VICTORIA MUTUAL
Investments
LIMITED

2018
ANNUAL REPORT

www.vminvestmentsltd.com

DELIVERING ON THE PROMISES

EDUCATE | EMPOWER | CREATE

TABLE OF CONTENTS

Our CORE

Purpose

'To educate and empower our clients to create, grow and sustain their wealth.'

Group Vision

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

Group Mission

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

Group Core Values

Member Focus, Integrity, Teamwork, Innovation and Excellence

VICTORIA MUTUAL Investments LIMITED

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of **VICTORIA MUTUAL INVESTMENTS LIMITED** (the "Company") will be held at the Jamaica Pegasus Hotel, 81 Knutsford Boulevard, Kingston 5, in the parish of Saint Andrew on Tuesday, May 28, 2019 at 3:00 p.m. to consider, and if thought fit, pass the following resolutions:

1. Resolution No.1 – Audited Accounts

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

2. Resolution No. 2 - Declaration of Dividend

"THAT the interim dividend of $0.02 per Stock unit, paid on March 23, 2018 and that the interim dividend of $0.12 per stock unit paid on December 11, 2018 be and is hereby ratified and declared as the final dividend for the financial year ended December 31, 2018."

3. Resolution No. 3 - Retirement by Rotation

3A) Retirement by Rotation pursuant to Article 108:

"THAT Director **Mr. Courtney Campbell** retiring by rotation pursuant to Article 108, of the Articles of Incorporation, who being eligible for re-election, is hereby elected."

"That Director **Mr. Milton Samuda** retiring by rotation pursuant to Article 108, of the Articles of Incorporation who being eligible for re-election is hereby elected."

"That Director **Mrs. Janice McKenley** retiring by rotation pursuant to Article 108, of the Articles of Incorporation who being eligible for re-election is hereby elected."

3B) Retirement Pursuant to Article 106:

The following Director was appointed as an addition to the Board since the date of the last Annual General Meeting, the appointment was effective from January 1, 2019, will retire pursuant to Article 106, as at the date of this Meeting but shall be eligible for re-election:

"That Director Mr. Rezworth Burchenson retiring pursuant to Article 106 of the Articles of Incorporation who being eligible for re-election is hereby re-elected."

4. Resolution No. 4 - Directors' Remuneration

"THAT the amount of $15,544,000.00 included in the Audited Accounts of the Company for the year ended December 31, 2018 as remuneration for their services as Directors be and is hereby approved."

5. Resolution No. 5 – Appointment of Auditors

"THAT KPMG, Chartered Accountants, having signified their willingness to continue in office as Auditors, be and are hereby appointed Auditors of the Company to hold office until the next Annual General Meeting, at a remuneration to be agreed with the Directors."

DATED this 26th day of March, 2019

BY ORDER OF THE BOARD

Keri-Gaye Brown
Corporate Secretary
REGISTERED OFFICE
6-10 Duke Street
Kingston

A Member of the Company, entitled to attend and vote, is entitled to appoint a Proxy to attend and vote in his/her stead, and a Proxy need not be a Member.

If you are unable to attend the Meeting, a Form of Proxy is enclosed for your convenience. The Form should be lodged at the Registered Office of the Company, at-least forty-eight (48) hours before the time appointed for the Meeting.

The Proxy Form should bear stamp duty of $100.00 or such amounts as prescribed by the Stamp Duty Act before being signed. The stamp duty may be paid by adhesive stamp(s), which are to be cancelled by the person executing the Proxy.

DIRECTORS' REPORT

1. The Directors submit herewith the Consolidated Statements of Revenues and Expenses, Comprehensive Income and Financial Position for the year ended December 31, 2018.

2. The Consolidated Statement of Revenue and Expenses reports pre-tax profit for the year of $539,035,457 from which there has been provided $141,437,017 for corporate income tax, leaving a balance of $397,598,440.

3. The appropriation of earnings detailed in the financial statements includes:

   An interim dividend of $0.02 per stock unit, paid on March 23, 2018 and an interim dividend of $0.12 per stock unit, paid on December 11, 2018.

4. A) **Director Retiring by Rotation pursuant to Article 108:**

   "Director Mr. Courtney Campbell shall retire from office, by rotation, pursuant to Article 108 of the Company's Articles of Incorporation on the date of the Meeting but shall be eligible for re-election."
   "Director Mr. Milton Samuda shall retire from office, by rotation, pursuant to Article 108, of the Articles of Incorporation who being eligible for re-election is hereby elected."
   "Director Mrs. Janice McKenley shall retire from office, by rotation, pursuant to Article 108, of the Articles of Incorporation who being eligible for re-election is hereby elected."

   B) **Directors Retiring Pursuant to Article 108:**

   The following Director was appointed as an addition to the Board with effect from January 1, 2019: "Mr. Rezworth Burchenson. Mr. Burchenson will retire pursuant to Article 106, as at the date of this Meeting but shall be eligible for re-election."

5. The Auditors, KPMG, have signified their willingness to continue in office.

6. Your Directors wish to thank the Management and Staff of the Company for their contribution.

On behalf of the Board

MR. MICHAEL MCMORRIS
Chairman

Victoria Mutual Investments Limited (VMIL) is incorporated and domiciled in Jamaica. VMIL was incorporated in 1984 as the corporate financing arm of 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, 20% of VMIL was offered to Members, Clients and the Public by way of an Initial Public Offering (IPO), to facilitate corporate lending and investing to support well-run Jamaican businesses. The company raised $690 million and now trades on the Main Market of the Jamaica Stock Exchange (JSE).

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

VMIL 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 experts on the VM Wealth Management team.

The company had no employees at the end of the current and previous years and its activities are administered by VM Wealth Management Limited.

The company and its subsidiary are collectively referred to as the 'Group'.

Victoria Mutual Wealth Management Limited was founded in 1994. Since then, the company has been a member of the JSE and operates as a licensed securities dealer. VM Wealth has earned a trusted name for itself among the top investment managers in Jamaica, due to its strong and consistent performance, spanning many years. The company has played a critical role in promoting investment opportunities to investors as a leading securities dealer and a formidable player in the stock brokerage and capital market businesses.

Over the years, the organisation's revenue stream has evolved. Previously, approximately 70% of total revenues came from net interest income. Today, most of VM Wealth's earnings are generated from non-interest income sources.

VM Wealth strives to anticipate market trends, see opportunities and execute winning solutions for wealth creation, wealth management and wealth preservation. A clear understanding of our clients' needs, coupled with a well experienced and competent investment management team, ensures that VM Wealth delivers what clients require.

The dynamic team of Portfolio Managers and Licensed Wealth Advisors aim to fulfil the organisation's purpose **'To educate and empower our clients to create, grow and sustain their wealth.'**

OUR BUSINESS: ORGANISATIONAL CHART

The Victoria Mutual Building Society (JAMAICA)

80%

Victoria Mutual Investments Limited (JAMAICA)

100%

Victoria Mutual Wealth Management (JAMAICA)

OUR BUSINESS: STRATEGIC OUTLOOK

In 2018, VMIL conducted a thorough review of our strategy. This review took into consideration input from Team Members, Members of the VMIL Board, the operating environment, our current competitive position, and numerous internal factors including the VM Group's strategy. The review resulted in VMIL formally adopting the Vision, Mission and Core Values of its 80% parent, the Victoria Mutual Group. The Purpose of VMIL was also modified for greater alignment with the Victoria Mutual Group's strategy. Furthermore, the VMIL Board crafted its aspirational targets which the company is expected to achieve by 2023.

Vision

The VM Group's Vision statement which has been adopted by VMIL is 'To be the leading Caribbean-based mutual provider of financial services'

Mission

The VM Group's Mission statement which has been adopted by VMIL is, 'We are a mutual financial organisation whose purpose is to empower our Members globally to acquire their own homes and achieve financial independence by providing innovative solutions and excellent service, delivered by a highly competent and engaged team and through multiple channels. We are committed to partnering with our communities to improve quality of life.'

Core Values

- MEMBER FOCUS
- INTEGRITY
- TEAMWORK
- INNOVATION
- EXCELLENCE

VMIL's Purpose

The purpose of VMIL is 'To educate and empower our clients to create, grow and sustain their wealth.'

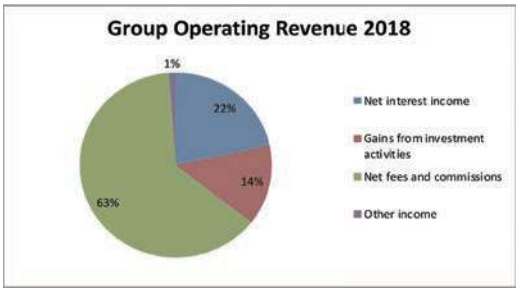
2023 Targets

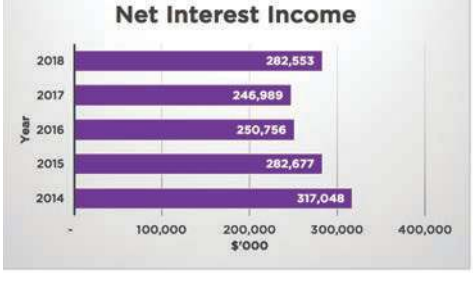
1. Significant Growth in Net Income
2. Aggressive growth in both On and Off-Balance Sheet Assets
3. A Transformation of our Client Experience
4. Continued strengthening of Team Member Engagement

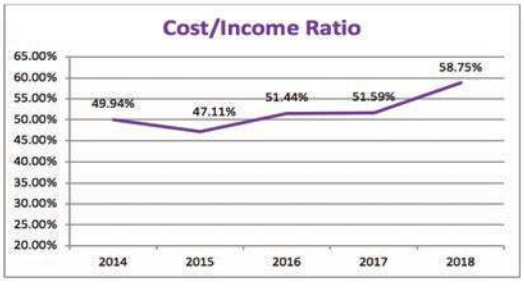
OUR BUSINESS:

FIVE-YEAR STATISTICAL REVIEW

GROUP	2014	2015	2016	2017	2018
Balance Sheet ($'000)					
Current Assets	3,144,299	2,339,877	2,988,775	7,749,448	7,402,247
Non-Current Assets	11,817,536	13,234,189	13,273,767	12,319,006	14,207,952
Total Assets	14,961,835	15,574,066	16,262,542	20,068,454	21,610,199
Current Liabilities	13,665,590	14,164,429	14,596,442	16,928,764	17,391,150
Non-Current Liabilities	40,615	44,912	50,410	555,668	1,446,625
Equity	1,255,630	1,364,725	1,615,690	2,584,022	2,772,424
Income Statement ($'000)					
Net Interest Income	317,048	282,677	250,756	246,989	282,553
Other Operating Revenue	310,441	528,463	560,047	719,466	1,024,222
Administration Expenses	(313,364)	(382,158)	(417,069)	(498,630)	(767,740)
Profit before income tax	314,125	428,982	393,734	467,825	539,035
Profit after tax	263,340	311,132	317,278	346,302	397,598
Ratios					
Net Interest Margin	2.22%	1.85%	1.58%	1.36%	1.36%
Return on Equity	23.72%	23.75%	21.29%	16.49%	14.85%
Return on Assets	1.84%	2.04%	1.99%	1.91%	1.91%
Cost/Income Ratio	49.94%	47.11%	51.44%	51.59%	58.75%
Equity as a percentage of assets	8.39%	8.76%	9.94%	12.88%	12.83%







DEFINITIONS USED

Administrative Expenses	Staff costs + Other operating expenses
Earning Assets	Cash & Cash Equivalents + Investments + Resale Agreements + Loans + Other Assets
Return on Equity	Profit after income tax / Average Equity
Return on Assets	Profit after income tax / Average Total Assets
Net Interest Margin	Net interest income / Average Earning Assets
Cost/Income Ratio	Operating costs / Operating income

Sources

2014-2018 Audited Financial Statements

GOVERNANCE: CHAIRMAN'S MESSAGE

In 2017, the VM Group initiated the recapitalisation of VMIL to facilitate the financing of small and medium Jamaican businesses. A total of 20% of the company was sold to the public by way of an Initial Public Offering (IPO), and on December 29, 2017 the company was listed on the Jamaica Stock Exchange. The ensuing months would see the VMIL team going to work to ensure that the financial investment of our clients as well as the confidence they have placed in our business would be unequivocally justified.

OUR FINANCIAL PERFORMANCE

VMIL performed well in 2018, its first year of operations as a listed entity. Profit After Tax increased by 14.8% from $346.3 million in 2017 to $397.6 million in 2018. We returned dividends to our shareholders at $0.14 per share, a dividend pay-out ratio of 52.82%.

We have been actively pursuing our vision to be a part of the leading Caribbean-based mutual provider of financial services. Through the outstanding success of our Unit Trust products, including us having the best performing Property Fund and the second-best Equity Fund in 2018, we are fulfilling our mission to grow the wealth of Jamaicans through the provision of creative new products, helping them to achieve financial independence.

We have also been enthusiastically pursuing our purpose, which is to educate and empower our clients to create, grow and sustain their wealth. We believe strongly in empowering our clients and therefore put great effort into providing useful financial education that will help them make sound financial decisions. Our Post-Budget Forums and Wealth Talks series are part of this drive to lift Jamaicans' knowledge of financial matters. We believe that greater financial education leads to greater financial inclusion and this is why we are so committed to this task.

I am proud of our achievements in 2018 and I am confident that VMIL will continue to perform well in 2019 and beyond.

I wish to thank, on behalf of the VMIL Board, the Management and Team Members of VMIL for purposefully applying their talents to achieving success. Their commitment is admirable and will continue to serve the business and our clients well.

I also wish to thank our valued clients for making us your partner of choice to help you meet your financial goals. We will continue to ensure that the confidence you have placed in us is validated.

Exciting days are ahead for VMIL. As part of the VM Group's strategy for growth, Devon Barrett, who has served in the post of Chief Executive Officer (CEO) at VMIL, will focus on his Group role as Chief Investment Officer. Rez Burchenson, former CEO of VM Pensions Management and Deputy CEO of VMIL will be appointed to the post of CEO of VMIL. Devon will remain a member of the VMIL Board and will continue to play an active role in charting the strategic direction of the business. These changes take effect as of January 1, 2019. This fortified leadership team stands to reap tremendous rewards for our clients going forward.

I eagerly anticipate a future marked by excellence and success.

MICHAEL MCMORRIS
Chairman

GOVERNANCE: BOARD OF DIRECTORS

MR MICHAEL A MCMORRIS, BA | Chairman

Mr Michael 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, of which he was a founder.

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

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

MILTON J SAMUDA, Esq.

Mr Milton J Samuda is the Managing Partner of Samuda & Johnson and heads the firm's Commercial Department. His practice includes Tourism, Corporate and Hotel Financing; Trade and Transportation; Mining and Energy; Sports and Entertainment; and Maritime Law.

He is a Past-Chairman of Jamaica Promotions Corporation (JAMPRO) and a Past-President of the Jamaica Chamber of Commerce (JCC). Currently, he is a director of Victoria Mutual Wealth Management Limited, Victoria Mutual Investments Limited, Creditinfo Jamaica Limited, Berger Paints Jamaica Limited, OMS Associates Limited and Cricket West Indies (CWI).

