $252.784 million to the Reserve Fund.

GROUP TOTAL CAPITAL RESERVES



OPERATING RESULTS

The Group recorded a Net Surplus of $1.032 billion for the year ended 31 December 2017, compared to $857 million (restated) for 2016. The surplus is inclusive of the Society's 31.5% share of profits in BCIC, totalling $211 million.

GROUP SUMMARY OF RESULTS | ($'000'S)

	2017	2016
Net Interest Income	4, 016,521	3,816,620
Net Fee & Commission Income	913,651	575,349
Other Operating Revenue	1,602,796	1,155,533
Total Operating Revenue	**6,532,968**	**5,547,502**
Administrative Costs	5,452,1494	4,511,148
Operating Surplus	**1,080,819**	**1,036,354**
Share of Profits of Associate	210,621	162,625
Surplus before Income Tax	**1, 291,440**	**1,198,979**
Income Tax	258,666	342,381
Surplus after Income Tax	**1,032,774**	**856,598**

The 20.6% growth in net surplus year on year is attributable to increases in Net Interest Income 5.2%, Other Operating Revenue 38.7%, and Net Fees and Commission Income 59%, partially offset by 20.9% increase in administrative costs.

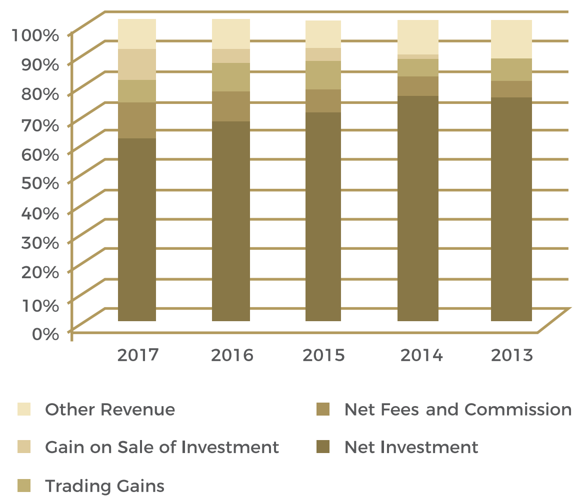
Operating Surplus, which excludes share of profits in the associate, was $1.081 billion for the year, and reflected an increase of $44.47 million or 4.3% when compared with the 2016 results.

Provision for income taxes was $259 million for 2017, compared to $342 million in 2016, and resulted in an effective tax rate of 20% compared to 28.6% in the prior year, due primarily to the increased gain on sale of investments in 2017.

OPERATING REVENUE

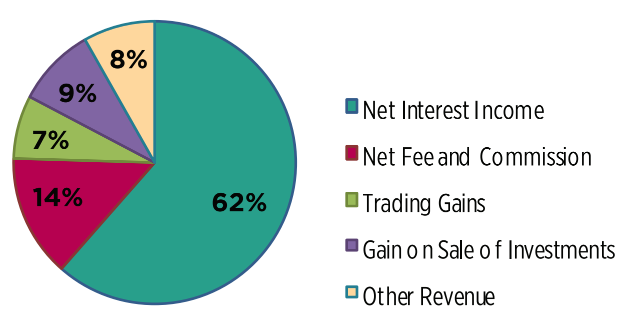
Operating Revenue includes Net Interest Income, Net Fees and Commission income, Gain on the Sale of Investments and Trading Gains. Operating revenue totalled $6.532 billion, representing an 17.8% or $985.47 million increase over the prior financial year.

TOTAL OPERATING REVENUE



Net Interest Income accounted for 61.5% of Total Operating Revenue, down from 68.8% in 2016. Net Fee and Commission income accounted for 14%, while Gain on the Sale of Investments accounted for 9.1%. These combined income items accounted for 84.6% of the revenues earned by the Group in 2017.

OPERATING REVENUE 2017

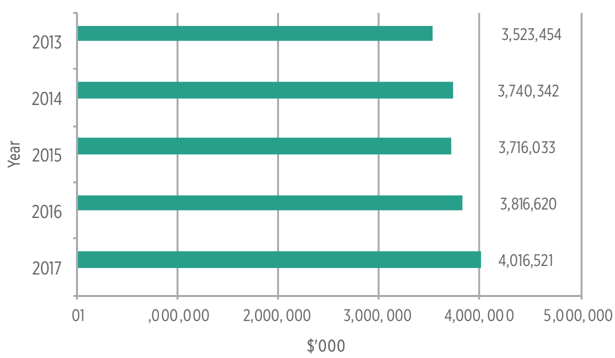


NET INTEREST INCOME

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 totalled $4.016 billion for the financial year ended 31 December 2017. This was a $199.90 million or 5.2% increase over that reported for 2016.

NET INTEREST INCOME 2013 - 2017



Loan Interest income of $3.339 billion reflected an 18.1% or $512.69 million increase over that reported in 2016. This was as a result of a $9.359 billion growth in the mortgage portfolio year over year.

Interest Income from Investments declined by $225.43 million or 7.3%, resulting from an overall reduction in average yields on investments, and a reduction in portfolio volume during the period.

Total Interest expenses increased by $87.36 million, or 4.2%, over that reported for the previous year.

OTHER OPERATING REVENUE

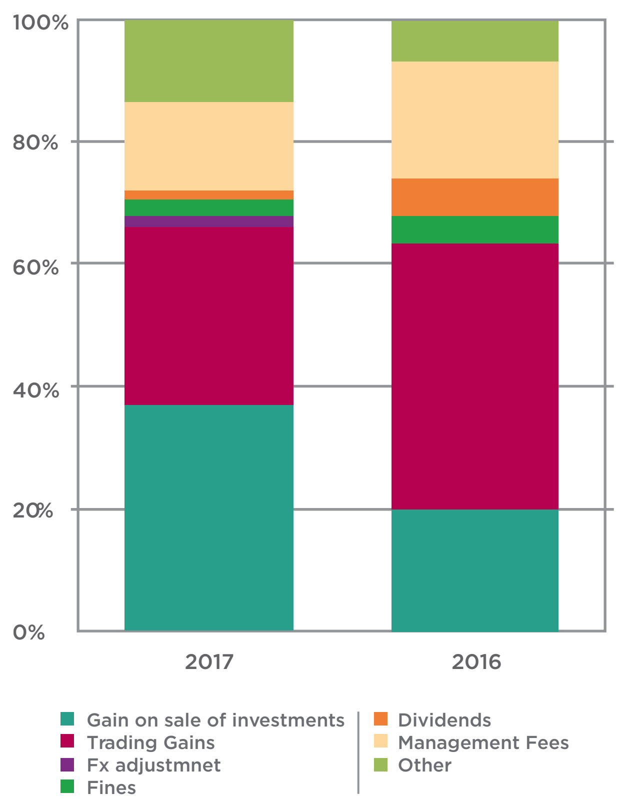
Other Operating Revenue for the year totalled $1.603 billion, reflecting an increase of $447.26 million or 38.7% above that reported for 2016. The increase was attributable to gains from the sale of investments.

OPERATING EXPENSES

Total Operating expenses, comprising of personnel costs and other operating expenses, have increased by $892.04 million or 20.65% to $5.211 billion, driven by continued investment in the business.

- Personnel costs increased by $644.09 million or 25.7%, which includes an increase in salaries and other staff benefits of $417.42 million or 18.5%; an actuarial increase to the pensions and post-retirement medical benefits of $125.6 million or 211.19%; and an increase in termination expenses of $43.35 million or 260.6% in comparison to the prior year.
- Other operating expenses totalled $2.063 billion, reflecting an increase of $247.96 million or 13.6% over that reported for 2016. The increased expenditure included increases in consultancy and other professional fees of $41.73 million; computer maintenance of $65.22 million; irrecoverable GCT of $48.68 million; and asset tax of $25.12 million.

OTHER OPERATING REVENUE (%) 2017/2016



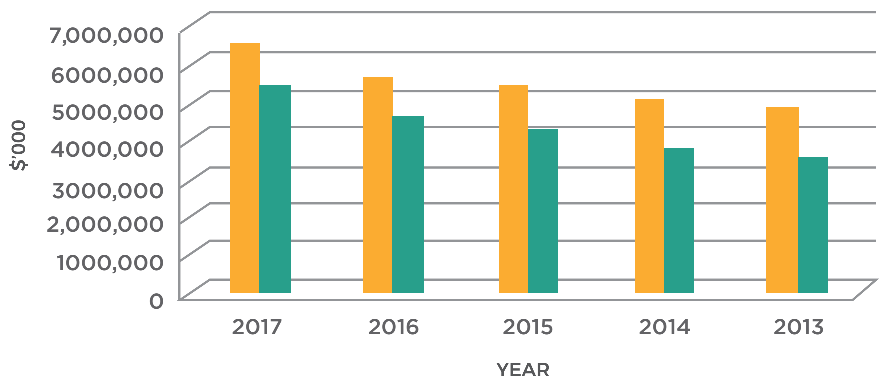
KEY INDICATORS

The return on average total assets was 1.10%, down from 1.11% reported for 2016. At the end of the year, the ratio of capital and reserves to total assets was 12.56%, compared to 12.60% in the prior year.

Net Interest Margin, which measures net interest income as a percentage of mean assets, declined from 3.76% in 2016 down to 3.64% in 2017.

The Group's operating expenses as a percentage of mean assets moved from 4.0% in 2016 to 4.43% at the end of 2017, and cost to income ratio from 77.86% to 79.77% in 2017.

OPERATING REVENUE & ADMINISTRATIVE EXPENSES



OVERVIEW OF BUSINESS LINES

VICTORIA MUTUAL BUILDING SOCIETY

The Victoria Mutual Building Society was established in 1878 by a group of civic-minded clergymen, who wanted to create an institution to help ordinary Jamaicans achieve the goal of homeownership. This resulted in the formation of a mutual organisation, which aimed to assist its Members in purchasing homes, through a process that involved pooling their savings to facilitate mortgage loans.

For 140 years, satisfying our Members has been our top priority. We provide a comprehensive range of services to local and international markets. To deliver the best and most up-to-date financial products, we spend time getting to know our Members and are committed to delivering solutions that will help them to achieve Financial Independence.

Our Members benefit from our extensive experience; our approach to being a Strong Integrated Financial Group provides access to a wide range of other financial services including loans, savings, pension administration, wealth management and money transfer services. In our ongoing quest to improve our mortgage processing, we opened The VMBS Mortgage Centre at The Liguanea Post Mall in 2017 and re-organised our business to create a stronger focus on Sales and Service delivery.

Member relationships are managed by professional, well-trained teams who understand that quality of service is a key consideration when choosing a financial service institution. We meet clients and their advisors face-to-face, better strengthening our understanding of their current and future requirements.

The acquisition of a mortgage portfolio from Sagicor Bank was announced in June 2017 and closed in October 2017. This acquisition is aligned with and meets our strategy of expanding our core business.

We remained committed to finding innovative ways to help our Members to save so that they can ultimately achieve Financial Independence.

FINANCIAL PERFORMANCE

The Society's 2017 financial performance reflected a 101.7% growth in pre-tax surplus year on year. These results were impacted by capital gains of $1.148 billion arising from the dissolution of its subsidiary WESTIN International Insurance Company during the year.

The 2017 performance reflects a 5.7% increase in net interest income and an improvement in the quality of the mortgage loan portfolio.

Surplus after tax of $1,739.388 million reflects growth of $1.087 billion or 167%. The effective rate of corporation tax charged for the year was 4.0%, compared to 27.5% in the previous period, due primarily to tax exemption on capital distribution from the dissolution of the subsidiary.

The $202.4 million increase in net interest income was the combined result of a $267.7 million or 5.1%

increase in interest income, and a $65.3 million or 3.9% increase in interest expense.

Interest rates have continued to fall across the industry, and this is reflected in a decline in the net interest margin, which fell from 4.1 % in 2016 to 3.99% in 2017.

Interest income earned from the loan book of $3.322 billion was 18% higher than the $2.824 billion reported for 2016. However, interest income earned from investments was $230 million or 9.6% less than the prior year.

The overall cost of administration increased by $872.94 million or 22.5%%, moving from $3.875 billion in 2016 to $4.748 billion in 2017. The personnel cost component increased by $516.47 million or 26.9%, moving from $1.922 billion in 2016 to $2.438 billion in 2017. Other operating expenses of $2.094 billion, inclusive of asset tax, increased by $307.21 million or 17.19% in 2017, compared to $1.787 billion in 2016. Depreciation charges increased by $49.25 million, resulting from increased capital expenditure used to support the business in 2017. The cost to income ratio was 72.06% in 2017 compared to 80.88% in 2016.

We are pleased to report the continued growth in Total Assets of 7.7% during the year, moving from $97.32 billion in 2016 to $104.78 billion at the end of 2017. The financial health of the Society was also assured, as the capital adequacy ratio was 21.64%, which exceeded the minimum of 10.0% required by the regulators.

HIGHLIGHTS OF THE SOCIETY'S PERFORMANCE

	2017	2016	2015
Pre-Tax Surplus ($M)	1,812.7	898.9	920.5
After-Tax Surplus ($M)	1,739.4	65193.5	783.2
Total Assets ($B)	104.8	97.3	89.7
Total Loans ($B)	44.1	34.5	32.9
Deposit Liabilities ($B)	89.1	83.6	77.6
Net Interest Margin (Net Interest Inc ome as % of Mean Interest Earning Assets)	3.99%	4.07%	4.20%
Operating Expenses (as % of Mean Assets)	4.49%	3.97%	79.70%
Cost to Income Ratio	72.06%	80.88%	79.70%
Capital Adequacy Ratio	20.78%	19.31%	20.17%

The savings fund (excluding funds due to specialised institutions) at the end of 2017 stood at $77.10 billion, up from $72.81 billion reported at December 2016, representing a year over year increase of $4.29 billion or 5.89%.

Deposit growth was driven by several key fundraising initiatives including the Million Dollar Winners Club Promotion, which targeted deposits from both new and existing Members. The campaign was two-fold, designed to attract new Members, encouraging them to choose Victoria Mutual as their partner in achieving financial independence, and also to reward existing Members for their loyalty and increasing their savings balances.

The deposit market in 2017 showed signs of liquidity but sensitivity to pricing, resulting in several Initial Public Offerings being oversubscribed.

Underpinning our strategy is the continued emphasis 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.

We continue to measure and monitor Member satisfaction through periodic NPS surveys, which have enabled us to understand our Members and their needs better.

MORTGAGE LOANS

The loan portfolio at the end of 2017 stood at $44.10 billion, up from $34.53 billion reported at December 2016, representing a year over year increase of $9.57 billion or 27.71%. Disbursements, including the purchased portfolio, totalled $12.57 billion.

This solid performance is underpinned by the Society's commitment to providing a superior value proposition to facilitate home ownership by its Members. This commitment is supported by our ongoing process improvements, aimed at shortening the end to end processing time while delivering an exceptional Member experience.

MORTGAGE LOAN PORTFOLIO QUALITY

Our Mortgage Portfolio quality improved again for the year in review, with non-performing loans expressed as a percentage of the entire mortgage portfolio moving down from 2.98% as at December 2016 to 1.90% as at December 2017. We attribute this improvement to our commitment to prudent underwriting and adjudication, along with the practice of reacting quickly to any of our Members experiencing financial challenges.

EFFICIENCY

For 2017 we focused primarily on how to be a 'Best in Class' Mortgage Provider through some key initiatives. Chief among them were shortening our approval time and establishing an in-house registration unit to maintain tighter control over securities perfection, but also to add a new stream of revenue to the Society.

We strategically created a sales unit together with a sales and service support team, to drive efficiencies around the selling process while maintaining a high level of focus on service through our people and technology.

The branch network represents an important touch point for our Members, and we are continuously making changes to improve and modernise these spaces. To this end, we broke ground for the construction of a new, modern branch in Fairview, Montego Bay, which should open in 2018.

2018 FOCUS

For 2018, 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 on both sides of the balance sheet include:

- the expansion of our suite of lending products to include Motor Vehicle Loans and Unsecured Loans;
- a renewed focus on Commercial Mortgages;
- the execution of our deposit strategy aimed at growing core deposits;
- the introduction of smart ATMs as a key transaction point for our Members;
- the ongoing migration of Members to other electronic channels and the expansion of the team of Relationship Officers and Financial Services Specialists; and
- the redesign of branch layouts to maximise potential for the efficient execution of transactions.

THE VMIL GROUP

Victoria Mutual Investments Limited Group was incorporated in 1984 as the corporate financing arm of the Victoria Mutual Building Society (VMBS) and is 80% owned by VMBS, which is incorporated in Jamaica under the Building Societies Act. Its registered office is located at 8-10 Duke Street, Kingston, Jamaica.

In 2017, VMBS rejuvenated VMIL as a vehicle to facilitate corporate lending and investing to support well-run Jamaican businesses.

The company has a wholly-owned subsidiary, Victoria Mutual Wealth Management Limited (VM Wealth). The principal activities of the subsidiary are investment brokering, the provision of financial and investment advisory services, and money market dealing.

VMIL Group offers a wide range of products and services including margin loans, insurance premium financing, lease financing, underwriting services and corporate loans, managed by the financial expertise of the VM Wealth team.

The VMIL Group focuses on four strategic business lines – Asset Management; Securities Dealing; Capital Markets; and Credit Solutions.

Our Asset Management service generates fee income through portfolio management and the sale of Unit Trusts (pooled funds). The Funds include US dollar Bond Funds, a Jamaican dollar Bond Fund, an Equity Fund, and a Property Fund. We provide high quality portfolio management to high net worth clients.

Our Capital Markets unit arranges debt and equity financing for our corporate clients and in 2017 arranged transactions totalling $18 billion; and $53 billion over the past seven years.

We also generate net interest income from our securities dealers business. Dealing in securities now accounts for 30% of our business, as our strategic focus shifts towards Asset Management and Capital Markets.

FINANCIAL PERFORMANCE

Group Operating Results

For the financial year ended 31 December 2017, Victoria Mutual Investments Limited reported Group profit before tax of $467.83 million, which was up $74.09 million or 18.82% over the previous year. Net profit after tax was $346.3 million, an increase of $29.02 million or 9.15% over the previous year's $317.28 million. The effective tax rate in 2017 was 25.98% (2016: 19.42%). Basic earnings per share was $0.29 compared to $0.26 for the previous year.

Operating Revenue

Improved earnings were produced from Operating Revenue for 2017 of $966.46 million, up $155.65 million or 19.2% over $810.8 million for 2016. This comprised Net Interest Income of $246.99 million (2016: $250.76 million) and Other Operating Income of $719.47 million (2016: $560.05 million).

Net Interest Income

During the year ended 31 December 2017, Net Interest Income (NII) was negatively impacted by declining yields on interest-earning assets and the compression of our interest rate spreads, such that NII decreased by $3.77 million or 1.5% when compared to 2016. The Net Interest Margin declined marginally from 1.71% in 2016 to 1.66% for the year under review.

Our interest-earning assets, consisting of investment securities, certificates of deposit, short-term resale agreements and loans, totalled $15.27 billion as at 31 December 2017 (2016: $14.92 billion), which represents an increase of 2.3% compared to the previous year.

Other Operating Income

The 19.2% growth in Operating Revenue and 28.47% increase in Other Operating Income were driven by Net Fees and Commissions, which jumped $220.58 million or 78.9% to $500.16 million due to the growth in our off-balance sheet asset management business and our success in meeting the funding needs of the local and regional productive sector through our Capital Markets Unit.

Gains from Investment Activities for the 2017 financial year declined by $85.55 million or 30.7% when compared to 2016, due mainly to a subdued bond market and a decline in opportunities for realising asset trading gains.

For the 2018 financial year, we will continue to implement our key strategic initiatives, namely to effectively manage interest rate spreads and grow fee-based income by (i) increasing our off-balance sheet book of business, and (ii) leveraging our financial expertise in driving the growth of capital markets services.

Operating Expenses

For the year ended 31 December 2017, Operating Expenses totalled $498.63 million, representing an increase of $81.56 million or 19.56% over the previous year.

Staff Costs, which represent 58.63% of Operating Expenses (2016: 51.86%), increased by $76.04 million or 35.15% over 2016, as we invested in human resources to meet the changing needs of our business.

Other Operating Costs, which increased by $5.53 million or 2.75% over the prior year, was influenced mainly by:

- marketing and promotional activities, particularly in respect of the Unit Trust product;
- higher assets tax;
- increased legal and professional fees, due to the growth in the Group's activities; and
- software maintenance and IT consultancy charges to support the business.

Our efficiency ratio for 2017 was 51.59%, compared to a marginally lower 51.44% for the previous year. The Group continues to strive to identify and implement initiatives to improve operational efficiency and benefit from cost containment strategies, as well as synergies of enterprise shared services within the VM Group.

GROUP FINANCIAL POSITION PERFORMANCE ASSETS

Total assets increased year over year by $3.81 billion or 23.4% to $20.07 billion as at 31 December 2017. This was primarily attributable to funds received from or on behalf of clients.

Our Return on Average Assets for 2017 was 1.91% versus 1.99% for 2016.

SHAREHOLDERS' EQUITY

The strength of our capital base is evident with total shareholders' equity standing at $2.58 billion as at 31 December 2017, up by $968.33 million or 59.93% from $1.62 billion at the end of 2016. The growth in total equity is mainly attributable to:

- net proceeds of $683.89 million raised from the successful Initial Public Offering (IPO) of 300,005,000 ordinary shares in the capital of the Company in December 2017;

- the net increase of $146.14 million in retained earnings, representing the undistributed portion of our 2017 earnings; and
- the $141.64 million or 236.3% increase in the investment revaluation reserve over last year, given the significant increases in the value of Government of Jamaica bonds and local stocks due to improved local economic conditions.

The Group's weighted return on average equity was 19.66% for the year, compared to 21.29% for the year ended 31 December 2016.

CAPITAL MANAGEMENT

Our wholly-owned subsidiary, **Victoria Mutual Wealth Management Limited**, a licensed securities dealer, continues to be well capitalised, as evidenced by the international benchmark of capital adequacy. Successful capital management requires careful and close attention to the Company's regulatory capital base, asset base and risk-weighted assets. The Company's capital position is sensitive to changes in market conditions. This sensitivity is due primarily to changes in the value of assets and liabilities resulting from changes in interest rates.

As at 31 December 2017, our risk-based capital adequacy ratio was 16.49%, comfortably above the regulatory requirement, which necessitates that the Company shall at all times maintain the ratio between its capital base and the aggregate of its risk-weighted balance sheet assets and risk-weighted balances related to foreign exchange exposure of no less than 10%. The Company's statutory capital base as at 31 December 2017 was $1.7 billion.

In 2018, we will continue to maintain our capital ratios by prudently managing the Company's capital levels and growth in risk-weighted assets. We believe that the strength of our capital position will enable us to take advantage of market opportunities as they arise.

DIVIDENDS

On 22 November 2017, the Board declared an interim dividend of $8.34 per ordinary stock unit (2016: $7.52). The dividend of $200.16 million was paid to VMIL's shareholders on record as at 31 October 2017. The dividend was accounted for in shareholders' equity as an appropriation of retained profits in the financial year ended 31 December 2017.
On 28 February 2018, the Board declared an interim dividend in respect of 2018 of $0.20 per ordinary stock unit, payable on 23 March 2018 to shareholders on record as at 9 March 2018. The financial statements for the year ended 31 December 2017 do not reflect this resolution, which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2018.

OFF-BALANCE SHEET FUNDS UNDER MANAGEMENT

Assets managed on behalf of clients on a non-recourse basis under management agreements grew by $4.54 billion or 29.57%, from $15.34 billion in 2016 to $19.88 billion as at 31 December 2017. The year over year growth was fuelled mainly by net inflows to the Unit Trust portfolios of $6.5 billion.

In the 2018 financial year, the Group will continue to enhance its sales strategies to drive further growth in its off-balance sheet funds under management.

2017 Performance Highlights

- Net Profit - $346.3 million
- Net Interest Margin – 1.64%
- Return on Weighted Average Equity – 19.66%
- Capital to Assets – 12.88%
- Shareholders' Equity – $2.58 billion
- Efficiency Ratio – 51.59%
- Off-Balance Sheet Funds Under Management – $19.88 billion

2018 OUTLOOK

Revenue Generation

Going forward, the VMIL Group will continue to drive our asset management business and aggressively increase assets under management. We will also advance our Capital Markets business. This is an area in which our Team Members possess the highest level of expertise in the country.

Customer Focus

Our aim is to deliver Customer Obsessed service. This is a critical element of our business and through different strategies, including delivering improved service delivery; increasing delivery channels; improving customer engagement; introducing new products; and by providing market-leading investment returns, we are confident that we will deliver the highest level of customer service in the industry.

Team Member Focus

At the VMIL Group, we understand the value of retaining high-level talent in order to ensure that we can continue to offer our clients unmatched investment guidance. We will therefore be investing in strategic training and teambuilding initiatives, reinforcing the philosophy of our Core Values, and improving team engagement scores.

Improve Productivity

To achieve the highest level of effectiveness and efficiency, we will be automating key processes; leveraging analytics and technology to identify and close productivity gaps; and improving our cost to income ratio. It is our aim to utilise the most efficient methods to achieve the best results.

INTRODUCTION

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 the full range of pension 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, whilst maximizing your investment returns. This is achieved through our:

1. Commitment to high quality service;
2. Commitment to Service Level Agreements (SLA) which set 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 2017 yielded an increase of $4.5 billion in assets under management, which ended the review period at $44.2 billion. This was achieved mainly by the stellar performance of the investments of the segregated funds as well as the Pooled Pension Portfolios, with returns ranging from 4.2% to 32.7%. The number of lives being administered by VMPM increased by 899 to 6,891 members.

We earned profit before tax and after tax of $160 million and $114 million respectively. Administrative expenses as a percentage of revenue closed the year at 53.12% with an ROE of 111%.

2017 ACHIEVEMENT HIGHLIGHTS

In May 2017, our name was officially changed from Prime Asset Management Limited to Victoria Mutual Pensions Management Limited. This was highlighted in June 2017 when we hosted our official renaming ceremony to mark the milestone. We also celebrated hitting the $40 billion mark in assets under management in the first half of the year.

AREAS OF FOCUS FOR 2018

In the year ahead we will be deploying our state of the art Investment Management Solution, which will drive greater efficiencies and improve work life balance for Team Members. This will allow for the redeployment of existing resources to other areas which may be lagging. By leveraging the strategic objective of being a Strong Integrated Financial Group, VMPM will undoubtedly benefit from the centralisation of processes to yield improved efficiency ratios.

We are also anticipating continued growth in assets and membership, which will be accelerated by the relaunch of the VMPM Approved Retirement Scheme slated for the last quarter of 2018. It is also expected that all our members will be provided with online access via the Online Financial Services Project in the latter part of the year.

VICTORIA MUTUAL PROPERTY SERVICES

Victoria Mutual Property Services (VMPS) Limited is the Real Estate and Property Services arm of the Victoria Mutual Group, providing real estate sales and rental services, island-wide 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.

FINANCIAL PERFORMANCE

For the period under review, VM Property Services recorded growth in revenue of 5.5% year over year to $125.5 million from $118.9 million. Property Appraisals and Project Management revenues surpassed budget by 28% and 69% respectively. Conversely, Revenues from real estate brokerage services fell by 8% over that of 2016.

Over the course of the year, the Company sold 83 properties valued at $992.7 million and completed 786 valuations at a combined value of $12.8 billion.

VMPS increased the area of commercial properties under management after the first quarter of 2018 by 63% to 286,000 square feet. We continue to be effective in managing the property maintenance cost on behalf of the owners.

OUTLOOK

For 2018, we will focus on continuing to increase our market share in the real estate brokerage and appraisal businesses, implementing the slate of projects prioritized for 2018, and increasing the number of buildings under management.

VMBS MONEY TRANSFER SERVICES LIMITED

VMBS Money Transfer Services Ltd (VMTS) is a subsidiary of Victoria Mutual Building Society. Through its extensive and increasing distribution network of more than 75 locations across Jamaica, VMTS provides our remittance customers with the unmatched 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 accounts at any financial institution in Jamaica
- SMS telephone notification on the arrival of funds
- Receiving funds on VM Money Transfer Card
- Bill Payments

Our business relationships extend to more than 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 National Housing Trust (NHT).

Our strategy in 2017 included a focused effort to grow our network and significantly increase the number of VMTS locations across the island. Our initiatives were to:

1. Continue to be an independent SBU and pay VMBS (parent company) transaction fees
2. Expand the VMTS network with the addition of new locations
3. Implement the new MoneyGram software across the VMTS MoneyGram distribution network
4. Launch the new VM Money Express full service locations in Jamaica
5. Continue to reduce consultant fees and increase internal efficiencies
6. Launch the new VMTS website
7. Focus on growth opportunities to increase the values and volumes of VMTS transactions
8. Continue to be timely in the compliance and audit reporting which is fundamental to a strong successful business
9. Increase VMTS efficiency ratio by driving cost down
10. Achieve and exceed the VMTS budgeted Net Promoter Score (NPS)

HERE ARE SOME OF OUR 2017 WINS.

1. In an effort to continue being an independent SBU, we paid VMBS commission per transaction processed in the branch network. This amounted to more than JM$8 million for the year.
2. The VMTS network grew substantially; we opened 16 new locations across Jamaica.
3. The new MoneyGram software was implemented in all VMTS MoneyGram locations across Jamaica.
4. VMTS launched one VM Money Express location.
5. The new VMTS website was launched in July 2017.
6. The VMTS transaction values and volumes increased significantly in 2017 when compared to 2016.
7. VMTS saw improvement in its efficiency ratio based on additional revenue generation and holding of expenses below budget.
8. VMTS surpassed its targeted Net Promoter Score (NPS). This score was the best in the group.

It is our aim to build on the significant wins of 2017 to achieve even greater results in 2018. We are focused and driven and with our Cultural Beliefs, including VM Excel, VM Edge and Results Focused as our guiding principles, we are on track to win big in 2018.

AREAS OF FOCUS FOR 2018

1. Expand the VM Money Express network across Jamaica
2. Expand the sub-agent network across Jamaica
3. Launch a new VMTS international money transfer partner in Jamaica
4. Increase profitability
5. Increase transaction values and volumes
6. Reduce expenses
7. Improve efficiency ratio

CORPORATE PHILANTHROPY

PHILANTHROPY

As a mutual organisation, our purpose is to build the Financial Independence of our Members, thereby improving their quality of life. This purpose is what makes us who we are. It underpins our Core Values and Strategic Goals, key among which is to become a Model Corporate Citizen by partnering with our communities and having a positive and meaningful impact on those we serve. During 2017 we used our expertise and strived to maximise our impact on our communities through initiatives that spanned Nation Building, Education and Sports.