Mr. Samuda is Chairman of Sabina Park Holdings; the Institute of Law and Economics; the National Dance Theatre Company (NDTC), the Wolmer's Trust and the CWI's Audit Risk and Compliance Committee.

A member of the Finance & General Purposes Committee of the University of the West

Indies, Mr Samuda is also a member of the Advisory Board of the Spanish-Jamaican Foundation and serves as the Foundation's Secretary.

Mr. Samuda holds a L.L.B. (Hons.) degree from the University of the West Indies and was admitted to practice in Jamaica in 1982 having completed studies at the Norman Manley Law School. In 1993 he was also admitted to practice in the British Virgin Islands.

An Anglican, Mr. Samuda is married to Elizabeth and has three children, Matthew, Marlon and Mariana.

NOEL HANN, EJD, FAIA, MCMI

Mr Noel Hann joined the VM family in 1976 and served the Society for over 30 years. As Senior Vice President Finance and Chief Financial Officer, he had responsibility for Accounting, Finance, Investment, Pension Fund Administration, Foreign Currency Trading and Information Technology. He retired in 2010 as Senior Vice President, Group Risk and Compliance. Mr. Hann also has extensive professional experience in manufacturing, construction and hotel operations.

Mr. Hann is a fellow of The Association of International Accountants (UK) and a member of the Chartered Management Institute (UK). In July 2007, he completed an Executive Juris Doctor (EJD) Law Degree at Concord Law School, California. He has completed several management development programmes, including Financial Management at the Graduate School of Savings & Loans, North Western University.

A past Council Member of the Building Societies Association of Jamaica, Mr. Hann also serves on the Boards of several companies. He is the Chairman of the McGrath High School and the Commodore Skills Training Centre. As the founder and senior pastor of The New Life Tabernacle Church in Bog Walk, St. Catherine he is also a Justice of the Peace, serves as a Lay Magistrate and is very involved in the communities of Bog Walk and Linstead, serving on the Community Consultative Committees, as well as the Linstead Hospital Redevelopment Committee. Over the years, Mr. Hann has spearheaded numerous programmes geared towards the advancement of young people.

PHILLIP G SILVERA, FCCA, FCA

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

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

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

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

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

SANDRA M SHIRLEY-AUXILLY, MBA, B.Sc. (Hons), PMP

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

A former Senior Research/Teaching Fellow-Finance, Mona School of Business, University of the West Indies, Mona, Mrs. Shirley-Auxilly has also served in various capacities on technical assistance and project teams funded by private sector and

multilateral agencies. Her experience includes entrepreneurship and SME development. She believes in giving through service and is a United Way volunteer and Past President of Soroptimist International (SI) Jamaica.

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

MR MATTHEW WRIGHT, MPHIL, MA, BA

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

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

MR COURTNEY CAMPBELL, MBA (Distinction), ACIB, BSc, JP | **Group President & CEO, Victoria Mutual**

Mr Courtney Campbell has served as the President and Chief Executive Officer of the Victoria Mutual Building Society (VMBS) since April 2016. Over the course of his career, Mr. Campbell has held several senior executive positions, including, Chief Executive Officer - GraceKennedy Financial Group, GraceKennedy's financial services holding company with operations in banking, stock broking, insurance and money services across 12 Caribbean territories. Prior to joining the GraceKennedy Financial Group, he spent over 23 years with the National Commercial Bank, where he served in several management positions, including General Manager 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 Governor General Jamaica Trust and the Investment Committee of the Council of World Missions. A Justice of the Peace, Mr. Campbell is an Advisory Board Member of the Governor-General's Programme For Excellence and an I Believe Initiative Ambassador. He previously served as a Director of GraceKennedy Limited as well as a number of its subsidiaries' boards and is a former Chairman of the National Education Trust (NET). Courtney is married to Pauline and they have two sons.

DEVON BARRETT, MBA, BSc | Group Chief Investment Officer and Chief Executive Officer, VMIL and VMWM

A strategic and visionary leader, **Mr. Devon Barrett** has been with the Victoria Mutual Family since March 2008. On September 1, 2016 Mr Barrett assumed the role of Group Chief Investment Officer with responsibility for diversifying the Group's investment portfolio. He also serves at the helm of Victoria Mutual Wealth Management (VMWM) where his primary areas of focus include conceptualising and implementing the strategic direction of the Company, managing the Company's balance sheet, ensuring compliance with all regulatory requirements and managing the growth in profit and shareholders' value.

Prior to his tenure at Victoria Mutual, Mr. Barrett served in senior positions at several financial institutions including Capital and Credit Securities Limited and the Union Bank of Jamaica Limited, formerly Citizen's Bank. This accounts for 20 years of experience in managing foreign currency investments and deposits portfolios, negotiating foreign exchange and money market deals and ensuring consistent growth in the respective client bases.

Mr. Barrett holds an MBA which he acquired at Nova Southeastern University, Florida and a BSc in Management Studies from the University of the West Indies. A strong negotiator and effective communicator, he inspires his team to achieve greater levels of performance, thereby positively impacting on individual growth and development and ultimately, overall Company results.

JANICE MCKENLEY, FCCA, FCA, MBA (Distinction), BSc (Hons.)

Mrs Janice McKenley joined Victoria Mutual in July, 2007. As Group Chief Financial Officer, she is responsible for the Group's Finance, Programme Management and Procurement Departments. She chairs the Group's Asset Liability Committee (ALCO) and as a senior executive participates in all the Management Committees. In exercising her responsibilities, she weighs in on a wide range of business matters from strategy, governance, regulatory matters, major transactions and change management.

Prior to joining Victoria Mutual, Mrs. McKenley held the position of General Manger, Financial Control Division at the National Commercial Bank Ltd. In that role, she had responsibility for the transformation and reorganization of the division; improvement in the financial reporting timeframes; budget preparation and regulatory reporting; as well as coordination of the external audit and financial reporting for the Bank and Group.

Mrs. McKenley has a wealth of experience including Computerised Information System Risk Management (CISRM), which was her specialty during her tenure at McKenley & Associates and PriceWaterhouseCoopers. Mrs. McKenley was also instrumental in formulating the corporate direction and strategic goals for the City of Kingston Co-operative Credit Union, while serving as Deputy General Manager, Finance & Corporate Planning.

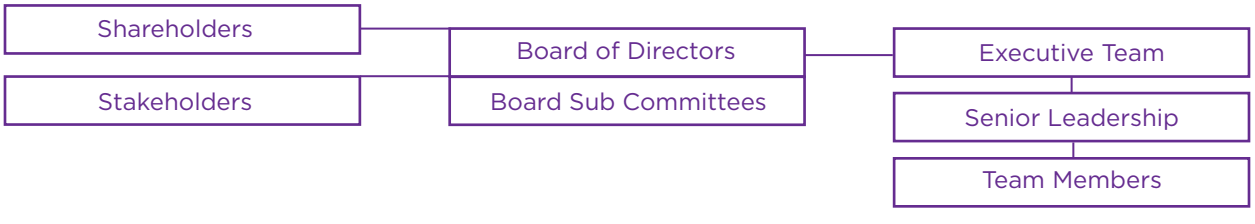
Mrs. McKenley, a Chartered Accountant by profession, holds an MBA in Finance and a Bachelor of Science in Computer Science from the University of the West Indies. She is a Fellow of The Chartered Association of Certified Accountants (UK) and The Institute of Chartered Accountants of Jamaica, of which she is a past council member and member of the Accounting Standards Committee.

GOVERNANCE: CORPORATE GOVERNANCE STATEMENT

Victoria Mutual Investment Limited (VMIL) was listed on the Jamaica Stock Exchange in 2017. The Board of Directors continues to focus on corporate governance oversight and effectiveness. The Corporate Governance Statement outlines the responsibilities and activities of the Board and its Committees to fulfill its commitment to shareholders and stakeholders.

VMIL Standards of Governance is guided by the principles of transparency, of timely disclosure and of communication with our shareholders and all stakeholders. VMIL's Corporate Governance Framework has been established to ensure that VMIL is effectively managed to provide value to its shareholders and sustain long-term financial viability whilst taking into account the interest of all stakeholders.

The Corporate Governance Framework is comprehensive in its scope and application for accountability and effectiveness and guides the Board of Directors in the discharge of its fiduciary responsibilities to shareholders and all stakeholders.



1. THE ROLE OF THE BOARD OF DIRECTORS:

VMIL is fully committed to complying with all applicable laws, rules, regulations and sound business practices. The Board is guided by best practices of corporate governance principles including such principles established by the Jamaica Stock Exchange and Private Sector Organisation of Jamaica (PSOJ. The Board of Directors' key functions include:

a. The effective use and adoption of Corporate Governance, Risk Management and Integrity guiding principles;
b. Formulation of Strategic Goals supported by Oversight Management;
c. Decision on matters related to the Strategic direction, management and control for the long-term benefit of the Company;
d. Ensuring equitable treatment of shareholders and other stakeholders;
e. Oversight of communication and public disclosure, to ensure clear communication of the processes for timely disclosure of information, including measures for receiving feedback from all stakeholders; and
f. Reviewing the processes and controls for certification of financial statements, in particular, in matters concerning public disclosure.

2. THE RESPONSIBILITY OF THE BOARD:

During the financial year 2018, the Board of Directors' main areas of focus in fulfilling its responsibilities were:

STRATEGIC

- Strategic direction to Management in the approval of long-term corporate strategy and performance objectives; assessing the adequacy of capital; and reviewing the business plan within the context of the Enterprise Risk Management policies and framework.

FINANCIAL PERFORMANCE

- Reviewing financial performance, compliance with applicable laws and regulations, and ensuring that internal controls are consistent with the business risks and operating environment.
- Approving the annual budget and targets, annual financial statements and interim financial results and key performance indicators.
- Ensuring that the financial results are reported fairly and in accordance with IFRS and other applicable standards.

GOVERNANCE AND PERFORMANCE MANAGEMENT

- Approving the Corporate Governance Framework, consistent with best practices.
- Approving performance objectives and measurement systems; and reviewing the performance of the Board, Committees and key management officers.
- Reviewing the succession plan and compensation philosophy.

COMPLIANCE AND INTERNAL CONTROLS

- Assessing the adequacy of the systems of risk management.

3. BOARD'S SKILLS AND EXPERIENCE:

The Board of Directors' skills and experience are critical components of Board effectiveness and strong governance standards. The Board is composed of ten (10) Directors.

4. DIRECTOR'S INDEPENDENCE:

The Board is led by the Chairman, Mr. Michael Andrew McMorris who is a Non-Executive Director and has extensive experience in the financial sector and other industries.

Board Members are selected to ensure diverse experience and skills to oversee the strategic direction of the Company. Director's independence is a key tenet of the VMIL Corporate Governance Code to ensure that independent views and judgments play an important role in all deliberations and decisions of the Board. In keeping with best practices, the Board consists of a majority of non-executive directors, who are deemed to be independent having regard to the following principles:

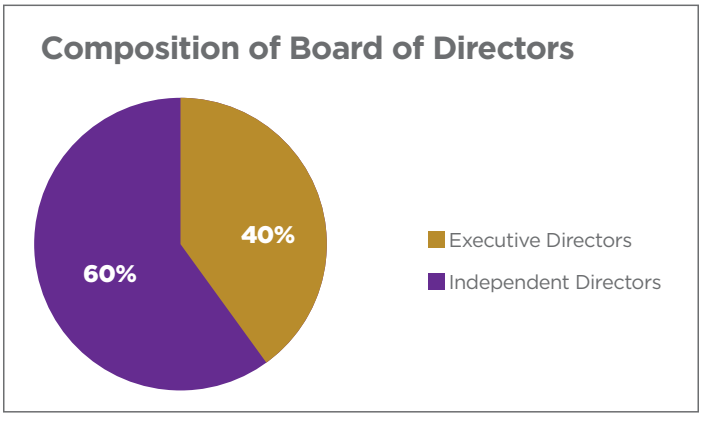
A Director is considered to be independent where s/he:

i. is not and has not been an employee of the VM Group within the last three (3) years;
ii. is free of any interest, position, association or relationship that might influence or reasonably be perceived to influence, in a material respect, his or her capacity to bring an independent judgment to bear on issues

before the Board; and

iii. able to act in the best interest of VMIL and its shareholders generally.

The Board of Directors is composed of ten Directors of whom six are Independent Directors.



INDEPENDENT DIRECTORS AND ATTENDANCE AT MEETINGS - 9	
MICHAEL MCMORRIS	7
MATTHEW WRIGHT	8
MILTON SAMUDA	7
NOEL HANN	8
PHILLIP SILVERA	9
SANDRA SHIRLEY	9

5. ROLE OF THE CHAIRMAN:

The Role of the Chairman, as an independent director with the requisite skills and experience in strategic leadership, finance, commerce, corporate governance and risk management, is to lead the Board in relation to accountability. The Chairman oversees the stewardship of the Board, and through effective deliberation and decision-making, provides such guidance, advice and counsel to the CEO and the Executive Team as to ensure that the Company is managed in the best interest of shareholders and all stakeholders.

6. BOARD COMMITTEES:

The Board of Directors is charged with the primary responsibility of providing strategic direction and general oversight of the management of VMIL's business and affairs. To facilitate these objectives, the Board of Directors has established three (3) committees:

- Audit, Risk and Conduct Review Committee;
- Corporate Governance & Nominations Committee; and
- Finance Committee.

Each Committee covened at least four times during the year.

The Committees are composed mainly of Independent Directors in order to focus on specialised tasks assigned by the Board to each Committee. The VMIL Board and Committees have a diverse composition of members, the majority of whom are Non-Executive Directors, who all bring a wide cross section of skills and experiences from different industries and professional backgrounds such as banking, accounting, business and law.

Each Committee operates under a Charter, setting out its role and responsibilities and deliverables. Each Committee's Charter is approved by the Board. The Board and Board Committees have full access to the management of VMIL at any time in order to facilitate access to information on a timely basis on matters requiring Board deliberation.

6.1 CORPORATE GOVERNANCE & NOMINATIONS COMMITTEE

6.1.a The Committee is responsible for periodically assessing the skills, composition and performance of the Board through the process of Board evaluation to guide succession planning and selection of directors.

6.1.b The Committee identifies and recommends, in consultation with the VMBS Group Board, suitable nominees for appointment to the Board, taking into account the strategic plans for the Company and the areas of expertise required at the Board level to execute and oversee the strategic plans.

6.1.c In addition, it discharges the Board's responsibilities relating to compensation philosophy and performance management policy. The Committee makes periodic recommendations to the Board for the revision of Directors' compensation for approval by the shareholders.

CORPORATE GOVERNANCE & NOMINATIONS COMMITTEE Meetings 4		
Milton Samuda (Chairman)	Non-Executive	2
Michael McMorris	Non-Executive	4
Sandra Shirley	Non-Executive	4
Noel Hann	Non-Executive	4

6.2 AUDIT, RISK & CONDUCT REVIEW COMMITTEE

6.2.a This Committee assists the VMIL Board in providing oversight of the integrity of the Company's Audited and unaudited Financial Statements; compliance with Legal and Regulatory requirements; safeguarding the Company's assets; maintenance of accounting records; and maintenance of an effective system of internal control; as well as the performance of the external auditors and the internal audit function and risk management.

6.2.b The Committee reviews changes in the International Financial Reporting Standards and assesses the impact on the Company's financial position.

6.2.c It also reviews the External Auditor's audit scope and fees and outcome of the annual review process. External Auditors attend meetings of the Committee to discuss matters related to the audit.

6.2.d The Committee reviews the reports from the Group Internal Audit Department and discusses with Management the findings of the reports.

6.2.e The Committee also assists in Board oversight of general matters on conduct and related party transactions; and the framework and procedures for dealing with matters involving conflicts of interest.

6.2.f The Committee has enterprise-wide oversight and is charged with the responsibility of overseeing the overall spectrum of risks to which VMIL may be exposed in the conduct of its affairs. The Committee is responsible for making recommendations to the Board regarding the enterprise-wide risk appetite and risk culture, and monitoring and reporting on risk identification, measurement and control as may be appropriate for VMIL and its operations.

AUDIT, RISK & CONDUCT REVIEW COMMITTEE Meetings 4		
Phillip Silvera (Chairman)	Non-Executive	4
Sandra Shirley	Non-Executive	4
Noel Hann	Non-Executive	3

6.3 FINANCE COMMITTEE

6.3.a This Committee assists the VMIL Board in providing oversight of Balance Sheet structure and strategy and the Finance and Investment portfolios to include the evaluation of potential transactions.

6.3.b The Committee is charged with the responsibility of providing policy oversight and review, on behalf of the Board, for capital allocation and treasury and credit portfolio management. The Committee reviews, evaluates and recommends projects or transactions involving major capital expenditure as well as mergers, acquisitions and divestments.

FINANCE COMMITTEE Meetings 4		
Matthew Wright (Chairman)	Non-Executive	3
Michael McMorris	Non-Executive	4
Phillip Silvera	Non-Executive	4

7. DIRECTOR'S CODE OF BUSINESS CONDUCT AND ETHICS:

The Board of Directors approved a Code of Business Conduct and Ethics in keeping with its overall fiduciary responsibility to operate at the highest ethical standards. The Code provides for guiding principles to manage and mitigate Conflict of Interest, Fair Dealings, Securities Trading, the Protection and Proper Use of Corporate Assets and Compliance with Laws, Rules and Regulations.

FOUNDATION

Improving Quality of Life

In its 140th year, Victoria Mutual Group launched the Victoria Mutual Foundation.

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

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

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

- Courtney Campbell,
  Chairman of the VM Foundation

CORE Values

- Empowerment
- Accountability
- Care
- Excellence
- Collaboration

AREAS OF FOCUS

The main areas of focus under each banner are:

1. LEADERSHIP AND NATION BUILDING

- National Leadership Prayer Breakfast
- Governor General's Achievement Awards
- Schools/PTA Resource Mobilisation and Training Programme

2. YOUTH EMPOWERMENT

- Scholarships
- Social Enterprise in Secondary Schools
- Financial literacy for young people
- Under-13 football coaches development programme

3. HEALTH AND FAMILY

- Marriage and the Family Seminar
- Adopt-A-Clinic, in partnership with the Ministry of Health
- Healthy Lifestyles, which will utilise social media to highlight the importance of prevention, early detection and care for a range of lifestyle illnesses.

AMPLIFYING OUR IMPACT

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

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

TRANSFORMING LIVES, BUILDING BETTER COMMUNITIES...

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

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

The VM Foundation has adopted the St Jago Park Health Centre in Spanish Town, St Catherine. Adopt-a-Clinic's primary objective is to have Jamaicans take responsibility for their health at a primary level before they have a need to get to the hospitals. The main thrust of the programme is to refurbish and upgrade clinics across the island to ensure that patients get quality care in a professional setting.

The IgKnight programme focuses on Personal Development, Leadership Formation and Financial Literacy. It seeks to empower students at the tertiary level and equip them with tools and skills necessary to transition and adapt in society inclusive of financial independence as part of their professional development.

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

Shareholdings for Top Ten Largest Shareholders for Victoria Mutual Investments Ltd as at December 31, 2018

RANK	NAME	TOTAL SHARES HELD AS AT DECEMBER 31, 2018
1.	The Victoria Mutual Building Society	1,200,020,000
2.	Geoffrey Forde	9,000,000
3.	PAM – University Hospital Scheme of Pensions	7,560,600
4.	Rezworth Burchenson & Valerie Burchenson	6,577,830
5.	Michael McMorris & Christine McMorris	5,736,124
6.	Devon D. Barrett	5,013,518
7.	VMWealth Equity Fund	4,791,347
8.	Rickardo Ebanks & Alda Ebanks	4,302,884
9.	Owen Sylvester Crosbie	4,060,140
10.	PAM – Pooled Equity Fund	3,673,648

Shareholdings of Senior Managers / Connected Parties as at December 31, 2018

NAMES	SHAREHOLDINGS AS AT DECEMBER 31, 2018
Devon D. Barrett	5,013,518
Rezworth Burchenson	6,577,830
Valerie Burchenson / Rezworth Burchenson	249,952
Lloyd C. Bramwell	30,404
Karlene Mullings / Clive Mullings	50,000
Winston George Jr McKane / Karlene Mullings	5,000
Kellia McKane / Karlene Mullings	5,000
Colando Hutchinson / Frances Hutchinson	1,240,973
Nicole Adamson	139,000
Denise Marshall-Miller	25,000
Denise Marshall-Miller	25,000
Denise Marshall-Miller	1,001,660
Denise Marshall-Miller	25,000
Denise Marshall Miller	25,000
Denise Marshall Miller	1,001,660
Akil Parchment	25,000
Akil Parchment	25,000
Evette M. Bryan / Shulette Cox	400,000

Shareholdings of Directors / Connected Parties as at December 31, 2018

NAMES	SHAREHOLDINGS AS AT DECEMBER 31, 2018
Michael McMorris / Christine McMorris	5,841,759
Courtney Campbell / Pauline Campbell	1,800,000
Milton Samuda	0
Noel Hann	150,000
Phillip Silvera / Faye Silvera	245,816
Sandra Shirley	413,809
Devon Barrett	5,013,518
Janice McKenley / Wilfred McKenley	960,000
Matthew Gray Wright	677,252

REPORT ON 2018: CEO's REPORT

VMIL experienced some major wins in 2018 thanks to our dedicated team and our unshakable commitment to helping our clients achieve their financial goals.

In 2018, revenue increased by 35.21% from $0.966 billion in 2017 to $1.306 billion in 2018 resulting in an after-tax net income of $397.6M, up 14.8% vs 2017.

The factors contributing to this positive performance were:

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

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

CLIENT EXPERIENCE

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

Another initiative executed in the year to further improve our client experience was to centralise our Operations Unit within the VM Group. This follows other centralisation

efforts made in the areas of marketing, human resources, treasury/investment services and accounting. We have begun to benefit from the expertise of the consolidated team and have also been able to run a more efficient operation in VMIL, thanks to this centralisation.

After two years of work, the team implemented a new investment management system. The new system gives greater functionality and fortifies the back-office operations, towards improving our client experience. This new system facilitated the launch of our two new Unit Trust portfolios during 2018.

While we continue to work tirelessly to improve our client experience, we are very proud to be part of the VM Group that won the 2018 PSOJ Service Excellence Award for overall service excellence. It is encouraging recognition and motivation to press even harder towards our service delivery goals.

OUR PEOPLE

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

OUTLOOK

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

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

This is part of our broader mission to optimise our service delivery and realise improved returns on our clients' investments. The new plan reflects alignment on the direction to be pursued by management, and provides greater energy, clarity and focus.

The path ahead for VMIL is bright – and ambitious. We have instituted aggressive targets in the areas of efficiency, team member engagement, and client experience. We have the right team in place and are motivated to achieve excellence. In 2019 we will be opening a new branch in Fairview, Montego Bay. VMIL is more committed than ever to grow our clients' wealth and maximise value for our shareholders.

We wish to thank the Members of the Board for their commitment to VMIL. Thanks to our valued Team Members for their dedication to the business and to improving client experience. Thanks to our valued clients for choosing us to guide you to financial wellbeing, and to our shareholders for your continued confidence and support.

We look forward to a successful future for VMIL under the leadership of Rez Burchenson as CEO and Colando Hutchinson as Deputy CEO effective January 1, 2019. Their combined expertise and commitment to the VMIL purpose augers well for the future.

We wish them and the entire team the very best for the exciting journey ahead.

Devon Barrett

.....

CHIEF EXECUTIVE OFFICER

REPORT ON 2018: PERFORMANCE HIGHLIGHTS

01
14.85%
RETURN ON EQUITY (ROE)

02
58.75%
COST: INCOME EFFICIENCY RATIO

03
$48B
ASSETS UNDER MANAGEMENT

04
16%
GROWTH IN ASSETS UNDER MANAGEMENT

05
$0.14
DIVIDEND PER SHARE

06
10.65%
CAPITAL ADEQUACY RATIO[1]

07
15.2%
INCREASE IN STOCK PRICE

08
28.68%
RETURN ON EQUITY FUND

09
7.57%
RETURN ON PROPERTY FUND

10
$19.3B
FUNDS RAISED ON BEHALF OF CLIENTS

REPORT ON 2018: LEADERSHIP TEAM

REZWORTH BURCHENSON, MBA (HONS), BSC | DEPUTY CHIEF EXECUTIVE OFFICER

Mr Rezworth Burchenson is Deputy CEO of Victoria Mutual Wealth Management and CEO of VM Pensions Management Limited. He transitioned to the Victoria Mutual Group with a proven track record of delivering results in the financial sector with prior roles including CEO of Prime Asset Management Ltd and Vice President and General Manager of Pan Caribbean Asset Management Ltd, with an overarching responsibility for managing Jamaica's largest unit trust (Sigma Unit Trust).

His contributions to the sector also include serving on the Private Sector Organisation of Jamaica's (PSOJ's) Economic Policy Committee and The Jamaica Stock Exchange (JSE). Rez has also served as a Director of:

- National Road Operating and Constructing Company (NROCC).
- National Education Trust Ltd (NET).
- Human Resource Management Association of Jamaica.
- Pension Funds Association of Jamaica (PFAJ).

In 2012, Mr. Burchenson was named to the PSOJ's '50 Under Fifty' in the field of investments and finance. A Barclays Bank Scholar while at the University of the West Indies, he received a Bachelor's Degree in Economics (Hons.) and an MBA in Banking and Finance (Hons.). He has also participated in leadership training at The Wharton School, Aresty Institute of Executive Education and the Advanced Management Programme (AMP 194) at Harvard Business School.

COLANDO HUTCHINSON, MBA, FCA, CFA | HEAD – CAPITAL MARKETS

Mr. Colando Hutchinson is Head of Capital Markets at Victoria Mutual Wealth Management. Prior to this, he served as Manager of Asset Management & Advisory Services.

Mr. Hutchinson previously worked with Pan Caribbean Bank Limited as a Foreign Exchange Trader and later for their parent Company Pan Caribbean Financial Service (PCFS) as Assistant Manager – Corporate and Asset Management Services.

His previous roles also include working as an Investment Manager at the Caribbean Basin Investors Limited or 'CBIL' (the General Partner of the Caribbean Investment Fund or 'CIF') and as an auditor at KPMG Peat Marwick.

Mr. Hutchinson completed his MBA in Finance at the Edinburg Business School, having previously completed a Bachelor of Science (First Class Honours) in Accounting at the

University of the West Indies, Mona. He is a Certified Chartered Accountant, Chartered Financial Analyst, and a Fellow of the Institute of the Chartered Accountants of Jamaica and the Association of Chartered Certified Accountants (UK).

His passion for socio-economic and cultural development has led to him serving as the Director of Compassionate Outreach Foundation Limited and the Graduates Foundation Limited.

KARLENE MULLINGS, MBA | HEAD- SALES & CLIENT RELATIONS

Mrs Karlene Mullings leads Business Development at Victoria Mutual Wealth Management (VMWM). She is responsible for selling and promoting all the products and services offered by the VMIL group, as well as ensuring effective after-sales services, with primary focus on retail clients. Mrs. Mullings is a seasoned banker with over 17 years' experience in the financial services industry with demonstrated expertise in the area of relationship management. She has a proven track record of positively impacting business objectives by developing and maintaining a successful revenue stream and client database. Since joining the VM group, Mrs. Mullings has been instrumental in achieving a key strategic objective of growing the off-balance sheet business, by introducing and successfully growing new product offerings such as the unit trust portfolios.

Prior to joining VMWM, Mrs. Mullings served the Capital & Credit Group in various capacities, including as Business Development Manager of the former Capital & Credit Securities Ltd., and Branch Manager, Capital & Credit Merchant Bank. She also served as a member of the Core Banking Implementation Project Team where she played a major role in the business reengineering process which resulted in the successful implementation of the banking platform.

Mrs. Mullings' education and professional certifications include a Master's in Business Administration, Finance Major, a Bachelor of Business Administration Degree (Hons.) and a Diploma in Finance from the University of Technology, Jamaica. She is a certified trainer by the Mona School of Business and has specialised training in the areas of Customer Relationship, Project and Portfolios Management.

NICOLE ADAMSON, CFA, FRM, Msc | MANAGER, RESEARCH & STOCKBROKING

Mrs Nicole Adamson has over 15 years' experience in the financial industry in both the private and public sectors. She joined the team at Victoria Mutual Wealth Management (VM Wealth) in April 2011 in the capacity of Research Manager and currently has responsibility for research and the stockbrokerage. As manager for research, Mrs. Adamson oversees the team of analysts that provide insights into the local and global economies and investment guidance on investments spanning equities, bonds and other non-traditional investments. Under her guidance, VM Wealth took 1st and 3rd place in the Jamaica Stock Exchange's (JSE) 2017 Research Analyst competition. Prior to working at VM Wealth, Mrs. Adamson worked at the Victoria Mutual Building Society and at the Ministry of Finance & Planning.

Mrs. Adamson is a CFA Charterholder and Financial Risk Manager (FRM) fellow with the Global Association of Risk Professionals. She holds an MSc in Finance, Economics and Econometrics from the Cass Business School, City University, London, UK and a BSc (First Class Honours) in Actuarial Science from the University of the West Indies, Mona. She is also an Adjunct Lecturer with the JSE and is a Board member of the Jamaica Island Nutrition Network, a non-profit organization dedicated to improving nutrition in students.

DENISE MARSHALL-MILLER, MBA BBA(HONS) | MANAGER, BOND TRADING

Mrs Denise Marshall-Miller joined the Victoria Mutual Wealth Management Limited (VM Wealth) team as Manager–Bond Trading in February 2011. Her mandate is to facilitate the growth of bond trading revenue by providing internal and external clients with diversified bond options.

Towards this end, she focuses on building and expanding trading relationship with overseas counterparts, providing guidance to the Bond Trading Team and deepening relations with existing VM Wealth clients.