Governor-General Achievement Awards

The Victoria Mutual Group again partnered with the Office of the Governor-General as a legacy sponsor for the Governor-General Achievement Awards (GGAA), which forms part of the Governor-General's Programme for Excellence. The Group supports this initiative as it facilitates synergy with recognising excellence in community development through volunteerism. The GGAA was created to honour Jamaicans who have selflessly worked to develop their communities and often go unrecognised for their efforts, and who were not already recipients of National Honours and Awards.

In 2017, the theme of 'Inspiring and Energising Communities to Serve' guided all activities. A total of 45 awardees (including members of the Diaspora) were honoured for making a positive difference in the lives of others and their communities, despite facing personal challenges. The GGAA awardees, which includes a special award for members of the Diaspora, fall within the age cohorts of 18–24, 25-35 and 35-plus. These recipients are awarded on the basis of academic performance and voluntary service.

Six individuals from the 45 persons awarded were from the Diaspora. They received the Governor General Jamaican Diaspora Award for Excellence during the Jamaica 55 Diaspora Conference for making an impact locally and overseas.

Victoria Mutual has been a sponsor of the prestigious awards since 1991.


GOVERNOR-GENERAL'S
GOVERNOR-GENERAL'S
Programme For Excellence
JAMAICA NATIONAL GROUP
VICTORIA MUTUAL
Scotia Jamaica Building Society
The Gleaner
CASA MARIA
HOTEL


FLOW
The Gleaner
GOVERNOR-GENERAL'S
JAMAICA NATIONAL GROUP
VICTORIA MUTUAL


FLOW
JAMAICA NATIONAL

Marriage and the Family Series

On 25 June 2017, the VM Group hosted the 30th staging of the Victoria Mutual Marriage and the Family Series, under the theme 'Bring the Family Back'. The highly-anticipated event was held at Emancipation Park in New Kingston and featured Novelette Grant, then Deputy Commissioner of Police, as the main speaker. Other presentations were made by Allison Morgan, branch manager, VMBS Half-Way Tree, who spoke on 'Setting a Firm Financial Foundation'. Claudette Pious, Executive Director of Children First, and Conroy Rose, VMBS Assistant Vice President, Sales were the other speakers.

The Marriage and the Family initiative promotes some of the core values upon which Victoria Mutual was founded, such as integrity, respect and care. As research shows, marriage and family are important to the development of any nation. We believe it is important to encourage deep and lasting relations between spouses, parents, children and siblings. This event provides the platform for the discussion of relevant issues impacting the family and gives participants an opportunity to benefit from essential family enrichment resources free of charge.

National Leadership Prayer Breakfast

Spanish Town-based Children First is the charitable organisation that benefitted from the 37th staging of the National Leadership Prayer Breakfast (NLPB) held in January 2017. The donation of more than $500,000 was a combination of contributions collected at the breakfast, along with a direct donation from the Victoria Mutual Group.

At the cheque-handover ceremony, President and CEO of the Victoria Mutual Group, Courtney Campbell, reiterated the organisation's commitment to supporting the work of the NLPBC and emphasised the significance of the contribution being made to Children First.

Victoria Mutual has been the major sponsor of the NLPB for more than 30 years. The 2017 staging was held at the Jamaica Pegasus hotel in New Kingston under the theme 'God-empowered Intervention for Transformation'.

Moderator of the United Church in Jamaica and the Cayman Islands, the Rt. Rev. Christopher Mason, said the NLPB committee identified Children First as the charity to be assisted this year, to give support to vulnerable members of society, particularly women and children who have been impacted by abuse and violence.

The programmes supported include a life skills initiative in juvenile centres, specifically targeting 50 wards at the South Camp Juvenile Centre, as well as a programme exploring issues of gender-based violence and child abuse.

Labour Day 2017

Labour Day 2017 was observed under the theme 'Restore, Preserve, Beautify'. The Victoria Mutual Group, through our #VMProud volunteers, joined the entire island in support of this theme in three parishes: St. Catherine, St. James and St. Elizabeth.

St. Catherine

In keeping with our pledge made during the National Leadership Prayer Breakfast, Children First was the major project for Labour Day 2017. The #VMProud Volunteers restored the lawns/grounds through clean-up activities and beautified both locations with fresh paint jobs.

St. Elizabeth

St. Elizabeth Technical High School saw the #VMProud Team giving the school gymnasium a facelift.

St. James

The bathroom of the Freeport Police Station was refurbished through partnership which included support from the VM Team.

Scholarship Programme

"Thank you so much for being such a generous sponsor year after year. It is with your support that we, the recipients, are encouraged to stay on track and persevere. We all have different stories; many different experiences in life with various trials and triumphs; but we share at least one thing– we are all aspiring professionals working towards a goal," expressed an elated Tamara Edwards, the 2017 Victoria Mutual (VM) Master Plan Head-Start Scholarship recipient. She gave heartfelt remarks on behalf of the beneficiaries at the 2017 VM Scholarship Awards Presentation Awards Ceremony on 25 August 2017 at the Knutsford Court Hotel, New Kingston.

Through the institution's scholarship programme, an additional 58 students received financial support for the 2017/18 school term. The students were presented with their bursaries and scholarships at the VM Scholarships Awards presentation ceremony which was guided by the theme 'Making Your Education Count'.

A total of 51 students received the VM GSAT Head-Start Bursary that is awarded to the top saver in each of the schools that participate in VMBS Save2Grow School Savings Programme. The bursaries are valued at $15,000 each. Three students received the Junior Plan Scholarship valued at $150,000 each, to be dispersed over five years; and four students received scholarships of $120,000 each towards their undergraduate degree. Meanwhile, one Master Plan saver received a $150,000 scholarship towards the final year of study at a local tertiary institution.

The programme rewards the excellent scholastic achievements of VM student savers, by providing them with much needed financial assistance to continue to pursue their academic goals.

The Victoria Mutual Head-Start Scholarship Programme has rewarded the educational aspirations of more than 1,600 students since inception.

VMBS/St. James Football Association Under-13 Football Competition

The 2017 VMBS/St. James Football Association Under-13 Football Competition marked 27 years of the organisation being the sole sponsor of a football competition aimed at honing the skills of competitors on and off the football field.

The 2017 competition, co-sponsored by Victoria Mutual Money Transfer and the Victoria Mutual Building Society, had 31 teams vying for the title using the theme, 'Healthy, Wealthy and Wise'. The theme reflected the importance of teaching players to adopt healthy habits such as remembering to get fresh air, get sunshine, eating properly and practicing good hygiene, practicing good judgement by making wise decisions and generating wealth by becoming ardent savers.

Assistant Coach for Harbour View FC and former Premier League and National Senior Team Football Player, Ricardo 'Bibi' Gardner served as the keynote speaker for the launch ceremony. He encouraged participants to remain disciplined and to strive for greatness in all their endeavours, while being team players.

After two months of play, John Rollins Success Primary walked away with the 2017 title and cash prize. Corinaldi Avenue Primary, Granville All Age and Howard Cooke Primary rounded out the top four teams and were rewarded for their efforts.

Sectional prizes were awarded for the Top Coach, Most Disciplined Team, MVP and Outstanding Performances.


Victoria Mutual


VMBS / ST. JAMES
FOOTBALL ASSOCIATION


VMBS / ST. JAMES
FOOTBALL ASSOCIATION


VMBS


VMBS

VM Foundation Established

In keeping with our Model Corporate Citizen objective, in 2017 we established the Victoria Mutual (VM) Foundation as the medium through which Victoria Mutual will improve the quality of life of Jamaicans globally. With three areas of focus - Leadership and Nation Building; Youth Empowerment; Health and Family – the VM Foundation is committed to helping others to achieve their true potential. The Foundation was later launched on 8 May 2018.

VM Foundation Adopts a Clinic

In November, the VM Foundation established its footprint by partnering with the Ministry of Health for its Adopt a Clinic Programme. The programme is designed to encourage Jamaicans, the Jamaican Diaspora and other friends of Jamaica, to adopt a clinic in communities in Jamaica. The adoption falls under the Parenting and Family pillars of the Foundation. We officially adopted the St. Jago Park Health Centre in Spanish Town, St Catherine.

Financial Literacy

Financial inclusion is an essential pillar to having inclusive growth – ensuring improvements in economic opportunity and living standards for all. A key part of ensuring financial inclusion is to help individuals to not only have access to financial services, but to have the knowledge to utilise them. To this end, the Victoria Mutual Group has embarked on its financial education campaign, though our Financial Independence goal, with a planned build out for 2018. This will result in easier understanding of the importance of utilising financial tools and services for financial advancement. These are the highlights of what we did in 2017.

VM igKnight: Growth.Leadership.Wealth Workshops

VM partnered with the New Testament Church of God's Tertiary Students Ministry Programme and the University of Technology to host 'VM igKnight: Growth.Leadership. Wealth', a series of workshops focused on personal development and financial planning. VM conducted three weeks of financial independence training in the series.

Victoria Mutual in the Diaspora

Victoria Mutual has long recognised the importance of the members of our Diaspora. As such, we continue to play our part in assisting them to maintain ties with and contribute to the development of their homeland. This is done through our representative offices in Florida and the United Kingdom.

Victoria Mutual Building Society United Kingdom Representative Office

Immigration was a pertinent topic in the space. Our United Kingdom Representative Office wanted to contribute in a meaningful way to the discussion surrounding immigration issues facing members of the Jamaican community within the Diaspora.

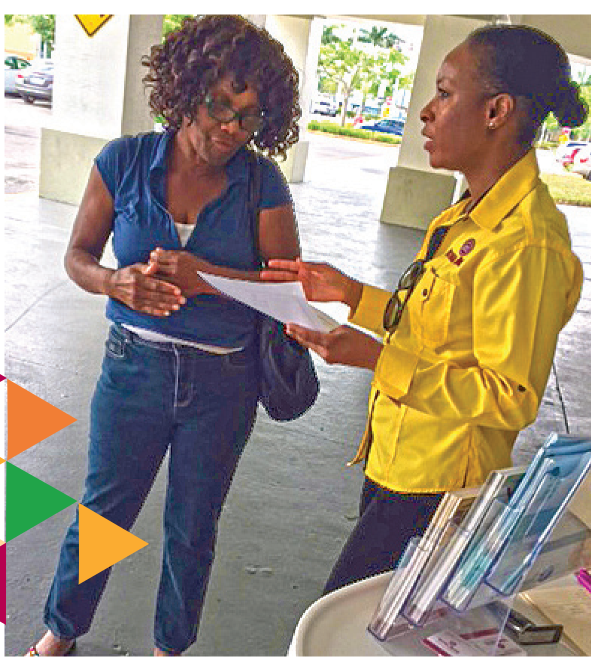
Under the umbrella of our 'Let's Talk' community series, we partnered with the Birmingham Empowerment Forum and engaged several respected immigration lawyers to provide key information in a public forum.

A second series of 'Let's Talk' community meetings were held in Bristol with a focus on the topic of knife crime and its impact on our youth.

Victoria Mutual Building Society Florida Representative Office

In 2017, your Florida Representative Office supported philanthropic efforts tied to youth and education. Additionally, we also engaged and provided the Diaspora community with information on the various products and services, which included savings or fixed deposit accounts, mortgage loan options, and financial guidance, which are all conducive to a saving lifestyle.


The City of Mi
Welcom




Come Home


IN JAMAICA
You can choose
how you want to SAVE...
Save towards your goals
while maximizing your
returns with the
CERTIFICATE OF DEP
The VICTORIA MUTUAL
Building Society
Florida Representative Office

Jamaica Moves Get Moving Corporate Challenge

More than 40 employees across the Group answered the call to sign up for the Jamaica Moves Corporate Challenge, which is composed of six races on the circuit:

- Puma Fortis 5K
- Colour Me Happy Fun Run
- CUMI Come Run
- JN Foundation Heroes in Action
- CB UWI
- Reggae Marathon

Aligned with our organisation's thrust of health and wellness for all employees, the #VMProud Challengers demonstrated our core values of #Excellence and #Teamwork and walked away with the title of Biggest Movers for the 2017 Circuit!

We are all **#VMProud** of this awesome accomplishment!

Winning with VM – VM Million Dollar Winners Club Promotion

At VM our actions are influenced by one end goal – benefits for you, our valued Members. Our objective is to build Financial Independence and this involves encouraging a habit of saving. To reinforce this we launched our Million Dollars Winners Club Promotion in 2017 to reward our Members for saving. Five VMBS Members – Albert Swaby, Victoria Gylaird, Igol Coke, Janice Wright-Walker and Gavin Brown – one each quarter with a bonus winner – were made into millionaires.

We Are Our Members

On 14 November, we celebrated our 139th Anniversary and recognised the month as Members' Month. We had the privilege of hearing stories of the impact our organisation has had on our most loyal Members across the island and surprised them with a token of our appreciation.


ng Your Financial Independence
Express
Services


Self Service Kiosk


FATCA

The 7th Biennial Jamaica Diaspora Conference was launched on 4 April 2018 using the name **Jamaica 55 Diaspora Conference** as a link to Jamaica's 55th Independence celebrations.

As a legacy partner, the VM Group played a primary role in the planning and execution of the conference which was staged over the period 23-27 July 2017 in Kingston. The theme, **Partnering for Growth**, was aimed at recognising the long established contribution of the Diaspora as partners and the uniting of the Diaspora with local stakeholders towards a deepening of those partnerships and an expansion of the scope for the Jamaica of tomorrow.

At the launch on 4 April 2017 VM Group President & CEO, Courtney Campbell delivered brief remarks on behalf of the legacy partners and moderated Plenary 6 on 26 July 2017. The session's theme was 'The Creative Economy and Jamaica 55.' Devon Barrett, VM Group's Chief Investment Officer, also acted as moderator for Plenary 3 on 26 July 2017. The session's theme was 'Jamaica's Diversified Tourism Product' and the topic for Plenary 3 was 'Driving Economic Growth Through Tourism Innovation: A Role For The Diaspora?'

As is customary, VM hosted a Jamaica 55 Diaspora Conference Lyme under the theme 'Jamaica through the Ages' on 25 July 2017. Held in partnership with GraceKennedy Foods at the Sunken Gardens at Hope Gardens, the lyme highlighted authentic Jamaican food and music through the ages and featured Romaine Virgo as the guest artiste.

Victoria Mutual Recognition Ceremony: I AM VM Awards

On 13 May 2017, Team Members of the Victoria Mutual Group were celebrated for their excellence, dedication, loyalty and for being champions of the VM Brand at their 2016 Group Recognition Ceremony dubbed the 'I AM VM Awards'. The event was held at the Jamaica Pegasus Hotel under the theme 'Building on Our History, Transforming for the Future', with Team Members receiving awards for loyalty in service and excellent performance. The Loyalty in Service Awards honoured 38 Team Members who have been with the Group for 25 years and over while Excellent Performance Awards were given in the following categories: Excellence Awards; Employee Engagement; 2020 Strategic Business Unit Award (SBU); Sales Person of the Year for Victoria Mutual Building Society; Victoria Mutual Property Services; and Victoria Mutual Wealth Management; Branch Sales Award; Champion Branch of the Year; Leadership Award; Active and Visible Sponsorship Award (at the Executive level) and President's Award.