Mrs. Marshall-Miller has over a decade of experience in the Finance Industry and has built a strong track record as a successful Fixed Income Trader. She consistently demonstrates her expertise in deal structuring, Corporate and Sovereign Bond Trading, US Treasury and Treasury Management.

Her career in investment started at Mayberry Investment as a Wealth Advisor and quickly accelerated to that of Manager, Market & Trading Unit. Her core competence entails the creation of customized portfolios specifically designed to meet clients' investment needs and maximizing portfolio returns.

Mrs. Marshall-Miller holds an MBA from the Mona School of Business and a BBA (Hons) & Diploma (Dist) from the University of Technology with a major in Finance. Attained Professional certificates from Harvard, CPTC, Morgan Keegan Bond Schools and Mona School of Business.

EVETTE BRYAN, MBA | SENIOR MANAGER, TREASURY

Mrs Evette Bryan joined Victoria Mutual Wealth Management Limited (VM Wealth) as a Client Relations Officer in July 2001. She quickly advanced to the position of a Senior Investment Advisor and Treasury Officer by 2003. In her current role as Senior Manager, Treasury, she practices due diligence in asset allocation on behalf of both the company and clients.

Having acquired over 25 years of experience in banking and finance, Mrs. Bryan is quite adept at portfolio management, risk management, and mentorship. Prior to joining VM Wealth, she served in the private sector as an Accounts Supervisor at one of the leading financial institutions in Jamaica.

Mrs. Bryan holds an MBA in Banking and Finance from the Mona School of Business, University of the West Indies, Mona. She has also excelled in professional short courses focusing on Project Management, Strategic Financial Management and Portfolio Management, from the Mona School of Business and Fitz Ritson and Associates.

Her vision for the Treasury is that it will continuously uphold the VM Group's cultural beliefs of Customer Obsessed and Together 'Wi A Winna' whilst practicing the precepts of strategic risk management and effective and efficient asset allocation.

HEKIMA K. REECE, ACCA | PRODUCT IMPLEMENTATION AND SUPPORT MANAGER

Mr Hekima Reece joined Victoria Mutual Wealth Management (VMWM) in July 2012 and brings to the team over 15 years' experience in the financial services Industry in Jamaica. His areas of expertise include Treasury Operations Management, Accounting, Systems Analysis and Implementation and Business Process Analysis and Re-engineering.

Prior to joining the VMWM Team, Mr. Reece, served as Customer Support Implementation Specialist at Exactsoft Corporation in Montreal, Canada, where he was responsible for managing the software support for the company's Caribbean customers. He also served as Business Process Manager and Senior Manager, Operations at NCB Capital Markets Limited, with the core responsibility for back office and treasury operations encompassing securities and treasury settlements and trade processing. His professional experience also includes Accounting Manager and Money Market Operations Manager, Mayberry Investments and Senior Accountant, Paul Goldson & Company.

Mr. Reece's certifications include Association of Certified Chartered Accountant (ACCA) from the London School of Accountancy and Association of Accounting Technician (AAT) from the University of Technology, Jamaica.

NATALIE BENNETT | RISK & COMPLIANCE MANAGER

Ms. Natalie Bennett joined the Victoria Mutual Group as part of the Pensions Management Team in the role of Manager– Risk & Compliance (Acting) in October 2015. She had the task of identifying and quantifying major risk items, developing mitigation procedures as well as ensuring that the organisation remained compliant with the relevant regulatory and legislative bodies.

She has over a decade of experience as a Pension Administrator and Analyst having worked in various organisations such as The Financial Services Commission and Sagicor Life Jamaica.

An exceptional and goal-oriented individual, Ms. Bennett holds an MBA from Edinburgh Business School and a Bachelor of Science degree from the University of West Indies with a major in Actuarial Science.

REPORT ON 2018: MANAGEMENT DISCUSSION & ANALYSIS

INTRODUCTION

This Management Discussion and Analysis (MD&A) reflects information known to management as at 26 March 2019. Throughout this MD&A, Victoria Mutual Investments Limited is referred to as "we", "our" or "Group". This MD&A provides information management believes is relevant to an assessment and understanding of the results of operations and the financial condition of the Group, which includes our wholly-owned subsidiary, Victoria Mutual Wealth Management Limited.

This MD&A is intended to supplement and complement our audited financial statements and notes thereto for the year ended 31 December 2018 (collectively, our financial statements), and should therefore be read in conjunction with our financial statements. Unless otherwise indicated, all amounts are expressed in Jamaican dollars and have been primarily derived from our financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

OUR OPERATING ENVIRONMENT

LOCAL ECONOMY

2018 saw Jamaica solidifying gains it had made in prior years and accelerating its programme of economic stimulus. Important notables:

- The Bank of Jamaica (BOJ) lowered its benchmark overnight interest rate five (5) times in 2018 from 3.25% at the start of the year to 1.75% at the December sitting of the BOJ Interest Rate Committee. Following suit, Treasury Bill yields fell below 2% from August to November on the 91-day and 182-day tenors, rising to just above the 2% mark in the December auctions. Local rates are the lowest on record in Jamaica's history.

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

- Businesses remained positive on their outlook for the economic climate, with more businesses believing that it's a good time to expand and planning to increase their investment plans. Consumer confidence was also buoyant, reaching its highest level since the survey was first conducted in 2001.

- Unemployment fell to 8.7% by the end of 2018, a slight uptick from the July survey when an unemployment rate of 8.4% was the recorded, the lowest rate on record for Jamaica. Importantly, the fall in the rate has been influenced by an increase in the employed labour force as opposed to persons falling out of the labour force.

- In 2017, the BOJ adopted an inflation targeting policy, whereby it adjusts monetary policy framework based on its medium-term forecast. With a medium-term target of 4%-6%, the 12-month point-to-point rate ended the year at 2.41%, on lower producer prices as well as lower petrol and utility prices. Although the target being missed was to the downside, this has signaled that aggregate demand was insufficient to meet the growth targets set by the government and was a major influencing factor in the aggressive stance the BOJ has taken in reducing interest rates.

- The foreign exchange market saw greater two-way movements in the exchange rate, as had been anticipated with the introduction of the B-FXITT tool in 2017. With this new paradigm, businesses will need to adjust their planning processes and develop more robust prediction tools as they can no longer depend on the local currency moving in a pre-determined direction.

OVERSEAS

Overseas, much turmoil was experienced by our Caribbean neighbours. Following a changing of the Government in Barbados, the country took the decision to restructure its debt, having discovered that its debt levels were much higher than anticipated. This has resulted in Barbados defaulting on its external debt and the resultant assignment of a default credit rating from the overseas ratings agencies. Barbados also sought and received an Extended Fund Facility (EFF) with the International Monetary Fund (IMF). At the request of the Barbados government, an IMF team visited Bridgetown from December 4 to 7 to discuss implementation of Barbados' Economic Recovery & Transformation (BERT) plan supported by the IMF under the Extended Fund Facility (EFF).

The team, in its release, cited positives, which included a doubling of reserves since May to more than US$500M, which is helping to rebuild confidence in the macroeconomic framework. The IMF was also impressed with the swift domestic debt restructuring, which took place earlier in the fourth quarter, which would create fiscal space for increased social spending and investment in infrastructure. Discussions are ongoing with external creditors. The Caribbean Development Bank (CDB) & Inter-American Development Bank (IDB) have approved policy-based loans worth a combined 3.5% of GDP to help finance the government, rebuild reserves & support the reform process with policy advice.

While Jamaica has been lowering its target interest rates, the US increased its target Fed Funds Rate four (4) times from 1.50% to 2.50% in 2018. This was due to strong labour market conditions, inflation near the target level of 2%, strong household spending, and a decline in unemployment, among other positive data. Estimates of US Gross Domestic Product (GDP) revealed growth of 2.6% in the fourth (4th) quarter 3.5% in the third (3rd) quarter, compared to 4.2% in the second (2nd) quarter. All this, despite some hiccups in external policy; most notably the threat of tariffs on imports from China.

OUTLOOK 2019

Jamaica's Stand-by Agreement with the IMF is scheduled to come to an end in November 2019. In its latest comments in March 2019, the IMF indicated its support for the reduction in the primary surplus target to 6.5%, which would facilitate high social support, security and infrastructure spending in the FY2019/20 budget. The government presented a growth supporting budget in March, with several taxes being reduced. The focus of the revenue measures was to remove the most distortionary taxes to simulate greater competition and access to credit markets, greater business and economic activity and economic growth. They also incentivized formalization and reduced costs to micro, small and medium enterprises (MSMEs).

The outlook for 2019 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, a stable and functioning foreign exchange market of floating rates, among others.

The projections for GDP in the 2018/2019 fiscal year are for ranges of 1.5% to 2.5%. If realised, this would be the strongest level of growth realised in two (2) years and it is important to note that, while still weak, the economy has been growing since the third (3rd) quarter of 2017. The Planning Institute of Jamaica (PIOJ) is confident that the economy will continue this trajectory for 2019.

The Central Bank's 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 new era of two-way movement in the exchange rate. In the upcoming year, we can expect movement in the local currency versus the USD of between -3% and 3%. There is a renewed focus on inflation and price stability by the Central Bank and a recommendation for the public to move away from a focus on exchange rates.

FINANCIAL PERFORMANCE
GROUP OPERATING RESULTS

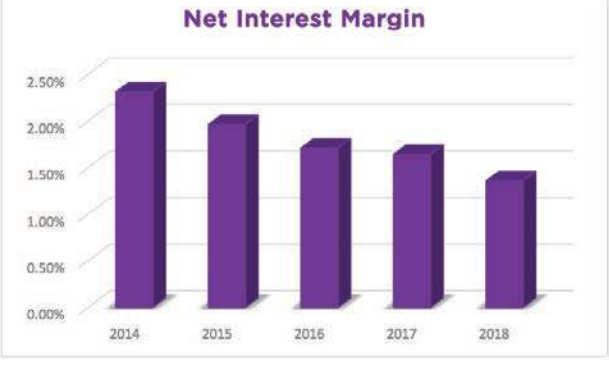
Victoria Mutual Investments Limited reported group profit before tax of $539.04 million, an increase of $71.21 million or 15.22% over the previous year. Net profit after tax was $397.60 million, representing growth of $51.3 million or 14.81% when compared to the previous year. The effective tax rate for 2018 was 26.23% (2017: 25.98%). Earnings per share stood at $0.27 compared to $0.29 reported in 2017.

Operating Income

Earnings from net operating revenue for 2018 of $1,306.78 million was a $340.32 million or 35.21% improvement over the previous year's revenue of $966.46 million. Operating revenue includes Net Interest income of $282.55 million (2017: $246.99 million) and Other Operating Income of $1,024.22 million (2017: $719.47 million).

Net Interest Income

For the financial year ended 31 December 2018, the Group reported improvement in Net Interest Income of $35.56 million or 14.40%, moving from $246.99 million reported for the previous year. Earnings from interest-bearing assets increased marginally by $2.70 million or 0.37% which was bolstered by a $32.87 million or 6.73% saving in interest expense when compared to the previous year.

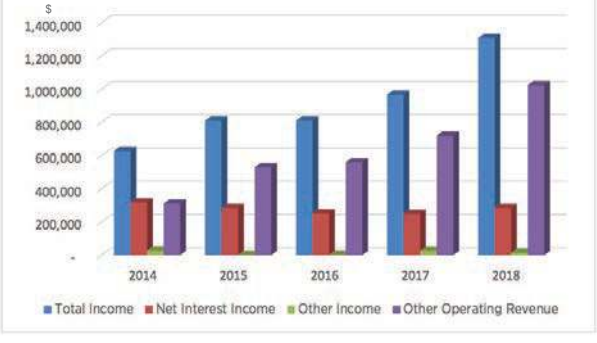


The Group's interest-bearing assets including investment securities, short-term resale agreements, finance lease and loans stood at $18.94 billion as at 31 December 2018 compared to $15.50 billion for the previous year, representing a $3.45 billion or 22.24% increase.

Other Operating Income

Other operating revenue saw an increase of $304.76 million or 42.36% when compared to the earnings of $719.47 million for the previous year. This was due primarily to growth in Net Fees and commissions of $326.52 million or 65.28% as the Group met the demand for greater funding through our Capital Markets Unit as well as increased business in our off-balance sheet asset management portfolios.

Gains from investment activities for 2018 declined by $10.28 million or 5.32% when compared to 2017. This was as a result of a less than buoyant bond market in 2018.



Operating Expenses

Total operating expenses for 2018 was $767.74 million, a $269.11 million or 53.97% increase over 2017. Staff costs continues to be the major cost component, accounting for 45.47% of expenses as the Group continues to invest heavily in human resources which underpin our strategic direction. Staff costs increased by $56.74 million or 19.41%.

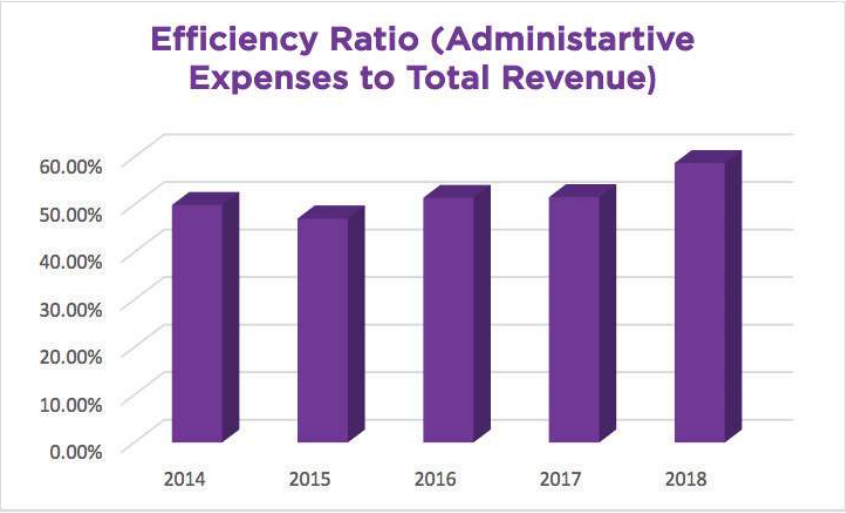
The Group also incurred credit losses in the second quarter that was primarily composed of $105.44 million in respect of Government of Barbados global bonds (GoB bonds) held by our wholly-owned subsidiary, Victoria Mutual Wealth Management Limited, in their investments portfolio. As at June 30, 2018, there was objective evidence of impairment of these financial assets arising from a default event, such that the credit risk of the assets was deemed to have increased significantly. The resulting credit loss provision was determined in accordance with the

requirements of the new accounting standard, IFRS 9 Financial Instruments, which was adopted by the Group effective January 1, 2018. We continue to hold these securities and monitor the discussions between the Government of Barbados and the IMF and its external creditors, the outcome of which we believe will provide a platform for a recovery of the Barbadian economy. Additionally, the GoB bonds have recovered some value since the default event on June 1, 2018.