Here are some highlights from the event.

Fitzroy Mills accepting the 2017 President's Award.


I AM VM AWARDS
2016
VICTORIA MUTUAL


EMPLOYER OF CHOICE


I AM VM AWARDS
2016
VICTORIA MUTUAL

BRANCH LEADERSHIP

The Victoria Mutual Building Society

Simone George-Davey
Branch Manager
Duke Street

Faithline Campbell
Branch Manager
Falmouth

Allison Morgan
Branch Manager
Half Way Tree

Mendel Thompson
Branch Manager
Liguanea

Cherese Stewart
Branch Manager
Linstead

Robert Foster
Branch Manager
Mandeville

Marsden Dennis
Branch Manager
May Pen

Suzette Ramdanie-Linton
Branch Manager
Montego Bay & Fairview Sub-Branch

Ainsley Whyte
Branch Manager
New Kingston

Charmaine McConnell-Taylor
Branch Manager
Ocho Rios

Shelliann Afflick
Branch Manager
University of Technology (UTech)
Papine

Joy Bunting-Pusey
Branch Manager
Portmore

Erica Robinson
Branch Manager
Santa Cruz

Allison Shields
Branch Manager
Savanna-la-Mar
(appointed February 1, 2018)

Ruth Oliver
Branch Manager
Spanish Town

FINANCIAL STATEMENTS

DECEMBER 31, **2017**

KPMG
Chartered Accountants
The Victoria Mutual Building
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922-6640
firmmail@kpmg.co.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 164, which comprise the Group's and Society's statements of financial position as at December 31, 2017, 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, 2017, 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.

To the Members of
THE VICTORIA MUTUAL BUILDING SOCIETY

Report on the Audit of the Financial Statements (continued)

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.

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.

IINDEPENDENT AUDITORS' REPORT (CONT'D)

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)

- 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.

- 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.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
THE VICTORIA MUTUAL BUILDING SOCIETY

Report on the Audit of the Financial Statements (continued)

We have examined the mortgage deeds and other securities belonging to the Society. Title deeds numbering 6,981 were produced to us and actually inspected by us, and we are satisfied that the remaining 266 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.

Chartered Accountants
Kingston, Jamaica

March 28, 2018

Nigel R. Chambers

Nyssa A. Johnson

Chartered Accountants
Kingston, Jamaica

THE VICTORIA MUTUAL BUILDING SOCIETY

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017

	Notes	Group 2017	Group 2016	Company 2017	Company 2016
		$'000	$'000	$'000	$'000
ASSETS					
Cash and cash equivalents	7	12,214,487	11,499,829*	9,315,007	11,153,201*
Investments - Jamaica Government securities	8	20,266,137	28,300,992	12,220,464	19,540,037
- Other	9	21,084,898	10,601,812	17,363,848	6,196,842
Resale agreements	10	14,320,770	17,377,510	12,283,910	16,694,578
Loans	11	44,069,750	34,531,088	44,118,134	34,549,540
Other assets	12	3,714,289	2,918,957	2,336,539	2,203,719
Income tax recoverable		101,951	123,209	101,951	114,700
Deferred tax assets	13(a)	85,461	79,519	-	-
Employee benefits asset	14	2,176,900	2,466,111	2,176,900	2,466,111
Interest in subsidiaries	15	-	-	1,081,394	1,224,534
Interest in associate	16	1,142,378	1,099,076	659,200	659,200
Intangible assets	17	2,352,348	1,658,932	1,507,112	948,062
Investment and foreclosed properties	18	437,621	500,801	554,941	618,121
Property, plant and equipment	19	1,207,156	1,049,906	1,060,148	951,943
TOTAL ASSETS		**123,174,146**	**112,207,742***	**104,779,548**	**97,320,588**
LIABILITIES					
Savings fund:					
Shareholders' savings	20	75,123,408	70,843,355	75,845,137	71,684,234
Depositors' savings	21	1,255,982	1,122,600	1,255,982	1,122,600
Savings fund		76,379,390	71,965,955	77,101,119	72,806,834
Due to specialised institution		12,046,079	10,780,843	12,046,079	10,780,843
		88,425,469	82,746,798	89,147,198	83,587,677
Income tax payable		109,028	4,152	-	-
Other liabilities	22	4,179,682	1,282,618	507,675	681,652
Repurchase agreements	23	11,822,293	12,565,035	51,707	-
Loan payable	24	-	-	-	525,481
Other borrowings	25	1,593,901	-	1,087,792	-
Deferred tax liabilities	13(b)	298,595	439,018	298,419	438,973
Employee benefits obligation	14	1,276,700	1,036,104	1,206,500	981,304
TOTAL LIABILITIES		**107,705,668**	**98,073,725**	**92,299,291**	**86,215,087**
CAPITAL AND RESERVES					
Permanent capital fund	26	7,746,058	7,746,058*	7,746,058	7,746,058*
Reserve fund	27(i)	1,189,174	936,390*	1,189,174	936,390*
Retained earnings reserve	27(ii)	2,118,255	685,812*	2,118,255	685,812*
Non-distributable reserve	27(iii)	12,929	120,955*	12,929	120,955*
Capital reserve on consolidation	27(iv)	82	82	-	-
Credit facility reserve	11(c),27(v)	1,236,781	1,182,620	1,236,781	1,182,620
Investment revaluation reserve	27(vi)	416,181	626,818	167,060	423,666
General reserve		10,000	10,000	10,000	10,000
Currency translation reserve	27(vii)	273,097	327,109	-	-
Retained earnings		1,781,237	2,498,173	-	-
		14,783,794	14,134,017	12,480,257	11,105,501
Non-controlling interest	29	684,684	-	-	-
Total capital and reserves		**15,468,478**	**14,134,017**	**12,480,257**	**11,105,501**
Total liabilities and capital and reserves		**123,174,146**	**112,207,742***	**104,779,548**	**97,320,588***

The financial statements on pages 82 to 164, were approved for issue by the Board of Directors on March 28, 2018 and signed on its behalf by:

Director

Michael A. McMorris

Director

Courtney Campbell

Countersigned:

Corporate Secretary

Keri-Gaye Brown

***Restated (see note 40)**

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

THE VICTORIA MUTUAL BUILDING SOCIETY

INCOME STATEMENTS

YEAR ENDED DECEMBER 31, 2017

		Group		Company	
	Notes	2017	2016	2017	2016
		$'000	$'000	$'000	$'000
Interest income	31	6,190,380	5,903,123	5,494,617	5,226,903
Interest expense	31	(2,173,859)	(2,086,503)	(1,745,273)	(1,679,961)
Net interest income		4,016,521	3,816,620	3,749,344	3,546,942
Fee and commission income	32	1,003,682	677,453	321,296	244,620
Fee and commission expenses	32	(90,031)	(102,104)	(54,193)	(63,530)
Net fee and commission income		913,651	575,349	267,103	181,090
Other operating revenue	33	1,602,796	1,155,533*	2,544,453	1,046,052*
Net interest income and other revenue		6,532,968	5,547,502*	6,560,900	4,774,084*
Personnel costs	34	(3,148,104)	(2,504,017)	(2,438,544)	(1,922,074)
Depreciation and amortisation	17,18,19	(240,788)	(191,830)	(215,283)	(166,029)
Other operating expenses	35	(2,063,257)	(1,815,301)*	(2,094,338)	(1,787,124)*
		(5,452,149)	(4,511,148)	(4,748,165)	(3,875,227)
Share of profits of associate	16	210,621	162,625	-	-
Surplus before income tax		1,291,440	1,198,979	1,812,735	898,857
Income tax charge	36	(258,666)	(342,381)	(73,347)	(246,922)
Surplus for the year		**1,032,774**	**856,598***	**1,739,388**	**651,935***
Attributable to:					
Equity holders' of the society		1,032,205	856,598	1,739,388	651,935
Non-controlling interest		569	-	-	-
		1,032,774	**856,598**	**1,739,388**	**651,935**

***Restated (see note 40)**

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

THE VICTORIA MUTUAL BUILDING SOCIETY

STATEMENTS OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2017

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Surplus for the year	1,032,774	856,598*	1,739,388	651,935*
Other comprehensive income				
Items that will never be reclassified to the income statement:				
Net (loss)/gain on remeasurement of employee benefits asset and obligation	(158,196)	497,377	(150,896)	492,977
Deferred income tax on net loss/(gain) on remeasurement of employee benefits asset and obligation	40,603	(147,353)	42,870	(146,153)
Foreign currency translation difference on foreign operations and other adjustments	(54,012)	81,604	-	-
Unrealised (losses)/ gains on available-for-sale financial assets	477,078	390,750	350,019	286,918
Deferred income tax on available-for-sale investments	21,095	28,107	-	-
Realised gains on available-for-sale financial assets	(613,647)	(102,386)*	(606,625)	(93,198)*
Other comprehensive (loss)/ income for the year, net of tax	(287,079)	748,099*	(364,632)	540,544*
Total comprehensive income for the year	745,695	1,604,697*	1,374,756	1,192,479*

*Restated (see note 40)

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

GROUP STATEMENT OF CHANGES IN CAPITAL AND RESERVES

YEAR ENDED DECEMBER 31, 2017

	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
Balances at December 31, 2015	**6,980,852**	**851,367**	**459,943**	-	**82**	**1,380,914**	**303,806**	**10,000**	**245,505**	**2,282,988**	**12,515,457**
Total comprehensive income for the year											
Surplus for the year, as restated (see note 40)	-	-	-	-	-	-	-	-	-	856,598	856,598
Other comprehensive income:											
Change in fair value of available-for-sale investments, net of tax	-	-	-	-	-	-	411,535	-	-	7,322	418,857
Foreign currency translation difference on foreign subsidiaries' balances and other adjustments	-	-	-	-	-	-	-	-	81,604	-	81,604
Realised gains on available-for-sale financial assets	-	-	-	-	-	-	(102,386)	-	-	-	(102,386)
Net gain on remeasurement of employee benefits asset and obligation, net of tax	-	-	346,824	-	-	-	-	-	-	3,200	350,024
Total other comprehensive income	-	-	346,824	-	-	-	309,149	-	81,604	10,522	748,099
Total comprehensive income for the year, as restated	-	-	346,824	-	-	-	309,149	-	81,604	867,120	1,604,697
Movements between reserves											
Transfer of remeasurement gains on employee benefits asset and obligations	-	-	(120,955)	120,955	-	-	-	-	-	-	-
Credit facility reserve transfer	-	-	-	-	-	(198,294)	-	-	-	198,294	-
Other transfers [notes 26 and 27(i)]	765,206	85,023	-	-	-	-	-	-	-	(850,229)	-
Total movement between reserves	765,206	85,023	(120,955)	120,955	-	(198,294)	-	-	-	(651,935)	-
Share of investment revaluation of associate	-	-	-	-	-	-	13,863	-	-	-	13,863
Balances at December 31, 2016	**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**
As previously reported	7,866,415	949,763	908,857	-	82	1,182,620	626,818	10,000	327,109	2,498,173	14,369,837
Prior year adjustment (see note 40)	(120,357)	(13,373)	(223,045)	120,955	-	-	-	-	-	-	(235,820)
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

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, 2017

	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 the year													
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 26 and 27(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.

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

YEAR ENDED DECEMBER 31, 2017

	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 reserves $'000
Balances at December 31, 2015	**6,980,852**	**851,367**	**459,943**	**-**	**1,380,914**	**229,946**	**10,000**	**-**	**9,913,022**
Total comprehensive income for the year									
Surplus for the year, as restated	-	-	-	-	-	-	-	651,935	651,935
Other comprehensive income:									
Unrealised gains on available-for-sale financial assets	-	-	-	-	-	286,918	-	-	286,918
Gain on remeasurement of employee benefits asset and obligation, net of tax			346,824						346,824
Realised gains on available-for-sale financial assets	-	-	-	-	-	(93,198)	-	-	(93,198)
Total other comprehensive income	-	-	346,824	-	-	193,720	-	-	540,544
Total comprehensive income for the year	-	-	346,824	-	-	193,720	-	651,935	1,192,479
Movements between reserves									
Transfer of remeasurement gains on employee benefits asset and obligations	-	-	(120,955)	120,955	-	-	-	-	-
Credit facility reserve transfer	-	-	-	-	(198,294)	-	-	198,294	-
Other reserves [notes 26 and 27(i)]	765,206	85,023	-	-	-	-	-	(850,229)	-
Total movement between reserves	765,206	85,023	(120,955)	120,955	(198,294)	-	-	(651,935)	-
Balances at December 31, 2016, as restated	**7,746,058**	**936,390**	**685,812**	**120,955**	**1,182,620**	**423,666**	**10,000**	**-**	**11,105,501**
Balances at December 31, 2016:									
As previously reported	7,866,415	949,763	908,857	-	1,182,620	423,666	10,000	-	11,341,321
Prior year adjustment (see note 40)	(120,357)	(13,373)	(223,045)	120,955	-	-	-	-	(235,820)
As restated	7,746,058	936,390	685,812	120,955	1,182,620	423,666	10,000	-	11,105,501

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

THE VICTORIA MUTUAL BUILDING SOCIETY

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

YEAR ENDED DECEMBER 31, 2017

	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 reserves $'000
Balances at December 31, 2016, as restated	**7,746,058**	**936,390**	**685,812**	**120,955**	**1,182,620**	**423,666**	**10,000**	**-**	**11,105,501**
Total comprehensive income for the year									
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 income	-	-	-	(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 26 and 27(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.

THE VICTORIA MUTUAL BUILDING SOCIETY

GROUP STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Surplus for the year		1,032,774	856,598*
Adjustments for:			
Depreciation and amortisation	17,18,19	240,788	191,830
Employee benefits asset and obligation		125,566	59,481
Interest income	31	(6,190,380)	(5,903,123)
Interest expense	31	2,173,859	2,086,503
Gain on disposal of investment property and property, plant and equipment		(6,511)	(8,491)
Share of profits of associate	16	(210,621)	(162,625)
Change in allowance for loan losses	11(b)	1,278	6,417
Income tax expense	36	258,666	342,381
		(2,574,581)	(2,531,029)
Unrealised exchange gains on foreign currency balances		(245,267)	(119,543)
Loan advances, net of repayments		(9,539,940)	(1,635,107)
Change in other assets		(604,594)	(703,706)
Employee benefits, net		241,511	(19,926)
Net receipts from shareholders and depositors		4,412,164	5,014,800
Due to specialised institution		1,265,236	572,079
Change in other liabilities		2,897,064	106,497
		(4,148,407)	684,065
Interest and dividends received		6,071,840	6,189,913
Interest paid		(2,172,588)	(2,183,150)
Income taxes paid		(254,855)	(337,416)
Net cash (used)/provided by operating activities		(504,010)	4,353,412*
Cash flows from investing activities			
Government of Jamaica securities		7,940,476	(41,580)*
Other investments		(10,483,086)	(318,551)
Resale agreements		3,056,740	(4,377,252)
Purchase of intangible assets	17	(772,876)	(524,094)
Purchase of property, plant and equipment	19	(294,212)	(254,573)
Proceeds of disposal of property, plant and equipment		55,691	28,470
Repurchase agreements		(742,042)	525,595
Net cash used by investing activities		(1,240,009)	(4,961,985)
Cash flows from financing activities			
Loans payable, net		1,593,901	572,079
Proceeds from issuance of ordinary shares by subsidiary		683,887	-
Net cash provided by financing activities		2,277,788	572,079
Net increase/(decrease) in cash and cash equivalents for year		533,769	(36,494)
Cash and cash equivalents at beginning of year		11,499,829	11,467,126
Effect of exchange rate fluctuations on cash and cash equivalents		108,889	69,197
Cash and cash equivalents at end of year	7	12,214,487	11,499,829

***Restated (see note 40)**

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

THE VICTORIA MUTUAL BUILDING SOCIETY

SOCIETY STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2017

	Notes	2017 $'000	2016 $'000
Cash flows from operating activities			
Surplus for the year		1,739,388	651,935*
Adjustments for:			
Depreciation and amortisation	17,18,19	215,283	166,029
Unrealised exchange gains on foreign currency balances		(207,781)	(75,625)
Employee benefits obligation		122,000	64,881
Interest income	31	(5,494,617)	(5,226,903)
Interest expense	31	1,745,273	1,679,961
Gain on disposal of property, plant and equipment		(6,511)	(8,491)
Gain on sale of investments		(593,043)	(227,239)
Change in loan impairment	11(b)	1,278	6,417
Income tax expense	36	73,347	246,922
		(2,405,383)	(2,722,113)
Loan advances, net of repayments		(9,569,873)	(1,632,853)
Interest in subsidiaries, (current account)		143,140	4,352
Change in other assets		1,679,481	(289,172)
Employee benefits, net		241,511	(19,726)
Net receipts from shareholders and depositors		3,729,361	5,427,149
Due to specialised institution		1,265,236	572,079
Change in other liabilities		(173,977)	139,586
		(5,090,504)	1,479,302
Interest and dividends received		3,682,316	5,317,925
Interest paid		(1,180,349)	(1,668,071)
Income taxes paid		(158,282)	(179,143)
Net cash (used)/provided by operating activities		(2,746,819)	4,950,013*
Cash flows from investing activities			
Government of Jamaica securities		7,656,011	(522,928)*
Other investments		(11,167,006)	212,918
Resale agreements		4,410,668	(3,952,398)
Purchase of intangible assets	17	(632,994)	(491,343)
Purchase of property, plant and equipment	19	(235,544)	(233,769)
Proceeds of disposal of property, plant and equipment		55,691	28,470
Net cash provided/(used) by investing activities		86,826	(4,959,050)
Cash flows from financing activity			
Loans payable, being cash provided by financing activity		614,018	-
Net decrease in cash and cash equivalents for year		(2,045,975)	(9,037)
Cash and cash equivalents at beginning of year		11,153,201	11,109,747
Effect of exchange rate fluctuations on cash and cash equivalents		207,781	52,491
Cash and cash equivalents at end of year	7	9,315,007	11,153,201*

***Restated (see note 40)**

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

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 home loans, accepting deposits, trading in foreign currencies, providing money transmission services, investing funds, insurance premium financing, investment holding, stockbroking and securities trading, and real estate services.

(b) "Group" refers to the Society and its subsidiaries, 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	Insurance premium financing and investment holding	80 (2016:100)	-
Victoria Mutual Wealth Management Limited	Jamaica	Stockbroking and securities trading	-	100
Victoria Mutual Properties Limited *and its wholly-owned subsidiary:	Jamaica	Development and letting of real property	100	-
Victoria Mutual (Property Services) Limited	Jamaica	Housing development, property management and sales	-	100
Victoria Mutual Finance Limited	United Kingdom	Provision of management services to the Society	100	-
VMBS Money Transfer Services Limited	Jamaica	Management of the money transfer services of the Society	99	-
VMBS Overseas (UK) Limited	United Kingdom	Promotion of the business of the Society	100	-
Victoria Mutual Pensions Management Limited *(formerly Prime Asset Management Limited)*	Jamaica	Pension management	100	-

Westin International Insurance Company Limited and VMBS Overseas (Canada) Inc. were liquidated during the year.

On December 27, 2017 Victoria Mutual Investments Limited issued 20% of its ordinary shares to the public. The shares were listed on the Jamaica Stock Exchange on December 29, 2017.

(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.

2. REGULATIONS AND LICENCE

The Society is licensed, 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, that 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.

3. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Certain new, revised and amended standards and interpretations became effective for the current financial year. The Group has assessed them and has adopted those which are relevant to its financial statements.

(i) Amendments to IAS 7, *Statement of Cash Flows*, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

(ii) Amendments to IAS 12, *Income Taxes*, effective for accounting periods beginning on or after January 1, 2017, clarifies the following:

- The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

- A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.

- Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.

- An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

- Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

3. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (cont'd)

At the date of approval of these financial statements, certain new, revised 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 with respect to its operations and has concluded that the following may be relevant:

(i) IFRS 9, *Financial Instruments* is effective January 1, 2018. The standard replaces 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. It contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Based on its preliminary assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for accounts receivable, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. However, the Group is still in the process of its assessment and the final impact has not yet been determined.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments.

Under IFRS 9, loss allowances will be measured on either of the following bases:

(i) 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
(ii) Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for short-term receivables without a significant financing component.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. However, the Group is still in the process of determining the likely financial impact on its financial statements.

3. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (cont'd)

(i) IFRS 9, *Financial Instruments (cont'd)*

IFRS 9 will require extensive disclosures, in particular, for credit risk and ECLs. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls changes that it believes will be necessary to capture the required data.

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as follows:

- The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement as well as impairment changes. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at January 1, 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:
    - The determination of the business model within which a financial asset is held.
    - The designation and revocation of previous designations of certain financial assets as measured at FVTPL.
    - The designation of certain investments in equity investments not held for trading at FVOCI.

(ii) The Group is required to adopt IFRS 15, *Revenue from Contracts with Customers* from January 1, 2018. The standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18, *Revenue*, IAS 11, *Construction Contracts* and IFRIC 13, *Customer Loyalty Programmes*.

The Group will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

Management has assessed that the main impact of this standard is in respect of fees and commission income. The Group earns fees and commission income on provision of brokerage activities, corporate advisory and portfolio management services and unit trust management. Based on preliminary review, IFRS 15 is not expected to have a material impact on the timing and recognition of fees and commission income. However, management has not yet completed its assessment and the financial impact has not yet being determined.

3. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (cont'd)

(iii) 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.

Early adoption is permitted if IFRS 15, Revenue from Contracts with Customers, is also adopted.

(iv) Amendments to IAS 40, *Transfers of Investment Property*, effective for annual reporting periods beginning on or after January 1, 2018, clarifies when an entity should transfer a property asset to, or from, investment property. A transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use.

The entity has a choice on transition to apply the prospective approach – i.e. apply the amendments to transfers that occur after the date of initial application – and also reassess the classification of investment property held at that date; or apply the amendments retrospectively in accordance with IAS 8, but only if it does not involve the use of hindsight.

(v) IFRIC 22, *Foreign Currency Transactions and Advance Consideration,* effective for annual reporting periods beginning on or after January 1, 2018, addresses how to determine the transaction date when an entity recognises a non-monetary asset or liability (e.g. non refundable advance consideration in a foreign currency) before recognising the related asset, expense or income. It is not applicable when an entity measures the related asset, expense or income on initial recognition at fair value or at the fair value of the consideration paid or received at the date of initial recognition of the non-monetary asset or liability.

The interpretation clarifies that the transaction date is the date on which the entity initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date.

An entity is not required to apply this interpretation to income taxes or insurance contracts that it issues, or reinsurance contracts held.

3. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (cont'd)

(vi) 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 the accounting for income tax treatments that have yet to be accepted by tax authorities, in the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

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.

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

- Prepayment features with negative compensation:

  Financial assets containing prepayment features with negative compensation can now 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)

(vii) Amendments to IFRS 9, *Financial Instruments, (cont'd)*

- 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.

(viii) *Improvements to* IFRSs *2014-2016* contain amendments to certain standards applicable to the Group as follows:

- IAS 28, *Investments in Associates and Joint Ventures,* effective retrospectively for annual reporting periods beginning on or after January 1, 2018, has been amended to clarify or state the following:

  (i) A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis.

  (ii) A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture.

The Group is assessing the impact that these new standards, amendments and improvements will have on its financial statements when they become effective.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis, modified for the inclusion of available-for-sale investments at fair value. In addition:

- the employee benefits asset is recognised as plan assets, less the present value of the defined-benefit obligation, and is limited as explained in note 4(h); and

- the defined-benefit liability is 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 4(n). Amounts are rounded to the nearest thousand.

(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 estimations, 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) 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 4(h) and 14. Management provides its appointed actuaries with some of the information, including key assumptions, used in estimating the employee benefit amounts. The possibility of significant differences between actual results and the assumptions used means that uncertainty is inherent in these estimates.

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)

(2) Allowance for impairment losses on financial assets

In determining amounts, if any, to be recorded for impairment of financial assets, management makes assumptions in assessing whether certain facts and circumstances, such as repayment default or adverse economic conditions indicate that there may be a measurable decrease in the estimated future cash flows from outstanding balances. Management also makes estimates of the amount of 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.

(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.

(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.

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)

(5) Income taxes (cont'd)

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 8, 9 and 30). 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.

The following are relevant to these financial statements:

- 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 4(b).

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)

- 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. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The Group's financial statements include the audited financial statements of the Society and its subsidiaries as at and for the year ended December 31, 2017, 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.

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:

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

(i) Classification of financial instruments

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 los*s 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.

The Group classifies non-derivative financial liabilities into the "other financial liabilities" category.

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

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

The Group initially recognises loans and receivables and 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 nor 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.

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

4. 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 financial liabilities (cont'd)

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.

(iii) Measurement, gains and losses - Non-derivative financial assets

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. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

(iii) Measurement and gains and losses - Non-derivative financial assets (cont'd)

Available-for-sale (cont'd):

- 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 the income statement.

(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.

(ii) Resale and repurchase agreements

Resale agreements are accounted for as short-term collateralised lending and classified as 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

(iii) Derivatives (cont'd)

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 the income statement.

(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 the income statement on the effective interest basis.

(vi) Other liabilities

Other liabilities are measured at cost or amortised cost.

(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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Revenue recognition (cont'd)

(i) Interest income (cont'd)

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.

(ii) 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.

(e) Interest expense

Interest expense is recognised in the income statement 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Income tax (cont'd)

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.

(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 14) to provide post-employment pensions.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Employee benefits (cont'd)

(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.

(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 belongs to 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Employee benefits (cont'd)

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

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.

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 exceeding costs 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 at five 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Investment and foreclosed properties (cont'd)

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Identification and measurement of impairment

(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 individually 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

Differential impacts of IFRS and regulatory requirements

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 27(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 investment

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Foreign currencies (cont'd)

(i) Transactions and balances (cont'd)

Changes in the fair value of monetary securities denominated in foreign currency 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.

5. 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 5(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.

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, methodologies and policies. The Board has established the following three committees for risk management purposes:

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

5. FINANCIAL RISK MANAGEMENT (CONT'D)

Introduction and overview (cont'd)

Risk management framework (cont'd)

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 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, and for reviewing the adequacy of the ERM framework in relation to the risks faced by the Group. The Audit Committees are assisted in these functions by Group Internal Audit, which undertakes both regular and adhoc 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. Balances arising from these activities include loans and other receivables, investment securities, resale agreements, cash and cash equivalents and accounts receivable.

5. 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	
	2017	2016
	$'000	$'000
Loan commitments	639,237	286,761

(ii) Management of credit risk attaching to key financial assets

The management of credit risk exposure to the Group's financial assets is as follows:

(1) Loans receivable

The management of credit risk in respect of loans receivable is delegated to the Group 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.

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.

5. 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)

Past due but not impaired loans (cont'd)

	Group and Society	
	2017	2016
	$'000	$'000
Past due but not impaired loans		
Under 3 months	5,161,333	5,403,225
3 months – 6 months	169,483	155,549
Over 6 months – 12 months	101,605	102,251
Over 12 months	305,549	312,322
Total carrying amount	5,737,970	5,973,347

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	
	2017	2016
	$'000	$'000
Past due and impaired loans		
3 months – 6 months	35,994	69,129
Over 6 months – 12 months	-	9,739
Over 12 months	157,036	285,228
Total carrying amount	193,030	364,096

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, 2017, the outstanding principal balances on loans that were restructured during the year amounted to $128,080,000 (2016: $57,698,000).

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 11(b).

5. 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)

Write-off policy

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 $3,577,692,000 (2016: $3,618,686,000) [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 $206,413,000 (2016: $262,541,000). 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.

(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 which are 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.

No investment securities 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 5(a)(iii) below.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd)

(ii) Management of credit risk attaching to key financial assets (cont'd)

(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, and no such collateral was held at the current and previous reporting dates.

5. 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:

	The Group				The Society			
	Loans and advances		Resale agreements		Loans and advances		Resale agreements	
	2017	2016	2017	2016	2017	2016	2017	2016
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Against neither past due nor impaired financial assets:								
Real property	88,236,596	75,745,870	-	-	88,236,596	75,745,870	-	-
Debt securities	-	-	17,498,063	20,392,568	-	-	13,774,902	18,134,613
Liens on motor vehicles	18,125	11,064	-	-	18,125	11,064	-	-
Hypothecation of deposits	2,076,283	1,959,017	-	-	2,076,283	1,959,017	-	-
Subtotal	90,331,004	77,715,951	17,498,063	20,392,568	90,331,004	77,715,951	13,774,902	18,134,613
Against past due (greater than 3 months) but not impaired financial assets:								
Real property	3,263,614	3,055,658	-	-	3,263,614	3,055,658	-	-
Against past due (greater than 3 months) and impaired financial assets:								
Real property	314,078	563,027	-	-	314,078	563,027	-	-
Total	93,908,696	81,334,636	17,498,063	20,392,568	93,908,696	81,334,636	13,774,902	18,134,613

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.

5. 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 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.

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.

5. 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					
	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.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd)

(i) Interest rate risk (cont'd)

	Group					
	2016					
	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	3,334,449	4,550,065	400,542	409,593	2,805,180	11,499,829
Investments	6,852,557	20,533,059	2,769,013	7,265,584	1,482,591	38,902,804
Resale agreements	4,985,868	7,036,137	4,743,095	612,410	-	17,377,510
Loans	-	34,531,088	-	-	-	34,531,088
Other assets	-	-	-	-	1,891,400	1,891,400
Total financial assets	15,172,874	66,650,349	7,912,650	8,287,587	6,179,171	104,202,631
Savings fund	-	48,683,697	13,070,803	10,211,455	-	71,965,955
Due to specialised institution	-	10,780,843	-	-	-	10,780,843
Other liabilities	-	-	-	-	1,282,618	1,282,618
Repurchase agreements	-	9,917,111	2,623,982	23,942	-	12,565,035
Total financial liabilities	-	69,381,651	15,694,785	10,235,397	1,282,618	96,594,451
Total interest rate sensitivity gap *	15,172,874	(2,731,302)	(7,782,135)	(1,947,810)	4,896,553	7,608,180
Cumulative gap	15,172,874	12,441,572	4,659,437	2,711,627	7,608,180	-

* The gap is in relation to items recognised in the statement of financial position. There are no "off balance sheet" exposures.