Other operating expenses accounted for 40.80% of total expenses and increased by $106.93 million compared to the previous year. Noteworthy contributors to other operating expenses were:

- Advertising and public relations
- Asset tax
- Legal and other professional fees
- Software maintenance and IT expenses
- Group Outsourced services

The efficiency ratio of 58.75% represented a decline compared to the previous year's ratio of 51.59%.



Assets

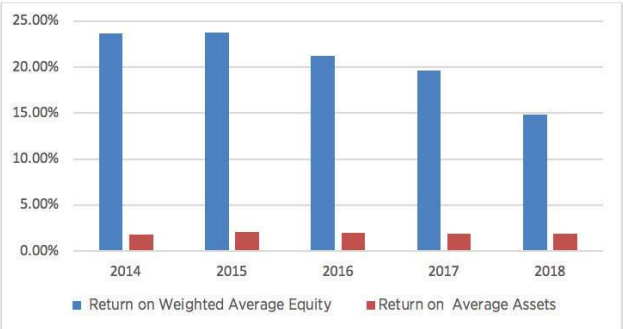
Total assets of $21.61 billion as at 31 December 2018 represents an increase of $1.54 billion (7.68%) over 2017. This was due primarily to growth in our loan portfolio which increased by $935.08 million or 212% year over year.

Shareholders' Equity

Shareholders' equity improved year over year by $188.4 million or 7.29% ending at $2.77 billion as at December 2018. The outturn in shareholder's equity hinged on:

- A $50.17 million or 24.89% increase in investment revaluation reserve
- A $125.96 million increase in retained earnings

Return on average equity was 14.85% in 2018 compared to 16.49% in 2017 when compared to 2017.



Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to its shareholders and benefits for other stakeholders, to maintain a strong capital base to support the development of its business and to comply with the capital requirements set by the Regulators of the subsidiary company, Victoria Mutual Wealth Management Limited.

As at 31 December 2018, our risk-based capital adequacy ratio was 16.86%, comfortably above the regulatory requirement, which requires 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 2018 was $1.82 billion.

Dividends

On February 26, 2018, the Board of Directors declared an interim dividend of $0.02 per ordinary stock units of the paid-up capital stock of 1,500,025,000 ordinary stock units paid to the shareholders on record as at March 9, 2018.

On November 13, 2018 the Board of Directors declared an interim dividend of $0.12 (2017: $8.34*) per ordinary stock unit of the paid-up capital stock of 1,500,025,000 (2017: 24,000,400) ordinary stock units, paid to the shareholders on record as at November 27, 2018.

Off Balance Sheet Funds Under Management

The Group acts as agent and earn fees for managing clients' funds on a non-recourse basis under management agreements. As at 31 December 2018, these funds amounted to $24,313,239,000 (2017: $19,875,308,000).

Additionally, at December 31, 2018, there were custodial arrangements for assets totaling $24,560,120,000 (2017: $22,077,031,000).

Growth in our off-balance sheet business is a core strategic objective of the Group which will have focused attention in the coming financial year. We will continue to seek innovative channels and products geared towards further creating value for our clients.

New Products

VMIL entered the credit solutions market offering loans including general corporate facilities, insurance premium and lease financing, as well as construction financing to registered companies.

Additionally, we introduced two new Portfolios, the International Equity Portfolio and the Money Market Portfolio. The Money Market Portfolio is geared towards the more conservative investor seeking to optimise liquidity and returns. The International Equity Portfolio is best suited for the more aggressive investor seeking an exposure to the US equity market.

Unit Trust

VMIL now boasts eight (8) portfolios under our Unit Trust Fund, two of which were added during the financial year ended 31 December 2018.

Our Equity Portfolio performed exceptionally well during the year, growing by 28% and was the second-best performing equity fund in the market. The Property Portfolio also performed creditably, growing by approximately 7.6% as at the year end.

Our Unit Trust Fund expanded in reach in the market place moving from 4.39% market share at the beginning of the year to 6.02% as at 31 December 2018.

New Investment Management System

The Group procured and implemented a new and improved investment management system, OPICS, delivering results aligned to our strategic objectives:

1. **Improved operational efficiencies**
   - Facilitates centralised operations for Back Office and Finance.

*Based on the 24,000,000 Ordinary Shares in issue at the time.

- Direct integration with other systems to facilitate straight-through processing leading to improved client transaction times
- Reduced system downtime
- Enhanced reporting capabilities

2. **Improved client communications**
   - Real time delivery of electronic transaction confirmations
   - Facilitates real time delivery of electronic client statements

Financial Education

We have taken deliberate steps to reach our clients and provide relevant market information to inform their investment decisions. We launched the first in the series, 'Wealth Talks' in October 2018 under the theme 'Innovation' where we outlined cutting-edge changes to the business aimed at delivering superb customer service. It is our intention to continue these forums into the coming financial year.

OUR PEOPLE

Annual Business Conference

The first Annual VM Group Business Conference took place at the Jamaica Conference Centre under the theme "The R.A.C.E. - If It's to be, It's up to me" encapsulating the key drivers for 2018, namely Revenue, Accountability, Customer Obssession and Efficiency. It was well attended by VMIL and VM Wealth Management Team Members. The purpose of the conference was to inform Team Members of the 2018 key business targets and the new strategic direction of the Victoria Mutual Group. The conference allowed Team Members to ideate and align on the year's objectives.

Culture of Accountability Programme

Our Culture of Accountability Programme continues to be the foundation of our employee engagement initiative using the culture tools of Focused Storytelling, Focused Feedback and Focused Recognition to achieve our results. The Culture of Accountability Programme refresh took place in March 2018 with the creation of seven (7) new cultural beliefs which focused on achieving the desired results.

The seven new Culture Beliefs are as follows:

1. **Customer Obsessed**
2. **Results Focused**
3. **VM Excel**
4. **VM Edge**
5. **Accountability starts with me**
6. **Together "Wi a Winna"**
7. **Mek Wi Talk More**

Talent Management

The talent management activities for 2018 included the following initiatives:

- Individual Development Plans
- Career Plans for Key Positions and High Potential Talent
- Succession Plans for Senior Leader Positions
- General Management Training Programme
- Review of talent plans for Officers below the level of Assistant Vice President commenced in October 2018 and will continue into 2019.

HREI Survey and Results

The average score for the HREI survey for VMIL in 2018 was 68. The areas of Culture and Employee Value Proposition carried the highest scores of 75% and 73%, respectively. Senior Leaders continue to implement the Systemic Action Plan at the high-level while Managers work to complete and implement their respective action plans in consultation with their teams. The Group Human Resources Department continues to utilise a variable compensation strategy in the form of incentive compensation as a way of driving individual and organisation performance and improving the percentile positioning in the market.

Wellness/engagement Activities

Various engagement initiatives were effected during the year and were well received by our team members. Throughout 2018 VMIL Team Members participated in several chill spot activities, year end party as well as activities planned by the VMIL social engagement committee.

Change Management

A change management maturity audit was conducted at the end of the year. The maturity audit enabled our leaders to document the current level of maturity in the organisation and to develop actionable plans.

Industrial Relations Environment

Implementation of the new heads of agreement between VMIL and the Bustamante Industrial Trade Union took effect January 1, 2018. The new heads of agreement will be in place for the period January 1, 2018 to December 31, 2019. Quarterly non-crisis union management meetings were held to ensure that a proactive approach was taken to mitigate disputes and grievances and to ensure that a harmonious Industrial Relations environment was attained.

RISK MANAGEMENT

The Victoria Mutual Group developed and implemented an Enterprise Risk Management (ERM) Framework which supports good governance practices. This framework guides operations within VMIL.

VMIL understands that a robust risk management system is critical to the achievement of its strategic objectives by finding the appropriate balance between the risk exposures inherent in our operations and risk mitigating structures.

The Board has overall responsibility for risk management, and alignment with its risk appetite and strategic objectives. The Board is supported by the Audit, Risk and Conduct Review Committee, which oversees the VMIL's risk management framework, the integrity of the

financial statements, compliance with legal and regulatory requirements, as well as the performance of the internal audit function. Additionally, for risk management purposes, the Board is supported by:

- **At the VM Group Level**
  - the Group Finance and Risk Management Committee
  - the Group Audit Committee
  - the Group Corporate Governance and Nominations Committee
- **At the VMIL Level**
  - the Corporate Governance and Nominations Committee
  - the Finance Committee
  - The Audit Committee

Risk Management Framework

VMIL's risk management framework is designed to enable proactive identification and management of risks for the achievement of its strategic objectives. It includes monitoring and controlling significant risk exposures to ensure the resilience and stability of VMIL. This involves:

- Identification of the risk universe
- Development of risk rating criterion
- Capturing insights
- Evaluation of the significant risk exposures
- Development of residual risk profiles

The key objectives of the framework are to ensure that:

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

Risk Governance

The effective implementation of the VM Group's ERM Policy is based on the following guiding principles:

- **Tone at the top:** The Board of Directors, executive management, committees and senior management are committed to proactive management of risks according to the risk management framework.
- **Integrated approach:** Risk management is not a stand-alone activity. Instead, it requires that risk management be integrated into all business processes inclusive of strategic planning, operational planning, performance management and change management.
- **Training:** VMIL promotes risk management training and risk awareness among its Board of Directors, Management, staff and all its stakeholders.
- **Risk ownership:** Clear ownership of risk accountabilities, responsibilities, duties and actions will be established and communicated.
- **Systematic Approach:** A common approach to risk management is in place to promote consistency in the assessment, monitoring and reporting of risk including application of a 'common language' used by the VM Group when discussing risk.
- **Responsive to change:** Risk management at VMIL is dynamic and iterative. External and internal events, changes in systems and processes, knowledge and continuous monitoring results in identification of emerging risks and re-assessment of previously identified risks.

Risk Management Committees

VM Group's Asset Liability Committee is charged with:

- Managing Liquidity, Market and Counterparty Credit Risks
- Oversight of Treasury performance
- Makes recommendations on the composition of assets and liabilities
- Review projected company cash inflows and outflows
- Review significant new products and changes in operations which may affect liquidity formulate policy on authorities for setting interest rates and management of the foreign exchange risk
- Capital Adequacy Management

VM Group's Compliance Committees

VM Group's Information Technology Steering Committee - Oversight of strategy formulation and execution of the Group's information, communication and technology functions as well as prioritisation of business needs and initiatives requiring ICT support. Responsible for managing all Information Technology Risks.

VM Group's Credit Committee – Specific responsibility for the implementation of appropriate policies and procedures to support the credit review and approval process, resolution of potential and existing arrears for loans.

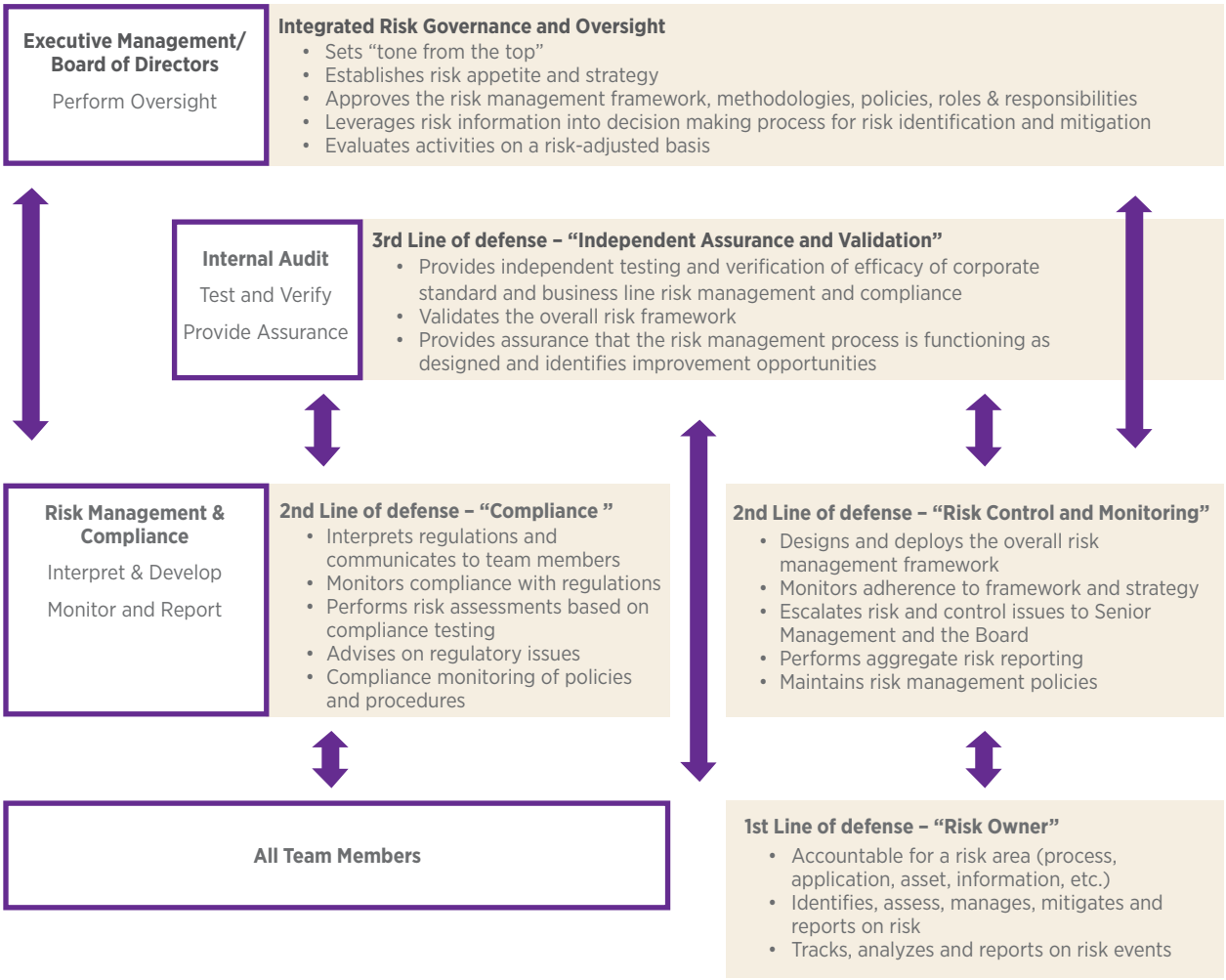
Risk Defense

VMIL has established a risk defense mechanism which is consistent with generally recognised basic principles of sound risk management. This includes defined accountabilities, responsibility structures and segregation of duties through the application of the 'three lines of defense' model. This is along with a

closer alignment of risks and explicit consideration of risk into decision-making and performance management.

In consideration of the three lines of defense model, the VM Group distinguishes among three groups (or lines) responsible for effective risk management:

- **1st Line of Defense (Ownership)** – In alignment with our culture of accountability, each team member is responsible and accountable for the ongoing management of risks within the scope of their assigned responsibilities.
- **2nd Line of Defense (Oversight)** – Risk Management and Compliance function which oversees risk and challenges the completeness and accuracy of risk assessments, reporting and mitigation activities.
- **3rd Line of Defense (Assurance)** – Independent Internal Audit Function that reviews and provides objective assurance on the effectiveness of VMIL's systems of internal controls.