5. 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.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd)

(i) Interest rate risk (cont'd)

	Society					
	2016					
	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	3,798,414	4,489,001	400,542	409,593	2,055,651	11,153,201
Investments	6,852,557	15,385,696	2,437,899	-	1,060,727	25,736,879
Resale agreements	4,985,868	6,985,990	4,110,310	612,410	-	16,694,578
Loans	-	34,549,540	-	-	-	34,549,540
Other assets	-	-	-	-	1,210,157	1,210,157
Total financial assets	15,636,839	61,410,227	6,948,751	1,022,003	4,326,535	89,344,355
Savings fund	-	49,524,576	13,070,803	10,211,455	-	72,806,834
Due to specialised institution	-	10,780,843	-	-	-	10,780,843
Loans payable					525,481	525,481
Other liabilities	-	-	-	-	681,652	681,652
Total financial liabilities	-	60,305,419	13,070,803	10,211,455	1,207,133	84,794,810
Total interest rate sensitivity gap *	15,636,839	1,104,808	(6,122,052)	(9,189,452)	3,119,402	4,549,545
Cumulative gap	15,636,839	16,741,647	10,619,595	1,430,143	4,549,545	-

* 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 of the amount indicated. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant. The analysis is performed on the same basis as for 2016.

	Group		Society	
	2017			
	Increase	(Decrease)	Increase	(Decrease)
Jamaica dollar	100bps	100bps	100bps	100bps
Foreign currencies	50bps	50bps	50bps	50bps
Effect on surplus or deficit	(33,219)	32,664	(8,258)	7,703
Effect on reserves	(1,568,661)	1,836,480	(1,358,975)	1,617,910

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd)

(i) Interest rate risk (cont'd)

Sensitivity to interest rate movements

	Group		Society	
	2016			
	Increase	(Decrease)	Increase	(Decrease)
Jamaica dollar	100bps	100bps	100bps	100bps
Foreign currencies	100bps	50bps	100bps	50bps
	$'000	$'000	$'000	$'000
Effect on surplus or deficit	17,656	(30,425)	88,732	64,075
Effect on reserves	(693,183)	683,541	(78,647)	78,647

(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, Canadian dollar and the British Pound.

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					
	2017			2016		
	USD	GBP	CDN	USD	GBP	CDN
	'000	'000	'000	'000	'000	'000
Foreign currency assets	241,791	63,643	9,404	238,864	71,653	9,169
Foreign currency liabilities and capital	(239,788)	(67,523)	(9,006)	(228,668)	(69,568)	(9,123)
Net foreign currency assets	2,003	(3,880)	(398)	10,196	2,085	46

	Society					
	2017			2016		
	USD	GBP	CDN	USD	GBP	CDN
	'000	'000	'000	'000	'000	'000
Foreign currency assets	158,720	63,602	9,401	170,453	71,452	9,169
Foreign currency liabilities	(161,810)	(67,474)	(9,006)	(162,763)	(69,501)	(9,124)
Net foreign currency assets	(3,090)	(3,872)	(395)	7,690	1,951	45

5. 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 4(n)]; the rates are as follows:

	2017 J$	2016 J$
United States Dollar	124.30	127.96
Canadian Dollar	96.30	95.14
Pound Sterling	166.19	157.22

A 2% (2016: 1%) strengthening of the Jamaica dollar against the following 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 2016.

	Group		Society	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
United States Dollar	(4,980)	(13,047)	(7,682)	(9,840)
Pound Sterling	12,898	(3,293)	12,763	(3,067)
Canadian Dollar	(762)	(44)	761	(43)
	7,156	(16,384)	21,206	(12,950)

A 4% (2016: 6%) weakening of the Jamaica dollar against the following 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 2016.

	Group		Society	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
United States Dollar	9,961	78,282	(15,364)	59,041
Pound Sterling	(25,796)	19,761	(25,746)	18,405
Canadian Dollar	1,524	262	(1,522)	257
	(14,311)	98,305	(42,632)	77,703

(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.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd)

(iii) Equity price risk (cont'd)

The equity securities which the Group holds are listed on the Jamaica Stock Exchange. An increase or decrease of 15% (2016: 10%) in share prices would result in an increase or an equal decrease, respectively, in reserves of $207,709,000 (2016: $148,551,000) for the Group and $148,511,000 (2016: $104,921,000) 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.

(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 the Bank of Jamaica.

	Ratio of net liquid assets to deposits from customers	
	2017	2016
Regulator's minimum required ratio	5.00%	5.00%

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd)

(i) (Cont'd)

	Ratio of net liquid assets to deposits from customers 2017	2016
Actual ratios:		
As at December 31	11.42%	18.29%
Average for the year	13.18%	16.00%
Highest % attained for the year	16.77%	22.06%
Lowest % attained for the year	11.11%	12.19%

(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 2017	2016
Regulator's minimum required ratio	25.00%	25.00%
Actual ratio	38.28%	81.65%

(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.

	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
				2017			
Due to savers	-	54,006,978	14,452,844	3,278,791	5,362,506	82,544,497	76,379,390
Due to specialised institutions	6,450,432	699	1,234	121,817	5,471,897	12,772,071	12,046,079
Repurchase agreements	-	10,013,890	3,344,260	-	-	13,358,150	11,822,293
Other liabilities	4,193,197	-	-	-	-	4,193,197	4,193,197
Other borrowings	10,018	-	526,411	1,287,792	-	-	1,593,901
				2016			
Due to savers	106,051	48,895,798	14,025,259	15,441,982	-	78,469,090	71,965,955
Due to specialised institution	5,015,300	23	963	969,677	5,817,501	11,803,464	10,780,843
Repurchase agreements	-	8,541,948	3,999,145	23,942	-	12,565,035	12,565,035
Other liabilities	592,559	690,059	-	-	-	1,282,618	1,282,618

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd)

(iii) Maturity profile (cont'd)

	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
				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
				2016			
Due to savers	106,051	49,736,677	14,025,259	15,441,982	-	79,309,969	72,806,834
Due to specialised institution	5,015,300	23	963	969,677	5,817,501	11,803,464	10,780,843
Other liabilities	-	681,652	-	-	-	681,652	681,652
Loan payable	-	-	-	-	525,481	5 525,481	525,481

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.

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, provided the cost of controlling the risk does not exceed the benefits derived from the lower risk level.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Operational risk (cont'd)

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.

6. 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% (2016: 10%) of their risk weighted assets in capital.

	Society	
	2017 $'000	2016 $'000
Regulatory capital (note 28)	14,435,484	11,859,329
Qualifying capital	13,019,889	10,362,634
On balance sheet risk weighted assets	58,728,337	50,106,300
Off balance sheet risk weighted assets –Loan commitments	639,237	286,762
Foreign exchange exposure	787,813	3,267,589
Total risk assessed assets	60,155,387	53,660,651
Risk based capital adequacy ratio	21.64%	19.31%
Regulatory requirement	10.00%	10.00%

6. 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:

	Society	
	2017 $'000	2016 $'000
Tier 1 Capital	1,655,624	1,500,736
Tier 2 Capital	40,067	43,867
Total regulatory capital	1,695,691	1,544,603
Risk weighted assets		
Per statement of financial position	9,506,948	7,458,620
Foreign exchange exposure	530,910	263,213
	10,037,858	7,721,833
Operational risk-weighted assets	247,527	218,894
	10,285,385	7,940,727

Capital ratios	Minimum required		Actual	
	2017	2016	2017	2016
Total regulatory qualifying capital/ Total risk weighted assets	10.00%	10.00%	16.49%	19.45%
Tier 1 Capital/Total regulatory capital	50.00%	50.00%	97.64%	97.25%
Capital base/Total assets	6.00%	6.00%	9.92%	9.89%

(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:

	2017 $'000	2016 $'000
Tier 1 Capital	128,163	63,202
Risk-Weighted Assets:		
Operating assets	178,590	152,364
Per statement of financial position	234,125	109,957
Foreign exchange exposure	59,974	63,980
	472,689	326,601

6. CAPITAL MANAGEMENT (CONT'D)

(c) Victoria Mutual Pensions Management Limited (cont'd)

Capital adequacy ratios	Minimum required		Actual	
	2017	2016	2017	2016
Total regulatory capital/risk-weighted assets	10.00%	10.00%	27.11%	23.74%
Tier 1 Capital/Total regulatory capital	50.00%	50.00%	100%	100%
Actual capital base /total assets	6.00%	6.00%	48.51%	25.09%

7. CASH AND CASH EQUIVALENTS

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
		(Restated)		*(Restated)*
Cash in hand and at banks and other financial institutions	5,761,458	3,801,503	2,861,977	3,454,875
Statutory reserves held at Bank of Jamaica	733,170	699,956	733,170	699,956
Term deposits at banks	5,719,859	6,998,370	5,719,860	6,998,370
	12,214,457	11,499,829	9,315,007	11,153,201

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 by the 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 a stipulated percentage of the specified liabilities, currently 40% (2016: 40%).

8. INVESTMENTS - JAMAICA GOVERNMENT SECURITIES

These are securities issued or guaranteed by Government of Jamaica and comprise the following:

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Available-for-sale securities				
Securities denominated in United States dollars:				
Bonds	6,270,811	6,269,555	1,802,421	2,600,944
Sterling pounds:				
Bonds	166,189	-	166,189	-
Securities denominated in Jamaica dollars:				
Bonds	9,305,819	9,833,899	9,305,819	9,833,899
Certificates of deposit	4,398,820	5,050,746	861,055	-
Treasury bills	84,980	876,612	84,980	876,612
	13,789,619	15,761,257	10,251,854	10,710,511
	20,226,619	22,030,812	12,220,464	13,311,455

8. INVESTMENTS - JAMAICA GOVERNMENT SECURITIES (CONT'D)

	Group		Society	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Balance brought forward	20,226,619	22,030,812	12,220,464	13,311,455
Fair value through profit or loss				
Securities denominated in				
Jamaica dollar:				
Derivative - Put option	-	192,707	-	192,707
Loans and receivables				
Securities denominated in				
United States dollars:				
Bonds	39,518	162,188	-	120,590
Securities denominated in:				
Jamaica dollars:				
Certificates of deposit	-	725,401	-	725,401
United States dollars:				
Certificates of deposit	-	2,988,737	-	2,988,737
Pounds Sterling:				
Certificates of deposit	-	2,201,147	-	2,201,147
	39,518	6,270,180	-	6,228,582
	20,266,137	28,300,992	12,220,464	19,540,037

Government securities mature, in relation to the reporting date, as follows:

	Group		Society	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Within 3 months	1,147,823	3,558,030	1,147,823	3,360,194
From 3 months to 1 year	2,317,517	1,871,341	2,053,308	1,552,291
From 1 year to 5 years	5,783,828	13,091,026	3,425,962	7,845,977
Thereafter	11,016,969	9,780,595	5,593,371	6,781,575
	20,266,137	28,300,992	12,220,464	19,540,037

Certain Government of Jamaica securities are pledged by the Group as collateral for repurchase agreements (note 23).

8. INVESTMENTS - JAMAICA GOVERNMENT SECURITIES (CONT'D)

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 requires that the reclassification be made at the fair value of the assets at the date of the reclassification.

	2017		2016	
	Carrying value $'000	Fair value $'000	Carrying value $'000	Fair value $'000
	Group			
US$ denominated GOJ Global bonds	133,989	146,632	150,980	156,812
	Society			
US$ denominated GOJ Global bonds	94,471	104,640	109,382	120,590

(a) Fair value gains of $15,960,000 (2016: $11,200,000) for the Group and $15,950,000 (2016: $11,208,000) for the Society, excluding deferred taxation, would have been included in reserves for the year had the investments not been reclassified as loans and receivables. This amount was estimated on the basis of the bid price of the securities as at December 31, 2017. Management believes that this price is indicative of the fair value in an active market for the securities at the reporting date.

(b) The annual weighted average effective interest rate on the investment securities at the date of reclassification was 9.76% for USD denominated securities and 10.50% for EURO denominated securities for the Group, and 11.625% for USD denominated securities for the Society. The undiscounted cash flows to be recovered from the investment securities reclassified are $154,196,010 (2016: $219,448,000) for the Group and $105,587,000 (2016: $165,082,000) for the Society.

9. INVESTMENTS – OTHER

	Group		Society	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Investments securities at fair value through profit or loss:				
Quoted equities	187,927	145,600	-	-
Loans and receivables:				
Bank deposits	547,175	103,726	-	-
Bonds	145,237	-	-	-
Held to maturity securities:				
Bonds	3,373,230	1,980,574	3,373,230	1,980,574
Available-for-sale:				
Bonds	14,661,897	7,020,527	12,223,894	3,155,542
Treasury bills	248,570	-	248,570	-
Ordinary shares - quoted	399,386	1,336,456	-	1,049,211
Ordinary shares - unquoted	3,361	3,453	39	39
Units in unit trusts	1,518,115	11,476	1,518,115	11,476
	21,084,898	10,601,812	17,363,848	6,196,842

Bank deposits include certificates of deposit issued by Bank of Jamaica.

Other investments mature, in relation to the reporting date, as follows:

	Group		Society	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Immediately	940,867	1,496,987	350,231	1,060,728
Within 3 months	945,167	353,893	873,615	38,004
From 3 months to 1 year	7,840,795	693,850	7,292,040	650,092
From 1 year to 5 years	8,695,913	4,826,216	7,329,808	2,489,108
Thereafter	2,662,156	3,230,866	1,518,154	1,958,910
	21,084,898	10,601,812	17,363,848	6,196,842

10. RESALE AGREEMENTS

Government and corporate securities are purchased under agreements to resell them on a specified date and at a specified price on maturity ('resale agreements').

10. RESALE AGREEMENTS (CONT'D)

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Denominated in Jamaica dollars	8,258,498	2,042,435	6,415,659	7,503,623
Denominated in Sterling	1,090,972	8,032,560	1,090,972	8,032,560
Denominated in United States dollars	4,971,300	7,302,515	4,777,279	1,158,395
	14,320,770	17,377,510	12,283,910	16,694,578

Under resale agreements, the securities obtained as collateral may themselves be sold under repurchase agreements (see note 23). At December 31, 2017, such securities had a fair value of $17,462,185,103 (2016: $20,392,568,778) and $13,774,902,000 (2016: $18,134,613,000) for the Group and the Society, respectively.

11. LOANS

(a) Composition of loans

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Conventional mortgage loans	42,713,647	33,300,278	42,713,647	33,300,278
Mortgage escrow (see below)	382,068	434,781	382,068	434,781
Allowance for impairment	(184,280)	(183,002)	(184,280)	(183,002)
Net conventional mortgage loans	42,911,435	33,552,057	42,911,435	33,552,057
Share loans	992,900	862,974	992,900	862,974
Commercial loans	20,119	351	20,119	18,803
Staff loans	145,296	115,706	193,680	115,706
Total loans, net	44,069,750	34,531,088	44,118,134	34,549,540

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.

(b) Allowance for impairment

	Group and Society	
	2017	2016
	$'000	$'000
Balances at the beginning of the year	183,002	176,585
Net charge against income for the year	1,278	6,417
Balances at the end of the year per IAS 39 [see (c) below]	184,280	183,002

11. LOANS (CONT'D)

(c) Credit facility reserve

	Group and Society	
	2017	2016
	$'000	$'000
Regulatory loan loss provision	1,421,061	1,365,622
Less: Impairment allowance based on IAS 39 [see (b) above]	(184,280)	(183,002)
Credit facility reserve at end of year	1,236,781	1,182,620

The loan loss provision in excess of the impairment allowance required under IFRS is included in a non-distributable credit facility reserve [note 27(v)].

(d) Loan principal repayments and mortgage escrow payments are projected to be received, in relation to the reporting date, as follows:

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Within three months	227,632	205,477	276,016	223,929
3 months to 1 year	155,813	140,588	155,813	140,588
From 1 year to 5 years	7,777,731	2,181,105	7,777,731	2,181,105
Thereafter	35,908,574	32,003,918	35,908,574	32,003,918
Total loans, net	44,069,750	34,531,088	44,118,134	34,549,540

12. OTHER ASSETS

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Interest receivable	1,180,458	989,720	998,551	813,750
Income tax recoverable	905,712	1,026,498	895,506	993,562
Late fees	59,239	54,738	59,239	54,738
Margin loan receivable	441,057	268,626	-	-
Customer receivable	503,037	-	-	-
Sundry receivables and prepayments	624,786	579,375	383,243	341,669
	3,714,289	2,918,957	2,336,539	2,203,719

13. DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets

Deferred tax assets are attributable to the following:

	Group						
	2015 $'000	Recognised in income $'000	Recognised in OCI $'000	2016 $'000	Recognised in income $'000	Recognised in OCI $'000	2017 $'000
Investments	36,440	24,896	28,107	89,443	(3,217)	(21,095)	65,131
Other receivables	(31,665)	(20,668	-	(52,333)	7,014	-	(45,319)
Property, plant and equipment	(4,521)	6,373	-	1,852	2,092	-	3,944
Other liabilities	31,575	(3,096)	-	28,479	5,687	-	34,166
Employee benefit obligation	18,424	(150)	(1,200)	17,074	2,558	2,267	21,899
Unrealised foreign exchange loss	(5,402)	(30)	-	(5,432)	10,636	-	5,204
Provision for vacation leave	436	-	-	436	-	-	436
	45,287	7,325	26,907	79,519	24,770	(18,828)	85,461

Deferred tax assets of approximately $3,727,000 (2016: $3,687,000) have not been recognised in respect of tax losses of certain subsidiaries [note 34(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						
	2015 $'000	Recognised in income $'000	Recognised in OCI $'000	2016 $'000	Recognised in income $'000	Recognised in OCI $'000	2017 $'000
Other receivables	(142)	97	-	(45)	(131)	-	(176)
Employee benefits asset	(573,033)	15,840	(150,960)	(708,153)	9,450	14,310	(684,393)
Property, plant and equipment	77,438	(47,355)	-	30,083	52,865	-	82,948
Employee benefits obligation	261,937	(27,647)	4,807	239,097	35,369	28,560	303,026
	(233,800)	(59,065)	(146,153)	(439,018)	97,533	42,870	(298,595)

	Society						
	2015 $'000	Recognised in income $'000	Recognised in OCI $'000	2016 $'000	Recognised in income $'000	Recognised in OCI $'000	2017 $'000
Employee benefits asset	(573,033)	15,840	(150,960)	(708,153)	9,450	14,310	(684,393)
Property, plant and equipment	77,438	(47,355)	-	30,083	52,865	-	82,948
Employee benefits obligation	261,937	(27,647)	4,807	239,097	35,369	28,560	303,026
	(233,658)	(59,162)	(146,153)	(438,973)	97,684	42,870	(298,419)

14. 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	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Employee benefits asset (i)	2,176,900	2,466,111	2,176,900	2,466,111
Post-employment medical benefit obligation (ii)	1,276,700	1,036,104	1,206,500	981,304

(i) Employee benefits asset

(a) Amount recognised in the statement of financial position

	Group and Society	
	2017	2016
	$'000	$'000
Present value of funded obligations	(4,775,100)	(3,611,489)
Fair value of plan assets	6,952,000	6,234,400
Unrecognised amount due to limitation	-	(156,800)
	2,176,900	2,466,111

14. EMPLOYEE BENEFITS ASSET/OBLIGATION (CONT'D)

(i) Employee benefits asset (cont'd)

(b) Movements in the present value of defined benefit obligations

	Group and Society	
	2017 $'000	2016 $'000
Balance at beginning of year	3,611,489	3,525,889
Benefits paid	(169,400)	(178,700)
Voluntary contributions	47,811	37,200
Past service cost	119,000	-
Transfer in	3,300	-
Service cost	186,400	155,200
Interest cost	347,200	306,900
Remeasurement loss/(gain) arising from:		
Experience adjustments	387,200	(149,800)
Financial assumptions	242,100	(85,200)
Balance at end of year	4,775,100	3,611,489

(c) Movement in plan assets

	2017 $'000	2016 $'000
Fair value of plan assets at beginning of year	6,234,400	5,436,000
Contributions paid into the plan	121,900	93,600
Benefits paid by the plan	(169,400)	(178,700)
Net interest income on plan assets	558,700	458,400
Refunds to sponsor	(210,000)	-
Remeasurement gain on assets included in other comprehensive income	416,400	425,100
Fair value of plan assets at end of year	6,952,000	6,234,400
Plan assets consist of the following:		
Equity securities	3,024,300	2,263,300
Government securities	2,509,600	2,776,600
Real estate fund	1,315,100	1,110,600
Other assets	103,000	83,900
	6,952,000	6,234,400

(d) Charge/(credit) recognised in the income statement

	2017 $'000	2016 $'000
Current service costs	117,300	104,000
Interest on obligation	347,200	306,900
Past service cost	119,000	-
Interest on effect of asset ceiling	13,600	-
Net interest income on plan assets	(558,700)	(458,400)
	38,400	(47,500)

14. EMPLOYEE BENEFITS ASSET/OBLIGATION (CONT'D)

(i) Employee benefits asset (cont'd)

(e) Items recognised in other comprehensive income

	Group and Society	
	2017	2016
	$'000	$'000
Remeasurement loss/(gain) in obligations	629,300	(235,000)
Remeasurement gain in asset	(416,400)	(425,100)
Change in effect of asset ceiling	(165,200)	156,900
	47,700	(503,200)

(f) Principal financial assumptions at the reporting date (expressed as weighted averages)

	Group and Society	
	2017	2016
	%	%
Discount rate at December 31	8.0	9.0
Future salary increases	6.0	7.0
Future pension increases	4.5	5.0

(g) Sensitivity analysis

A 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			
	2017		2016	
Financial assumptions	1% point increase $'000	1% point decrease $'000	1% point increase $'000	1% point decrease $'000
Discount rate	(741,050)	826,900	(537,472)	711,776
Rate of salary escalation	368,550	(313,350)	246,993	(206,710)
Future rate of pension	555,750	(458,850)	405,514	(337,142)

(h) The Group expects to pay $13,393,773 in contributions to the defined-benefit plan in 2018.

(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.

14. EMPLOYEE BENEFITS ASSET/OBLIGATION (CONT'D)

(ii) Other post employment benefits (cont'd)

(a) Movement in present value of defined benefit obligation

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Present value of obligation at the start of the year	1,036,104	937,926	981,304	873,126
Interest cost	97,100	80,947	91,800	76,147
Past service cost	5,600	-	5,300	-
Current service cost	44,000	40,134	41,300	36,234
Benefits paid	(16,600)	(14,626)	(16,400)	(14,426)
Adjustment due to change in policy	-	(14,100)	-	-
Remeasurement loss/(gain) arising from:				
Changes in demographic assumptions	(904)	-	(904)	-
Experience adjustments	107,300	(20,473)	107,300	(20,473)
Financial assumptions	4,100	26,296	(3,200)	30,696
	1,276,700	1,036,104	1,206,500	981,304

(b) Expense recognised in the income statement

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Adjustment due to change in policy	-	(14,100)	-	-
Interest cost	97,100	80,947	91,800	76,147
Past service cost	5,600	-	5,300	-
Current service cost	44,000	40,134	41,300	36,234
	146,700	106,981	138,400	112,381

(c) Items in other comprehensive income

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Remeasurement loss on obligation	110,496	5,823	103,196	10,223

(d) Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	Group and Society	
	2017	2016
	%	%
Financial assumptions:		
Discount rate	8.0	9.0
Medical claims growth	7.0	8.0

14. EMPLOYEE BENEFITS ASSET/OBLIGATION (CONT'D)

(ii) Other post employment benefits (cont'd)

(d) Principal actuarial assumptions at the reporting date (cont'd)

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 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:

	Group			
	2017		2016	
	1% point increase $'000	1% point decrease $'000	1% point increase $'000	1% point decrease $'000
Medical cost trend rate and rate of salary escalation	302,900	(223,800)	241,100	(179,300)
Discount rate	(223,800)	302,900	(179,300)	241,100

	Society			
	2017		2016	
	1% point increase $'000	1% point decrease $'000	1% point increase $'000	1% point decrease $'000
Medical cost trend rate and rate of salary escalation	283,300	(209,300)	225,600	(167,800)
Discount rate	(209,300)	283,000	(167,800)	225,600

15. INTEREST IN SUBSIDIARIES

	Society	
	2017 $'000	2016 $'000
Shares, at cost [see note 1(b)]	811,888	929,610
Current accounts	269,506	294,924
	1,081,394	1,224,534

16. 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	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Shares, at cost	659,200	659,200	659,200	659,200
Share of post-acquisition profits	435,620	297,196	-	-
Share of investment revaluation reserve	47,558	142,680	-	-
	1,142,378	1,099,076	659,200	659,200

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 material associate.

	2017	2016
	$'000	$'000
Percentage ownership interest	**31.5%**	**31.5%**
Assets	11,119,254	9,863,757
Liabilities	(7,733,968)	(6,605,129)
Net assets (100%)	3,385,286	3,258,628
Group's share of net assets	1,066,365	1,026,468
Fair value adjustments and elimination of differences in accounting policies and intra-group transactions	76,013	72,608
Carrying amount of interest in BCIC	1,142,378	1,099,076
Revenue	8,042,949	7,460,966
Profit for the year	668,637	516,271
Other comprehensive (loss)/income, net of tax	(301,971)	44,008
Total comprehensive income	366,666	560,279
Group's share of profit for year	210,621	162,625
Group's share of total comprehensive income	115,500	176,488

17. 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, 2015	609,215	470,094	438,006	1,517,315	416,515	371,712	788,227
Additions	-	32,751	491,343	524,094	-	491,343	491,343
Transfers	-	416,062	(416,062)	-	416,062	(416,062)	-
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
Amortisation:							
December 31, 2015	-	335,084	-	335,084	290,715	-	290,715
Charge for year	-	47,393	-	47,393	40,793	-	40,793
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
Carrying value							
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
December 31, 2015	609,215	135,010	438,006	1,182,231	125,800	371,712	497,512

Goodwill comprises the excess of cost over fair value of the net assets of Victoria Mutual Pensions Management Limited *(formerly Prime Asset 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.

No impairment loss was recognised during the year (2016: $Nil) because the recoverable amount of the cash-generating unit was determined to be higher than the carrying amount.

The key assumptions used in the discounted cash flow projections are as follows:

	2017	2016
Discount rate	24.8%	26.5%
Growth rate	18.5%	18.5%
Jamaica dollar devaluation rate	3%	6.6%

18. 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, 2015	444,178	196,787	640,965	444,178	316,086	760,264
Disposals	-	(22,052)	(22,052)	-	(22,052)	(22,052)
December 31, 2016	444,178	174,735	618,913	444,178	294,034	738,212
Disposals	-	(55,972)	(55,972)	-	(55,972)	(55,972)
December 31, 2017	444,178	118,763	562,941	444,178	238,062	682,240
Depreciation:						
December 31, 2015	81,546	23,993	105,539	81,546	25,972	107,518
Charge for the year	7,053	7,593	14,646	7,053	7,593	14,646
Eliminated on disposals	-	(2,073)	(2,073)	-	(2,073)	(2,073)
December 31, 2016	88,599	29,513	118,112	88,599	31,492	120,091
Charge for the year	7,052	6,948	14,000	7,052	6,948	14,000
Eliminated on disposals	-	(6,792)	(6,792)	-	(6,792)	(6,792)
December 31, 2017	95,651	29,669	125,320	95,651	31,648	127,299
Net book values:						
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
December 31, 2015	362,632	172,794	535,426	362,632	290,114	652,746

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 location and category 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					
	2015 $'000	Disposals $'000	2016 $'000	Additions $'000	Disposals $'000	2017 $'000
Investment properties	1,994,700	-	1,994,700	92,300	-	2,087,000
Foreclosed properties	740,951	(22,052)	718,899	-	(55,972)	662,927
	2,735,651	(22,052)	2,713,599	92,300	(55,972)	2,749,927

18. 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.

19. 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, 2015	387,980	1,570,278	23,539	159,872	2,141,669
Translation adjustments	(5,657)	(6,712)			(12,369)
Additions	82	15,138	11,100	228,253	254,573
Transfer from work in progress	88,635	248,876	-	(337,511)	-
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)
Transfer from work in progress	27,243	126,826	-	(154,069)	-
December 31, 2017	507,328	1,970,806	32,288	174,102	2,684,524
Depreciation:					
December 31, 2015	107,257	1,089,676	17,567	-	1,214,500
Translation adjustments	(4,007)	(6,317)	-	-	(10,324)
Charge for year	17,158	107,463	5,170	-	129,791
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
Net book values:					
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
December 31, 2015	280,723	480,602	5,972	159,872	927,169

19. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

	Society				
	Leasehold and freehold land and buildings $'000	Office furniture and equipment $'000	Motor vehicles $'000	Work in progress $'000	Total $'000
Cost:					
December 31, 2015	334,363	1,425,165	23,134	140,136	1,922,798
Additions		3,347	11,100	219,322	233,769
Transfer from work in progress	88,635	248,876	-	(337,511)	-
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
Depreciation:					
December 31, 2015	84,736	991,824	17,474	-	1,094,034
Charge for year	8,299	97,202	5,089	-	110,590
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
Net book values:					
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
December 31, 2015	249,627	433,341	5,660	140,136	828,764

20. SHAREHOLDERS' SAVINGS

	Group		Society	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
General investment ("B") shares	886,473	647,541	1,608,202	1,488,420
Paid up investment ("C") shares	70,854,938	67,704,745	70,854,938	67,704,745
	71,741,411	68,352,286	72,463,140	69,193,165
Deferred shares [notes 27(i) and 28]	3,381,997	2,491,069	3,381,997	2,491,069
	75,123,408	70,843,355	75,845,137	71,684,234

Deferred shares are issued on terms that they shall not be withdrawable before the expiration of three years and may be interest bearing.

20. SHAREHOLDERS' SAVINGS (CONT'D)

Included in shareholders' savings are accounts with the following maturity profile:

	Group		Society	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
On demand to 3 months	52,750,996	48,401,976	52,750,996	48,401,976
Three to 12 months	14,452,844	13,070,803	14,452,844	13,070,803
Over 12 months	7,919,568	9,370,576	8,641,297	10,211,455
	75,123,408	70,843,355	75,845,137	71,684,234

21. DEPOSITORS' SAVINGS

	Group and Society	
	2017 $'000	2016 $'000
Due to depositors	1,255,982	1,122,600
Percentage of the Society's mortgage loan balances *	3.77%	3.37%

* Per section 27(B) of the Building Societies' Act

22. OTHER LIABILITIES

	Group		Society	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Deposits – private treaty sales	16,751	29,573	16,751	29,573
Customers' and clients' funds	3,309,293	428,354	80,333	200,220
Accrued expenses and other payables	853,638	824,691	410,591	451,859
	4,179,682	1,282,618	507,675	681,652

Customers' and clients' funds at December 31, 2017 includes refundable subscriptions from the public offer of shares by VMIL [see note 1(b)].