Risk Appetite

The Risk Appetite statement articulates the VMIL's risk management philosophy with respect to significant categories of risk, driven by the VMIL's strategic objectives. Given that the risk environment is constantly evolving, the Risk Appetite Statement would be amended to align with the changing risk profile.

The Risk Appetite statement comprises both qualitative and quantitative statements and will be used to guide decision-making and confirms that there is appropriate governance around risk ventures.

Risk Definitions

The main risks inherent in VMIL's operations are discussed below.

Credit Risk - the risk of financial loss if a counterparty to a financial instrument fails to meet legal and contractual obligations when they fall due. VMIL faces credit risk from its lending operations and treasury investments to counterparties.

The credit portfolio is managed in accordance with VMIL's Credit Policy and underwriting criteria. The Credit Policy is reviewed at least annually by the Board and contains detailed limits to the amounts and types of lending that VMIL can undertake.

Treasury counterparty risks and new investments are managed primarily by investing in counterparties which meet the scoring criteria stipulated in the Framework for Managing Counterparty Credit Risk. In addition, VMIL limits exposures to particular counterparties, investment types and investment sizes in accordance with the Investment Policy guidelines and the Framework for Managing Counterparty Credit Risk.

Liquidity Risk – is the risk of failing to meet demands and commitments to provide funds to customers and other third parties. This may result from an inability to sell assets quickly at, or close to, their fair value. This is managed by concentration limits and monitoring future maturities. VMIL's management of liquidity and funding risk aims to ensure that at all times there are sufficient liquid resources to cover cash flow mismatch and/or fluctuation in funding, to retain public confidence and to enable VMIL to meet its financial obligations as they fall due even during stressful economic environments. VMIL also has a contingency funding plan in place to cope with any extreme or sudden outflow.

Market Risks – the risk that the fair value of 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 securities in the market. These arise from changes in interest rates, foreign exchange rates and equity prices and will affect the value of the holding in the financial instrument.

Operational Risk

- **Strategic Risk** - The risk of loss arising from VMIL adopting the wrong business strategy, failure to properly execute business strategy, or respond to industry, economy or technological changes.

  VMIL aims to mitigate strategic risk through an integrated business strategy, risk appetite and capital planning process; tracking of strategic initiatives and deliverables; investment in processes, systems and people to support new business development and through the regular review of strategic objectives and initiatives by management and the Board.

- **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.

  VMIL's regulatory risk framework outlines the governing processes which aims to ensure that it delivers fair customer outcomes and meets prudential requirements. VMIL's risk and compliance function is responsible for identifying regulatory developments and assisting team members in understanding the required regulatory changes, within requisite timelines.

- **Business Continuity Risk** - Failures to establish resilient processes, adequate business continuity, and recovery arrangements.

  The continued review and updating of the business continuity and disaster recovery plans is an integral component of the VMIL's operational risk control environment. Systemic testing of this framework is executed annually.

- **Recruitment and Retention** – Inability to attract, retain and develop talent for the delivery of customer expectations and VMIL's objectives.

  VMIL aims to mitigate talent risk through a rigorous onboarding process combined with talent management systems.

- **Information Technology (IT)/Information Security (IS) Risk** - Failure to establish, develop and maintain an IT environment that secures customer data and VMIL's information.

  VMIL continues to invest in its technology infrastructure, so that it can maintain and develop products and services suitable for the evolving needs and expectations of customers. While there is a strong focus on the development of customer interface and services, VMIL is also aware of external threats, in particular cybercrime attacks designed to deny access to systems and to compromise or misuse the data and assets held on VMIL's systems.

- **Reputational Risk** - The risk of loss arising from negative perception by customers, counterparties, investors, regulators, market analysts, debt-holders and relevant key stakeholders that can adversely affect VMIL's ability to maintain existing or establish new business relationships.

  To safeguard and protect VMIL's reputation, the Board and management ensure that there is a well-established decision process, direct reporting lines with clarity of roles and responsibilities, defined codes of ethics and conduct, periodic monitoring of stakeholder and media analysis, industry and market benchmarking, transparent disclosures and communications.

VMIL Shareholder Return			
	12-Dec-17	31-Dec-17	31-Dec-18
Closing Price of Common Shares ($ per share)	2.45	3.24	3.76
Dividend Paid ($ per share)	N/A	8.34*	0.14

	Financial Year 2018	Since Close of VMIL IPO
VMIL Total Shareholder Return (%)	20.37%	59.18%
JSE All Jamaica Composite Index Return (%)	31.70%	37.75%

*Based on the 24,000,000 Ordinary Shares in issue at the time.

THANK YOU

Devon Barrett, MBA, Bsc

Former CEO VMIL & VM Wealth Management

Devon Barrett's tenure at the helm of Victoria Mutual Wealth Management Limited is marked by undeniable growth. Devon brought passion and vision to the role of Chief Executive Officer, inspiring his team to reach for excellence at all times.

Devon joined the Victoria Mutual family in March 2008, having already amassed over 20 years' experience in managing foreign currency investments, deposit portfolios, negotiating foreign exchange and money market deals, and ensuring consistent growth in the respective client bases.

Among his many achievements as head of VM Wealth are:

- Steered the company through one of the world's greatest financial crises, in 2008, the very year he joined. As he is quoted as saying in a Gleaner article dated November 13, 2015, the year VM Wealth celebrated 21 years: "We have cleared that hurdle (the financial crisis), so we don't think any other hurdle can stop us."
- Established an independent profile and reputation for VM Wealth
- Enhanced in-house expertise in a bid to boost profitability by revamping the approach to client services and focusing on sales to grow revenue.
- Diversified VM Wealth's revenue streams by introducing Bond Trading and Asset Management.
- Spearheaded the launch of the Unit Trust product in 2016. As at December 2018, the value of this portfolio stood at over $16 billion, spread across eight funds.
- Introduced Capital Markets business in 2011, raising over $4 billion in that year. This has since grown to over $19.3 billion in 2018, for a total of over $73 billion since its inception.

On September 1, 2016, his tireless work was rewarded as Devon was promoted to the post of Group Chief Investment Officer with responsibility for diversifying the Group's investment portfolio. Notwithstanding, he retained his post at the helm of VM Wealth up to the end of December 2018.

There is a side of Devon not often seen by the public, a part of his personality that makes him the truly unique individual he is. Every member of the VM Wealth team would agree that while often late to the party, being the busy man he is, once he gets there Devon is sure to become the life of the party. With a stately stature and an affable personality, he will keep up with the youngest members of the team, all in good fun and fellowship as we live true to the mantra of "playing hard and working even harder".

We wish to thank him for not being just a mere man of words, but a man of action. Devon is a leader who embraces and challenges all to be better, do better, and to find better and more efficient ways to get the job done.
Devon is a living example of 'Purple Power' a tribute to his beloved alma mater Kingston College. "Fortis Cadere Cedere Non Potest" indeed.

Thank you, Devon for a race well run.

FINANCIAL STATEMENTS

DECEMBER 31, **2018**

KPMG
Chartered Accountants
P.O. Box 76
6 Duke Street
Kingston
Jamaica, W.I.
+1 (876) 922-6640
firmmail@kpmg.com.jm

INDEPENDENT AUDITORS' REPORT

To the Members of
VICTORIA MUTUAL INVESTMENTS LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of Victoria Mutual Investments Limited ("the company") and the consolidated financial statements of the company and its subsidiary ("the group"), set out on pages 50 to 132 which comprise the group's and company's statements of financial position as at December 31, 2018, the group's and company's income statements, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the group and the company as at December 31, 2018, and of the group's and company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

Basis for Opinion

We are independent of the company 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.

Page 2

INDEPENDENT AUDITORS' REPORT

To the Members of
VICTORIA MUTUAL INVESTMENTS LIMITED

Report on the Audit of the Financial Statements (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Fair value of investments

The key audit matter	How the matter was addressed in our audit
The valuation of the group's investments requires significant estimation, as quoted prices are not available for some of these instruments. Valuation of these investments, although based on observable inputs, involves the exercise of judgement and the use of assumptions. Management used valuation techniques which require inputs such as market yields obtained from established yield curves. These judgements and assumptions could result in estimated fair values that are materially different from actual transaction values. *[see notes 7 and 28 to the financial statements]*	Our procedures in this area included the following: • Assessing and testing the design and operating effectiveness of the group's controls over the determination and computation of fair values. • Challenging the reasonableness of yields/prices by comparing to independent pricing sources. • Assessing the reasonableness of significant assumptions used by management. • Involving our own valuation specialists to determine/obtain yields/prices of specific securities and comparing these to those used by management. • Assessing the adequacy of the disclosures, including the degree of estimation involved in determining fair values.

Page 3

INDEPENDENT AUDITORS' REPORT

To the Members of
VICTORIA MUTUAL INVESTMENTS LIMITED

Report on the Audit of the Financial Statements (continued)

2. Expected credit loss on financial assets

The key audit matter	How the matter was addressed in our audit (continued)
IFRS 9 was implemented by the group on January 1, 2018. The standard is new and complex and requires the group to recognise expected credit losses ('ECL') on financial assets, the determination of which is highly subjective and requires management to make significant judgement and estimates. The key areas requiring greater management judgement include the identification of significant increase in credit risk ('SICR'), the determination of probabilities of default, loss given default, exposures at default and the application of forward-looking information. Significant management judgement is used in determining the appropriate variables and assumptions used in the ECL calculations, which increases the risk of a material misstatement.	Our procedures in this area included the following: • Obtaining an understanding of the models used by the group for the calculation of expected credit losses, including governance over the determination of key judgements. • Testing the design and operating effectiveness of the key controls over the completeness and accuracy of the key data inputs into the IFRS 9 impairment models for investments. • Testing the completeness and accuracy of the data used in the models to the underlying accounting records on a sample basis. • Involving our financial risk modelling specialists to evaluate the appropriateness of the group's impairment methodologies, including the SICR criteria used and independently assessing the assumptions for probability of default, loss given default and exposure at default.

INDEPENDENT AUDITORS' REPORT

To the Members of
VICTORIA MUTUAL INVESTMENTS LIMITED

Report on the Audit of the Financial Statements (continued)

2. Expected credit loss on financial assets (continued)

The key audit matter	How the matter was addressed in our audit (continued)
We therefore determined that the impairment of loans receivable and investment securities has a high degree of estimation uncertainty. In addition, disclosure regarding the group's application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgements and material inputs to the IFRS 9 ECL results.	Our procedures in this area included the following (continued): • Involving our financial risk modelling specialists to evaluate the appropriateness of the group's methodology for determining the economic scenarios used and the probability weightings applied to them. We also tested a sample of economic variables used to external sources. • Assessing the adequacy of the disclosures of the key assumptions and judgements as well the details of the transition adjustment for compliance with IFRS 9.

Other Information

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

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

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

INDEPENDENT AUDITORS' REPORT

To the Members of
VICTORIA MUTUAL INVESTMENTS LIMITED

Report on the Audit of the Financial Statements (continued)

Other Information

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS and the Jamaican Companies Act, 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 company'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 company 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.

A further description of our responsibilities for the audit of the financial statements is included in the Appendix to this auditors' report. This description, which is located at pages 7-8, forms part of our auditors' report.

Page 6

INDEPENDENT AUDITORS' REPORT

To the Members of
VICTORIA MUTUAL INVESTMENTS LIMITED

Report on additional matters as required by the Jamaican Companies Act

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

In our opinion, proper accounting records have been maintained, so far as appears from our examination of those records, and the financial statements, which are in agreement therewith, give the information required by the Jamaican Companies Act in the manner required.

The engagement partner on the audit resulting in this independent auditors' report is Cynthia Lawrence.

Chartered Accountants
Kingston, Jamaica

March 8, 2019

Page 7

INDEPENDENT AUDITORS' REPORT

To the Members of
VICTORIA MUTUAL INVESTMENTS LIMITED

Appendix to the Independent Auditors' report

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company'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 company 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 achieves fair presentation.
- 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.

Page 8

INDEPENDENT AUDITORS' REPORT

To the Members of
VICTORIA MUTUAL INVESTMENTS LIMITED

Appendix to the Independent Auditors' report (continued)

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matters or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

VICTORIA MUTUAL INVESTMENTS LIMITED

STATEMENT OF FINANCIAL POSITION

December 31, 2018

	Notes	Group 2018 $'000	Group 2017 $'000	Company 2018 $'000	Company 2017 $'000
ASSETS					
Cash and cash equivalents	5	740,538	3,409,989	89,074	341,193
Resale agreements	6	4,217,141	3,371,409	24,708	-
Investment securities	7	13,241,358	11,683,640	599,851	145,237
Interest in subsidiary		-	-	109,500	109,500
Due from subsidiary	29(c)	-	-	-	280,452
Net investment in finance lease	8	108,371	-	108,371	-
Loans receivable	9	1,376,139	441,057	1,376,139	441,057
Accounts receivable:					
Customers		868,721	503,037	-	-
Other	10	530,631	320,103	9,297	7,979
Income tax recoverable		8,621	2,825	8,621	2,825
Deferred tax asset	11(a)	182,398	79,860	1,941	-
Property, plant and equipment	12	19,743	23,040	-	-
Intangible asset – computer software	13	316,538	233,494	-	-
TOTAL ASSETS		21,610,199	20,068,454	2,327,502	1,328,243
LIABILITIES AND EQUITY					
Liabilities:					
Due to ultimate parent society	29(c)	-	1,819	-	1,819
Due to subsidiary	29(c)	-	-	64,400	-
Borrowings	17	1,410,625	506,109	1,410,625	506,109
Accounts payable:					
Customers		1,312,170	3,204,548	-	-
Brokers		127,594	69,595	-	-
Others	14	447,685	428,845	46,274	23,906
Repurchase agreements	15	15,454,981	13,164,960	-	-
Income tax payable		48,720	58,997	-	-
Deferred tax liability	11(a)	-	159	-	159
Employee benefit obligation	16	36,000	49,400	-	-
TOTAL LIABILITIES		18,837,775	17,484,432	1,521,299	531,993
Equity:					
Share capital	18	707,887	707,887	707,887	707,887
Share premium		24,000	24,000	24,000	24,000
Investment revaluation reserve	19(a)	251,753	201,581	-	-
Other reserve	19(b)	2,334	(9,933)	-	-
Retained earnings		1,736,450	1,610,487	74,316	64,363
Equity attributable to owners of the company		2,722,424	2,534,022	806,203	796,250
Non-controlling interest	20	50,000	50,000	-	-
TOTAL EQUITY		2,772,424	2,584,022	806,203	796,250
TOTAL EQUITY AND LIABILITIES		**21,610,199**	**20,068,454**	**2,327,502**	**1,328,243**

The financial statements on pages 50 to 132 were approved for issue by the Board of Directors on March 8, 2019 and signed on its behalf by:

Chairman — Michael A. McMorris

Director — Courtney Campbell

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

VICTORIA MUTUAL INVESTMENTS LIMITED

INCOME STATEMENT

Year ended December 31, 2018

	Notes	Group 2018 $'000	Group 2017 $'000	Company 2018 $'000	Company 2017 $'000
Interest income calculated using the effective interest method	21	731,259	735,665	146,962	25,623
Other interest income:					
Interest income on leases	21	7,103	-	7,103	-
Interest expense	21	(455,809)	(488,676)	(96,337)	(16,493)
Net interest income	21	282,553	246,989	57,728	9,130
Gains from investment activities	22	182,799	193,077	-	-
Dividend income		-	-	210,105	200,100
Net fees and commissions	23	826,681	500,163	-	-
Other income		14,742	26,226	13,795	1,102
Other operating revenue		1,024,222	719,466	223,900	201,202
Net interest income and other operating revenue		1,306,775	966,455	281,628	210,332
Operating expenses					
Staff costs	24	(349,068)	(292,329)	-	-
Impairment losses on financial assets	27	(105,442)	-	(5,590)	-
Other operating costs	25	(313,230)	(206,301)	(56,377)	(18,769)
		(767,740)	(498,630)	(61,967)	(18,769)
Profit before income tax		539,035	467,825	219,661	191,563
Income tax	26	(141,437)	(121,523)	1,934	(149)
Profit for the year attributable to shareholders of the company		397,598	346,302	221,595	191,414
Earnings per share (expressed as ¢ per share)	33	27¢	29¢		

VICTORIA MUTUAL INVESTMENTS LIMITED

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended December 31, 2018

	Notes	Group 2018 $'000	Group 2017 $'000	Company 2018 $'000	Company 2017 $'000
Profit for the year		397,598	346,302	221,595	191,414
Other comprehensive income (OCI):					
Items that will never be classified to profit or loss:					
Net gains on investments in equity instruments designated at fair value through OCI (2017: available-for-sale)		163,200	-	-	-
Remeasurement of employee benefit obligation	16(b)(i)	18,400	(5,000)	-	-
Deferred tax on remeasurement of employee benefit obligation	11(a)	(6,133)	1,667	-	-
		12,267	(3,333)	-	-
		175,467	(3,333)	-	-
Items that may be reclassified to profit or loss:					
Realised loss in fair value of securities at FVOCI		(797)	-	(797)	-
Change in fair value of debt securities at fair value through OCI (2017: available-for-sale)		(226,679)	162,734	-	-
Deferred tax on change in fair value of investment securities measured at fair value through OCI		75,560	(21,095)	-	-
		(151,119)	141,639	-	-
Total other comprehensive income net of tax		23,551	138,306	(797)	-
Total comprehensive income for the year attributable to shareholders of the company		421,149	484,608	220,798	191,414

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

VICTORIA MUTUAL INVESTMENTS LIMITED

GROUP STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2018

	Attributable to owners of the company							
	Share capital (Note 18) $'000	Share premium $'000	Investment revaluation reserve [Note 19(a)] $'000	Other reserve [Note 19(b)] $'000	Retained earnings $'000	Total $'000	Non-controlling interest (Note 20) $'000	Total equity $'000
Balances at December 31, 2016	**24,000**	**24,000**	**59,942**	**(6,600)**	**1,464,348**	**1,565,690**	**50,000**	**1,615,690**
Transactions with shareholders:								
Dividends	-	-	-	-	(200,163)	(200,163)	-	(200,163)
Shares issued	689,262	-	-	-	-	689,262	-	689,262
Share issuance costs	(5,375)	-	-	-	-	(5,375)	-	(5,375)
	683,887	-	-	-	(200,163)	483,724	-	483,724
Comprehensive income:								
Profit for the year	-	-	-	-	346,302	346,302	-	346,302
Other comprehensive income:								
Change in fair value of investment securities, net of deferred tax	-	-	141,639	-	-	141,639	-	141,639
Remeasurement of employee benefit obligation, net of deferred tax	-	-	-	(3,333)	-	(3,333)	-	(3,333)
Total other comprehensive income for the year	-	-	141,639	(3,333)	-	138,306	-	138,306
Total comprehensive income for the year	-	-	141,639	(3,333)	346,302	484,608	-	484,608
Balances at December 31, 2017	**707,887**	**24,000**	**201,581**	**(9,933)**	**1,610,487**	**2,534,022**	**50,000**	**2,584,022**
Impact on initial application of IFRS 9 (note 3)	-	-	38,888	-	(61,631)	(22,743)	-	(22,743)
Restated balances at January 1, 2018	**707,887**	**24,000**	**240,469**	**(9,933)**	**1,548,856**	**2,511,279**	**50,000**	**2,561,279**
Transactions with shareholders:								
Dividends (note 30)	-	-	-	-	(210,004)	(210,004)	-	(210,004)
Comprehensive income:								
Profit for the year	-	-	-	-	397,598	397,598	-	397,598
Other comprehensive income:								
Change in fair value of investment securities, net of deferred tax	-	-	(151,119)	-	-	(151,119)	-	(151,119)
Change in fair value of equity at FVOCI	-	-	163,200	-	-	163,200	-	163,200
Realised loss on fair value of securities at FVOCI	-	-	(797)	-	-	(797)	-	(797)
Remeasurement of employee benefit obligation, net of deferred tax	-	-	-	12,267	-	12,267	-	12,267
Total other comprehensive income for the year	-	-	11,284	12,267	-	23,551	-	23,551
Total comprehensive income for the year	-	-	11,284	12,267	397,598	421,149	-	421,149
Balances at December 31, 2018	**707,887**	24,000	251,753	2,334	**1,736,450**	**2,722,424**	**50,000**	**2,772,424**

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

VICTORIA MUTUAL INVESTMENTS LIMITED

COMPANY STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2018

	Share capital (Note 18) $'000	Investment revaluation reserve [Note 19(a)] $'000	Share premium $'000	Retained earnings $'000	Total $'000
Balances at December 31, 2016	**24,000**	-	**24,000**	**73,112**	**121,112**
Transaction with shareholders:					
Dividends	-	-	-	(200,163)	(200,163)
Shares issued	689,262	-	-	-	689,262
Share issuance cost	(5,375)	-	-	-	(5,375)
	683,887	-	-	(200,163)	483,724
Comprehensive income:					
Profit for the year, being total comprehensive income for the year	-	-	-	191,414	191,414
Balances at December 31, 2017	**707,887**		**24,000**	64,363	**796,250**
Impact on initial application of IFRS 9 (note 3)	-	797	-	(1,638)	(841)
Restated balances at January 1, 2018	**707,887**	**797**	**24,000**	**62,725**	**795,409**
Transactions with shareholders:					
Dividends (note 30)	-	-	-	(210,004)	(210,004)
Comprehensive income:					
Profit for the year	-	-	-	221,595	221,595
Other comprehensive income, realised loss on fair value of securities at FVOCI, being total other comprehensive income	-	(797)	-	-	(797)
Total comprehensive income for the year	-	(797)	-	221,595	220,798
Balances at December 31, 2018	**707,887**	-	**24,000**	**74,316**	**806,203**

VICTORIA MUTUAL INVESTMENTS LIMITED

STATEMENT OF CASH FLOWS

Year ended December 31, 2018

	Notes	Group 2018 $'000	Group 2017 $'000	Company 2018 $'000	Company 2017 $'000
Cash flows from operating activities:					
Profit for the year		397,598	346,302	221,595	191,414
Adjustments for:					-
Depreciation	12	6,993	6,855	-	-
Amortisation of intangible asset	13	21,895	4,386	-	-
Impairment losses on financial	27	105,442	-	5,590	-
Change in employee benefit	16(b)(ii)	5,000	6,000	-	-
Unrealised exchange gains on foreign currency balances		(1,367)	15,886	-	-
Unrealised fair value (loss)/gains on securities at fair value through		(13,920)	(24,222)	-	-
Gains from investment activities		(117,942)	(171,523)	(1,396)	-
Interest income	21	(738,362)	(735,665)	(154,065)	(25,623)
Dividend income		-	-	(210,105)	(200,100)
Interest expense	21	455,809	488,676	96,337	16,493
Income tax charge/(credit)	26	141,437	121,523	(1,934)	149
		262,583	58,218	(43,978)	(17,667)
Changes in operating assets and					
Due from subsidiary		-	-	344,852	(253,109)
Loans receivable		(935,082)	(172,431)	(935,082)	(441,057)
Resale agreements		(871,933)	(1,417,283)	(24,708)	-
Accounts receivable		(251,118)	(159,241)	2,118	174,550
Accounts payable		(2,105,253)	2,975,551	29,053	(6,600)
Repurchase agreements		2,147,692	(560,289)	-	-
Income tax recoverable		(5,796)	(163)	(5,796)	(163)
		(1,758,907)	596,386	(633,541)	(544,046)
Interest received		864,057	798,880	148,811	24,236
Interest paid		(488,312)	(464,930)	(103,022)	(9,808)
Income tax paid		(202,915)	(60,047)	(166)	-
Net cash (used in)/provided by operating activities		(1,586,077)	870,289	(587,918)	(529,618)
Cash flows from investing activities:					
Acquisition of property, plant and	12	(3,696)	(6,409)	-	-
Acquisition of intangible asset	13	(104,939)	(15,440)	-	-
Net investment in finance lease		(108,371)	-	(108,371)	-
Investment securities (purchased).sold,		(1,566,757)	1,474,336	(460,447)	(145,237)
Net cash (used in)/provided by in investing activities		(1,783,763)	1,452,487	(568,818)	(145,237)
Cash flow from financing activities:					
Proceeds from loan		904,516	506,109	904,516	506,109
Preference shares redeemed		-	(12,000)	-	(12,000)
Proceeds from share issue		-	683,887	-	683,887
Dividends received		-	-	210,105	200,100
Dividends paid	30	(210,004)	(380,867)	(210,004)	(380,867)
Net cash provided by financing activities carried forward		694,512	797,129	904,617	997,229

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

VICTORIA MUTUAL INVESTMENTS LIMITED

STATEMENT OF CASH FLOWS (CONT'D)

Year ended December 31, 2018

	Notes	Group		Company	
		2018 $'000	2017 $'000	2018 $'000	2017 $'000
Net cash provided by financing activities brought forward		694,512	797,129	904,617	997,229
Net (decrease)/increase in cash and cash equivalents		(2,675,328)	3,119,905	(252,119)	322,374
Cash and cash equivalents at beginning of year		3,409,989	316,976	341,193	18,819
Effect of exchange rate fluctuations on cash		5,877	(26,892)	-	-
Cash and cash equivalents at end of year	5	740,538	3,409,989	89,074	341,193

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

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended December 31, 2018

1. Identification

Victoria Mutual Investments Limited ("the company") is incorporated and domiciled in Jamaica. The company is an 80% subsidiary of The Victoria Mutual Building Society ("ultimate parent society" or "VMBS"). The parent society is incorporated in Jamaica under the Building Societies Act. The company's registered office is located at 8-10 Duke Street, Kingston, Jamaica.

The company issued 20% of its ordinary shares to the public and is listed on the Jamaica Stock Exchange.

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

The company's activities are administered by its subsidiary company. The company's income during the year was mainly interest, finance lease and dividend income.

The company and its subsidiary are collectively referred to as "the group".

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and comply with the relevant provisions of the Jamaican Companies Act.

This is the first set of the group's annual financial statements in which IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in note 3.

New and amended standards and interpretations issued but not yet effective

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

- IFRS 16*, Leases,* which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for leases, 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.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

New and amended standards and interpretations issued but not yet effective (continued)

- IFRS 16*, Leases* (continued)

  Lessees will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short- term leases and for low-value items with value of US$5,000 or less.

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

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

- 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 is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12.

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

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

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

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

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

New and amended standards and interpretations issued but not yet effective (continued)

- IFRIC 23, *Uncertainty Over Income Tax Treatments* (continued)

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

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

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

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

  (i) Prepayment features with negative compensation:

  Financial assets containing prepayment features with negative compensation can 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.

  (ii) Modifications to financial liabilities:

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

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

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

New and amended standards and interpretations issued but not yet effective (continued)

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

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

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

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

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

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

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

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

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

2. Basis of preparation (continued)

(b) Basis of measurement

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

(i) Debt instruments at fair value through other comprehensive income (FVOCI) measured at fair value (applicable from January 1, 2018).

(ii) Available-for-sale securities measured at fair value (applicable before January 1, 2018).

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

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

(v) Post-employment medical benefit obligation measured at the present value of the obligation. [4(e)(iii)].

(c) Functional and presentation currency

The financial statements are presented in thousands of Jamaica dollars, which is the functional currency of the company.

(d) Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, as well as estimates, based on assumptions, that affect the application of accounting policies, and the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the income and expenses for the year then ended. Actual amounts may differ from these estimates.

The estimates, and the assumptions underlying them, 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 made by management in the application of IFRS that have a significant effect on the financial statements and estimates with material uncertainty that have a significant effect on amounts in the financial statements or that have a significant risk of material adjustment in the next financial year are set out below:

(i) 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 principles set out in IFRS.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

(i) Critical accounting judgements in applying the company's accounting policies (continued)

Applicable for 2018 only:

(1) Classification of financial assets:

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

(2) Impairment of financial assets:

Establishing the criteria for determining whether credit risk on the financial asset has increased significantly since initial recognition, determining the methodology for incorporating forward-looking information into the measurement of expected credit loss (ECL) and selection and approval of models used to measure ECL requires significant judgement.

Applicable for 2017:

Classification of financial assets:

In designation financial assets as at fair value through profit or loss, the group has determined that they have met the criteria for this designation set out in accounting policy [note 4(a)(ii)].

(ii) Key assumptions and other sources of estimation uncertainty

(1) Employee benefit obligation

The amounts recognised in the statement of financial position, income statement and statement of profit or loss and other comprehensive income for employee benefits are determined actuarially using several assumptions. The primary assumption used in determining the amounts recognised is the discount rate used to determine the present value of post-employment medical benefits obligation.

The discount rate is determined based on the estimated yield on long-term government securities that have maturity dates approximating the terms of the group's obligation; in the absence of such instruments in Jamaica, it has been necessary to estimate the rate of discount by extrapolating from the longest-tenure security on the market. The estimate of expected rate of increase in medical costs is determined based on inflationary factors.

Any changes in these assumptions will impact the amounts recorded in the financial statements for these obligation.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

(ii) Key assumptions and other sources of estimation uncertainty (continued)

(2) Allowance for impairment losses on financial assets under IFRS 9 and IAS 39

Measurement of the expected credit loss allowance under IFRS 9 from January 1, 2018

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 4 and 27, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

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

Detailed information about the judgements and estimates made by the group in the above areas is set out in notes 4 and 27.

Measurement of the expected credit loss allowance under IAS 39 before January 1, 2018

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

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

(ii) Key assumptions and other sources of estimation uncertainty (continued)

(2) Allowance for impairment losses on financial assets under IFRS 9 and IAS 39

Measurement of the expected credit loss allowance under IAS 39 before January 1, 2018 (continued)

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) Fair value of financial instruments

There are no quoted market prices for a significant portion of the company's financial assets and liabilities. Accordingly, fair values of several financial assets are estimated using prices obtained from a yield curve. That yield curve is, in turn, obtained from a pricing source which estimates the yield curve on the basis of 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. Some other fair values are estimated based on quotes published by a broker/dealer, and these are also classified as Level 2. The estimates of fair value arrived at from these sources may be different from the actual price of the instrument in an actual arm's length transaction [notes 7 and 28(b)].