23. REPURCHASE AGREEMENTS

The Group sells Government and corporate securities, or interests therein, and agrees to repurchase them on a specified date and at a specified price prior to their maturity ("repurchase agreements").

	Group	
	2017 $'000	2016 $'000
Denominated in Jamaica dollars	4,635,624	4,137,253
Denominated in United States dollars	7,186,669	8,427,782
	11,822,293	12,565,035

23. REPURCHASE AGREEMENTS (CONT'D)

	Society	
	2017	2016
	$'000	$'000
Denominated in Jamaica dollars	51,707	-

At December 31, 2017, 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 $15,762,961,000 (2016: $13,698,978,884) for the Group and $51,707,000 for the Society.

24. LOAN PAYABLE

During the year, the Society repaid the loan to Westin International Insurance Company Limited.

25. OTHER BORROWINGS

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Deferred shares	1,087,792	-	1,087,792	-
Other fixed rate bonds	506,109	-	-	-
	1,593,901	-	1,087,792	-

26. PERMANENT CAPITAL FUND

The Regulations (see note 2) require that every building society maintains 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 27(i)].

27. RESERVES

(i) Reserve fund

The Banking Services Act and Regulations require the Society to transfer at least 10% 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 26 and 28)] and its deferred shares (note 20).

(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 28). 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.

27. RESERVES (CONT'D)

(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 4(m)(i) and 11(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.

28. REGULATORY CAPITAL

	Group and Society	
	2017	2016
	$'000	$'000
Permanent capital fund (note 26)	7,746,058	7,746,058
Reserve fund [note 27(i)]	1,189,174	936,390
Retained earnings reserve [note 27(ii)]	2,118,255	685,812
Deferred shares (note 20)	3,381,997	2,491,069
Total regulatory capital [note 6(a)]	14,435,484	11,859,329

"Regulatory capital" has the meaning ascribed in the Regulations.

29. 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.

29. NON-CONTROLLING INTEREST

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

	2017 $'000
NCI percentage	**20%**
Total assets	20,068,454
Total liabilities	17,484,432
Net assets	2,584,022
Carrying amount of NCI	684,684

(b) Profit and loss account and other comprehensive income:

Revenue	1,455,131
Profit	346,303
Other comprehensive income	138,306
Profit allocated to NCI	569
Other comprehensive income allocated to NCI	228

(c) Statement of cash flows

Cash flows from operating activities	870,289
Cash flows from investment activities	1,452,487
Cash flows from financing activities	797,129
Net increase in cash and cash equivalents	3,119,905

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Definition and measurement of fair values

The Group's accounting policies on measurement and disclosure require the measurement of fair values for financial assets and financial liabilities. 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:

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Definition and measurement of fair values

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 GOJ 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 GOJ	• 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

30. 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 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	8	15,742,819	-	15,742,819	-	15,742,819	15,742,819
Certificates of deposit	8	4,398,820	-	4,398,820	-	4,398,820	4,398,820
Ordinary shares - quoted	9	399,386	187,927	587,313	587,313	-	587,313
Treasury bills	8,9	333,550	-	333,550	-	333,550	333,550
Ordinary shares - unquoted	9	3,361	-	3,361	3,361	-	3,361
Investments - other	9	14,661,897	-	14,661,897	-	14,661,897	14,661,897
Units in unit trust	9	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

		2016					
		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	8	16,103,454	-	16,103,454	-	16,103,454	16,103,454
Certificates of deposit	8	5,050,746	-	5,050,746	-	5,050,746	5,050,746
Derivative	8	-	192,707	192,707	-	192,707	192,707
Ordinary shares - quoted	9	1,482,056	-	1,482,056	1,482,056	-	1,482,056
Treasury bills	8	876,612	-	876,612	-	876,612	876,612
Ordinary shares - unquoted	9	3,453	-	3,453	-	3,453	3,453
Investments - other	9	7,020,527	-	7,020,527	-	7,020,527	7,020,527
Units in unit trust	9	11,476	-	11,476	-	11,476	11,476
		30,548,324	192,707	30,741,031	1,482,056	29,258,975	30,741,031

30. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

(c) Accounting classifications and fair values (cont'd)

		Society					
		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	8	11,274,429	-	11,274,429	-	11,274,429	11,274,429
Certificates of deposit	8	861,055	-	861,055	-	861,055	861,055
Treasury bills	8,9	333,550	-	333,550	-	333,550	333,550
Ordinary shares unquoted	9	39	-	39	-	39	39
Investments - other	9	12,223,894	-	12,223,894	-	12,223,894	12,223,894
Units in unit trust	9	1,518,115	-	1,518,115	-	1,518,115	1,518,115
		26,211,082	-	26,211,082	-	26,211,082	26,211,082

		2016					
		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	8	12,434,843	-	12,434,843	-	12,434,843	12,434,843
Derivative	8	192,707	-	192,707	-	192,707	192,707
Ordinary shares quoted	9	1,049,211	-	1,049,211	1,049,211	-	1,049,211
Treasury bills	8	876,612	-	876,612	-	876,612	876,612
Ordinary shares unquoted	9	39	-	39	-	39	39
Investments - other	9	3,155,542	-	3,155,542	-	3,155,542	3,155,542
Units in unit trust	9	11,476	-	11,476	-	11,476	11,476
		17,720,430	-	17,720,430	1,049,211	16,671,219	17,720,430

31. NET INTEREST INCOME

	Group		Society	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Interest income				
Investment securities	2,851,196	3,076,625	2,171,911	2,402,626
Loans to customers	3,339,184	2,826,498	3,322,706	2,824,277
	6,190,380	5,903,123	5,494,617	5,226,903
Interest expense				
On borrowings	(449,382)	(406,560)	(20,796)	(18)
To shareholders	(273,072)	(1,419,850)	(1,451,405)	(1,419,850)
To depositors	(1,451,405)	(260,093)	(273,072)	(260,093)
	(2,173,859)	(2,086,503)	(1,745,273)	(1,679,961)
Net interest income	4,016,521	3,816,620	3,749,344	3,546,942

32. NET FEE AND COMMISSION INCOME

	Group		Society	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Fee and commission income				
Customers	832,362	523,794	149,976	90,961
Associated company	99,964	109,385	99,694	109,385
Other	71,626	44,274	71,626	44,274
	1,003,682	677,453	321,296	244,620
Fee and commission expenses				
Inter-bank transaction fees	(54,193)	(77,843)	(54,193)	(39,269)
Other	(35,838)	(24,261)	-	(24,261)
	(90,031)	(102,104)	(54,193)	(63,530)
Net fee and commission income	913,651	575,349	267,103	181,090

33. OTHER OPERATING REVENUE

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Securities trading gains	472,855	508,077	279,778	269,427
Fines for late payments	46,052	53,730	46,052	53,730
Unrealised foreign exchange gains, net	24,621	-	20,013	-
Rent	21,087	21,186	48,139	48,893
Dividends - from subsidiaries and associates	-	-	338,357	305,470
- distribution from Westin International Insurance Company Limited	-	-	1,148,835	-
- other	19,005	67,771	18,316	67,430
Gain on sale of investments	593,334	227,239	593,044	227,239
Gain on disposal of property, plant and equipment	6,511	8,491	6,511	8,491
Other income	419,331	269,039	45,408	65,372
	1,602,796	1,155,533	2,544,453	1,046,052

34. PERSONNEL COSTS

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Salaries	1,681,772	1,439,103	1,220,556	1,104,822
Statutory payroll contributions	234,578	176,879	196,934	145,368
Pension and medical benefits (note 14)	185,100	59,481	176,800	64,881
Termination payments	59,977	16,631	59,977	16,631
Other staff benefits	986,677	811,923	784,277	590,372
	3,148,104	2,504,017	2,438,544	1,922,074

35. OTHER OPERATING EXPENSES

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Asset taxes	264,348	239,258	225,742	202,043
Overseas business development	54,690	64,998	241,370	234,552
Irrecoverable GCT	261,160	212,485	256,030	204,216
Marketing	229,492	205,161	178,650	168,585
Computer maintenance	213,181	147,959	182,124	125,599
Maintenance – buildings, furniture and fixtures	126,873	135,885	151,778	171,272
Insurance	132,268	122,218	131,033	121,124
Administration	233,143	257,003	273,437	176,042
Postage, courier and stationery	96,951	87,319	84,919	74,908
Electricity, water and telephone	116,644	82,188	110,743	77,771
Consultancy and other professional fees	115,739	74,014	78,743	32,507
Audit fees	44,168	36,200	29,176	21,100
Directors' fees [note 37(e)]	37,196	34,947	17,274	17,911
Security	41,407	34,628	37,322	34,541
Service contracts	29,701	28,054	29,701	28,054
Direct operating expenses for investment property that generated rental income	46,128	24,880	46,128	24,880
Specific provision for loan loss	20,168	13,914	20,168	13,914
Unrealised foreign exchange loss	-	14,190	-	58,105
	2,063,257	1,815,301	2,094,338	1,787,124

36. 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	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
(i) Current tax expense:				
Current tax at 30%	171,031	187,760	171,031	187,760
Current tax at 25% and 33⅓%				
- provision for current year	209,874	104,063	-	-
- adjustment for prior year's over provision	84	(1,182)	-	-
	380,989	290,641	171,031	187,760
(ii) Deferred tax expense:				
Origination and reversal of temporary differences [notes 13(a) and (b)]	(122,323)	51,740	(97,684)	59,162
Actual tax expense recognised	258,666	342,381	73,347	246,922

36. INCOME TAX EXPENSE (CONT'D)

(b) At the reporting date, taxation losses of certain subsidiaries, subject to agreement by the tax authorities in the relevant jurisdictions, amounted to approximately $21,459,140 (2016: $22,274,000). 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 34(a)] and is 20.03% (2016: 28.55%) for the Group and 4.046% (2016: 27.55%) for the Society. The actual income tax expense differs from the expected income tax expense for the year, as follows:

	Group		Society	
	2017 $'000	2016 $'000	2017 $'000	2016 $'000
Surplus before income tax	1,291,440	1,198,979	1,812,735	898,857
Computed "expected" income tax at 30%	387,432	359,694	543,820	269,657
Effect of different tax rates for subsidiaries	85,727	109,845	-	-
Tax effect of treating the following items differently for income tax than for financial statement purposes:				
Depreciation charge and capital allowances	(13,889)	(51,043)	(17,092)	(51,993)
Capital distribution from subsidiary	-	-	(344,650)	-
Disallowed expenses	84,637	35,870	77,657	61,098
Other	(285,325)	(110,803)	(186,388)	(31,840)
	258,582	343,563	73,347	246,922
Adjustment for prior years	84	(1,182)	-	-
Actual tax expense recognised	258,666	342,381	73,347	246,922

37. 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".

37. 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:

	2017 $'000	2016 $'000
Subsidiaries:		
Resale agreements	1,299,571	1,375,150
Loan receivable	48,384	18,452
Shareholders' savings	(717,276)	(774,688)
Loan payable	-	(525,481)
Key management personnel:		
Mortgage loans	173,921	88,663
Other loans	38,842	26,489
Shareholders' savings	(45,183)	(67,710)
Non-executive directors - mortgage loans	-	34,821
Associate:		
Shareholders' savings	345,589	170,410

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:

	2017 $'000	2016 $'000
Directors:		
Interest from loans	7,141	3,529
Key management personnel:		
Interest from loans	8,962	6,960
Interest expense	(36)	(84)
Subsidiaries:		
Interest and dividends from investments	1,466,389	275,701
Interest on loans	1,737	1,567
Other operating revenue	20,587	27,912
Interest expense	(3,593)	(23,361)
Other operating expenses	(235,183)	(260,508)
Associate:		
Dividends	65,318	87,947
Interest expense	(17,875)	(6,664)
Other operating income	99,694	109,385

37. RELATED PARTY TRANSACTIONS (CONT'D)

(e) Key management personnel compensation

In addition to directors' fees paid to non-executive directors (note 35), compensation of key management personnel, included in personnel costs (note 34), is as follows:

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Short-term employee benefits	242,370	187,454	155,442	121,200
Post employment benefits	98	19	-	19
	242,468	187,473	155,442	121,219

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 14). 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.

37. COMMITMENTS

(a) Operating lease commitments at the reporting date expire as follows

	Group		Society	
	2017	2016	2017	2016
	$'000	$'000	$'000	$'000
Within one year after that date	44,779	29,156	40,539	25,028
Subsequent years	81,079	22,330	81,079	22,330

(b) Commitments for capital expenditure for the Group and the Society amount to approximately $154,967,000 (2016: $194,316,000) 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.

39. 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, 2017, these funds amounted to $19,875,308,000 (2016: $15,339,937,000).

Additionally, at December 31, 2017, there were custodial arrangements for assets totalling $22,077,031,000 (2016: $23,170,354,000).

40. RESTATEMENTS

The statements of financial position and income statements for the prior year have been restated to give effect to the following:

(i) Adjustment to foreign currency financial assets that were incorrectly measured as at December 31, 2016; and

(ii) To recognise a separate non-distributable reserve for the net gains on employee benefits asset and obligations as at December 31, 2016 as instructed by the Bank of Jamaica.

(a) Effect on statement of financial position as at December 31, 2016:

	Group			Society		
	As previously reported	Effect of prior year restatement	As restated	As previously reported	Effect of prior year restatement	As restated
Assets						
Cash	11,735,649	(235,820)	11,499,829	11,389,021	(235,820)	11,153,201
Shareholders' Equity						
Permanent capital fund	7,866,415	(120,357)	7,746,058	7,866,415	(120,357)	7,746,058
Reserves fund	949,763	(13,373)	936,390	949,763	(13,373)	936,390
Retained earnings reserves	908,857	(223,045)	685,812	908,857	(223,045)	685,812
Non-distributable reserves	-	120,955	120,955	-	120,955	120,955
	9,725,035	(235,820)	9,489,215	9,725,035	(235,820)	9,489,215

There was no effect on the statement of financial position as at December 31, 2015.

(b) Effect on the income statements and statements of comprehensive income for the year ended December 31, 2016

	Group			Society		
	As previously reported	Effect of prior year restatement	As restated	As previously reported	Effect of prior year restatement	As restated
Other operating revenue	1,278,338	(122,805)	1,155,533	1,121,677	(75,625)	1,046,052
Other operating expenses	1,804,376	10,925	1,815,301	1,729,019	58,105	1,787,124
Net interest income and other revenue	5,670,307	122,805	5,547,502	4,849,709	(75,625)	4,774,084
Surplus before income tax	1,332,709	(133,730)	1,198,979	1,032,587	(133,730)	898,857
Surplus for the year	990,328	(133,730)	856,598	785,665	(133,730)	651,935
Realised gains on available for sale financial assets	(296)	(102,090)	(102,386)	8,892	(102,090)	(93,138)
Other comprehensive income for the year, net of tax	850,189	(102,090)	748,099	642,634	(102,090)	540,544
Total comprehensive income for the year	1,840,517	(235,820)	1,604,697	1,428,299	(235,820)	1,192,479

CORPORATE DATA

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, MBA (Dist), LL.B (Hons)
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

CHIEF EXECUTIVE OFFICERS OF SUBSIDIARIES >>

- **Victoria Mutual Pensions Management Limited**
  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

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Nigel Chambers, F.C.A, FCCA, MBA, (Dist)
Chartered Accountants, KPMG

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
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