3. Change in accounting policies

The group initially applied IFRS 9 and IFRS 15 from January 1, 2018. A number of other new standards are also effective from January 1, 2018, but they do not have a material effect on the company's financial statements.

Due to the transition methods chosen by the group in applying these standards, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standards.

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

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

3. Change in accounting policies (continued)

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

- an increase in impairment losses recognised on financial assets;
- reclassification of fair value measurement of investment securities; and
- additional disclosures related to IFRS 9 (see notes 7 and 27).

IFRS 9 *Financial Instruments*

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

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

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

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

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

Retained earnings:

	Group $'000	Company $'000
Balance as at December 31, 2017	1,610,487	64,363
Recognition of expected credit losses under IFRS 9		
Investments, loans receivable and resale agreements	(61,631)	(1,638)
Opening balance under IFRS 9 at January 1, 2018	1,548,856	62,725

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

3. Change in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

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

Investment revaluation reserve:

	Group $'000	Company $'000
Balance as at December 31, 2017 under IAS 39	201,581	-
Reclassification of investment at amortised cost to FVOCI:		
Investment securities, net of taxes	3,544	797
Recognition of expected credit losses:		
Investment securities, net of taxes	35,344	-
Opening balance under IFRS 9 at January 1, 2018	240,469	797

(i) Classification and measurement of financial instruments

IFRS 9 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 classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the group's accounting policies related to financial liabilities.

For an explanation on how the group classifies and measures financial instruments under IFRS 9, see note 4(a).

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

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

3. Change in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(i) Classification and measurement of financial instruments (continued)

Group

	Note	Original classification under IAS 39	New classification under IFRS 9	IAS 39 Carrying amount at December 31, 2017 $'000	Fair value Remeasurement $'000	Impairment losses $'000	IFRS 9 carrying amount at January 1, 2018 $'000
Financial assets							
Cash and cash equivalents		Loans and receivables	Amortised cost	3,409,989	-	-	3,409,989
Resale agreements		Loans and receivables	Amortised cost	3,371,409	-	(6,977)	3,364,432
Accounts receivable		Loans and receivables	Amortised cost	823,140	-	-	823,140
Corporate bonds	(b)	Loans and receivables	FVOCI	145,237	797	(1,638)	144,396
Loans receivable		Loans and receivables	Amortised cost	441,057	-		441,057
Quoted equities:							
FVTPL		FVTPL	FVTPL	4,291	-	-	4,291
Available-for-sale		Available-for-sale	FVOCI	372,300	-	-	372,300
Units in unit trust funds	(a)	FVTPL	Mandatory at FVTPL	183,636	-	-	183,636
Certificates of deposits JMD	(b)	Loans and receivables		547,175	2,919	(1,273)	548,821
Government of Jamaica securities:	(b)						
Loans and receivables		Loans and receivables	FVOCI	39,518	2,592	(118)	41,992
Available-for-sale		Available for sale	FVOCI	8,006,155	-	(25,398)	7,980,757
Foreign government securities		Available-for-sale	FVOCI	1,344,709	-	(23,233)	1,321,476
Certificate of deposit USD		Available-for-sale	FVOCI	1,037,297	-	(2,994)	1,034,303
Unquoted equities		Available for sale	FVOCI	3,322	-	-	3,322
Total financial assets				19,729,235	6,308	(61,631)	19,673,912
Financial liabilities							
Accounts payable		Amortised cost	Amortised cost	3,702,988	-	-	3,702,988
Repurchase agreements		Amortised cost	Amortised cost	13,164,960	-	-	13,164,960
Due to parent society		Amortised cost	Amortised cost	1,819	-	-	1,819
Borrowings		Amortised cost	Amortised cost	506,109	-	-	506,109
Total financial liabilities				17,375,875	-	-	17,375,875

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

3. Change in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(i) Classification and measurement of financial instruments (continued)

Company	Note	Original classification under IAS 39	New classification under IFRS 9	IAS 39 carrying amount at December 31, 2017 $'000	Fair Value Measurement $'000	Impairment losses $'000	IFRS 9 carrying amount at January 1, 2018 $'000
Financial assets							
Cash and cash equivalents		Loans and receivables	Amortised cost	341,193	-	-	341,193
Accounts receivable		Loans and receivables	Amortised cost	10,804	-	-	10,804
Corporate bonds		Loans and receivables	FVOCI	145,237	797	(1,638)	144,396
Loans receivable		Loans and receivables	Amortised cost	441,057	-	-	441,057
Total financial assets				938,291	797	(1,638)	937,450
Financial liabilities							
Accounts payable		Amortised cost	Amortised cost	23,906	-	-	23,906
Borrowings		Amortised cost	Amortised cost	506,109	-	-	506,109
Due to parent society		Amortised cost	Amortised cost	1,819	-	-	1,819
Total financial liabilities				531,834	-	-	531,834

(a) Under IAS 39, the group's investment in unit trusts were designated as at FVTPL because they were managed on a fair value basis and their performance was monitored on this basis. These assets have been classified as mandatorily measured at FVTPL under IFRS 9.

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

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

(iii) Transition

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

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

3. Change in accounting policies (continued)

IFRS 9 *Financial Instruments* (continued)

(iii) Transition (continued)

	Group $'000	Company $'000
Loss allowance at December 31, 2017 under IAS 39	-	-
Impairment recognised at January 1, 2018 on:		
Investment securities	53,016	1,395
Loans receivables and resale agreements	8,615	243
Loss allowance at January 1, 2018 under IFRS 9	61,631	1,638

4. Significant accounting policies

Except for the changes described in note 3, the group has consistently applied the accounting policies as set out below to all periods presented in these financial statements.

(a) Financial instruments – Classification, recognition, derecognition 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. In these financial statements:

- Financial assets comprise cash and cash equivalents, resale agreements, investment securities and accounts receivable.
- Financial liabilities comprise accounts payable and repurchase agreements.

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

(i) Recognition and initial measurement

The group recognises a financial instrument when it becomes a party to the contractual terms of the instrument. The group initially recognises accounts receivable on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

At initial recognition, the group measures a financial asset or financial liability at its fair value, plus or minus; the case of a financial asset or financial liability not at fair value through profit or loss transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(i) Recognition and initial measurement (continued)

When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

(ii) Classification and subsequent remeasurement

Policy applicable from January 1, 2018

From January 1, 2018, the group has applied IFRS 9 and classified its financial assets in the following measurement categories:

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

Financial assets

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

(a) Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

- the group's business model for managing the asset; and
- the cash flow characteristics of the asset.

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

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

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(ii) Classification and subsequent remeasurement (continued)

Policy applicable from January 1, 2018 (continued)

Financial assets (continued)

(a) Debt instruments (continued)

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

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

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

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

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

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

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(ii) Classification and subsequent re-measurement (continued)

Policy applicable from January 1, 2018 (continued)

Financial assets (continued)

(a) Debt instruments (continued)

Solely payments of principal and interest (SPPI): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the company assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

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

(b) Equity instruments

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

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

Gains and losses on equity investments at FVTPL are included in the 'Gains from investment activities' caption in the statement of profit or loss.

Policy applicable under IAS 39 before January 1, 2018

Management determines the appropriate classification of investments at the time of purchase, taking into account the purpose for which the instruments were purchased.

The group classifies non-derivative financial assets into the following categories:

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(ii) Classification and subsequent re-measurement (continued)

Policy applicable under IAS 39 before January 1, 2018 (continued)

Financial assets (continued)

(b) Equity instruments (continued)

Loans and receivables: Securities acquired and loans granted with fixed or determinable payments and which are not quoted in an active market, are classified as loans and receivables. The group's financial instruments included in this classification are resale agreements, local and foreign currency denominated securities which do not have a quoted market price in an active market and whose fair values cannot be reliably determined, and cash and cash equivalents.

Held-to-maturity: Securities with fixed or determinable payments and fixed maturities that the group has the positive intent and ability to hold to maturity are classified as held-to-maturity. The group's financial statements currently do not include any securities in this classification.

Fair value through profit or loss: Securities that are held for trading (i.e., they are acquired to generate short-term profits or are part of a portfolio of financial assets managed together for that purpose) or are designated as 'at fair value through profit or loss' upon initial recognition. These comprise primarily the group's portfolio of quoted equities.

Available-for-sale: Investments are classified as available-for-sale, because they are designated as such or are not classified in any of the other categories. The group's financial instruments included in this classification are securities with quoted prices in an active market or for which the fair values are otherwise determinable, including securities issued by Government of Jamaica, Bank of Jamaica and quoted equities.

Financial liabilities

In both the current and prior period, financial liabilities are classified as and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading book) and other financial liabilities designated as such at initial recognition.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(ii) Classification and subsequent re-measurement (continued)

Financial liabilities (continued)

- Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the group recognises any expense incurred on the financial liability.

(iii) Derecognition

The group derecognises a financial asset when the contractual rights to the cash flows from the financial 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 in which the group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

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

From January 1, 2018, any cumulative gains or losses recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the group is recognised as a separate asset or liability.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(iii) Derecognition (continued)

The group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the group neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

The exchange between the group and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

(iv) Measurement and gains and losses

Policy applicable from January 1, 2018

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

- debt investment securities measured at amortised cost which are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(iv) Measurement and gains and losses (continued)

Policy applicable from January 1, 2018 (continued)

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

- equity investment securities mandatorily measured at FVTPL or designated as at FVTPL which are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

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

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

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

The group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

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

Policy applicable before 1 January 2018

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either loans and receivable, held-to-maturity, FVTPL or available-for-sale.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(iv) Measurement and gains and losses (continued)

Policy applicable before 1 January 2018 (continued)

Loans and receivables: On initial recognition they 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. Premiums and discounts are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where securities classified as loans and receivables become quoted in an active market, such securities will not be 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 they are measured at fair value, plus any directly attributable transaction costs. Premiums and discounts are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. 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 is not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale and prevent the company from classifying investment securities as held-to-maturity for the financial year in which sale or reclassification occurs and the following two financial years.

Fair value through profit or loss: Financial assets designated as at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

A*vailable-for-sale:* On initial recognition, they 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, and other changes in carrying amount are recognised in other comprehensive income. Changes in the fair value of securities classified as available-for-sale are recognised in other comprehensive income.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(iv) Measurement and gains and losses (continued)

Policy applicable before January 1, 2018 (continued)

Available-for-sale (continued)

- When securities classified as available-for-sale are sold or impaired, and therefore derecognised, the accumulated fair value adjustments accumulated in other comprehensive income are reclassified to profit or loss.

Specific financial instruments

(1) Derivatives

Derivatives are financial instruments that derive their value from the price of the underlying items such as equities, bond, interest rate, foreign exchange or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risk.

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

(2) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. 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 (these investments include short-term deposits where the maturities do not exceed three months from the acquisition date). Cash and cash equivalents are measured at cost.

(3) Resale and repurchase agreements

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

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(iv) Measurement and gains and losses (continued)

Specific financial instruments (continued)

(3) Resale and repurchase agreements (continued)

The group enters into transactions whereby it transfers assets but retains either all risks or 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 carried 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.

(4) Accounts receivable

Accounts receivable are measured at amortised cost less impairment losses.

(5) Share capital

The company's ordinary shares are classified as equity instruments in accordance with the substance of the contractual terms of the instrument. Dividends thereon are recognised as distributions within equity.

Incremental costs directly attributable to the issue of an equity instrument are deducted from the initial measurement of the equity instrument.

(6) Accounts payable

Accounts payable are measured at amortised cost.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(v) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the group's trading activity.

(vi) Impairment

Policy applicable from January 1, 2018

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

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

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

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

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECL.

The group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'. The group does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(vi) Impairment (continued)

Policy applicable from January 1, 2018 (continued)

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of ECL

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

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

Restructured financial assets

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

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(vi) Impairment (continued)

Policy applicable from January 1, 2018 (continued)

Credit-impaired financial assets

At each reporting date, the group assesses whether financial assets carried at amortised costs are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the group on terms that the company would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired even when the regulatory definition of default is different.

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

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

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, derecognition and measurement (continued)

(vi) Impairment (continued)

Policy applicable from January 1, 2018 (continued)

Presentation of allowance for ECL in the statement of financial position

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

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

Write-off

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

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

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

Policy applicable before January 1, 2018

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:

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(a) Financial instruments – Classification, recognition, de-recognition and measurement (continued)

(vi) Impairment (continued)

Policy applicable before January 1, 2018 (continued)

- Default or delinquency by a debtor;
- Restructuring of an amount due to the company on terms that the company would not otherwise consider;
- Indications that a debtor or issuer will enter bankruptcy;
- Adverse changes in the payment status of borrowers or issuers;
- The disappearance of an active market for a security;
- Observable data indicating that there is measurable decrease in expected cash flows from a company of financial assets.

Financial assets measured at amortised cost

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.

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.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(b) Foreign currencies

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the foreign exchange rates ruling at that date. Transactions in foreign currencies are translated at the foreign exchange rates ruling at the date of the transaction. Gains and losses arising on translation are recognised in profit or loss.

(c) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied in the part will flow to the group and its cost can be reliably measured.

The cost of day-to-day servicing of property, plant and equipment is recognised in profit or loss as incurred.

Depreciation is charged on the straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Computers	5 years
Furniture and fixtures	10 years
Leasehold improvements	5 years

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

(d) Intangible asset – computer software and amortisation

Costs that are directly associated with acquiring identifiable and unique software products which are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs associated with maintaining computer software programs are recognised in profit or loss as incurred.

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 useful lives, estimated at five years. Amortisation methods, useful lives and residual values are reassessed at each reporting date.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(e) Employee 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 a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave. Post-employment benefits are accounted for as described in (ii) and (iii) 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 and charged as an expense, unless not considered material, in which case they are charged when they fall due.

Post-employment obligations included in these financial statements are actuarially determined by a qualified independent actuary. The appointed actuary's report outlines the scope of the valuation and the actuary's opinion. The actuarial valuation was conducted in accordance with IAS 19, and the financial statements reflect the group's post-employment benefit obligations as computed by the actuary. In carrying out their audit, the auditors have relied on the work of the actuary and the actuary's report.

(ii) Defined-benefit pension plan

The subsidiary company is a participating employer in a group defined-benefit pension plan operated by the ultimate parent society [see note 16(a)]. The plan exposes the participating subsidiaries to actuarial risks associated with the current and former employees of group companies and there is no stated policy for charging the net defined benefit cost among group companies. Additionally, all residual interest in the scheme belongs to the ultimate parent society. The plan is, therefore, accounted for as a defined-contribution plan in the financial statements of the individual participating subsidiaries, that is, pension contributions, as recommended by the actuary, are expensed as they become due.

Effective January 1, 2017, the subsidiary company also participates in a defined contribution plan [see note 16(a)]. Contributions are expensed as they become due.

(iii) Employee medical benefits

The subsidiary company provides post-employment medical benefits to retirees.

The group's net obligation in respect of medical benefits provided to retirees 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 value is discounted to determine the present value.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(e) Employee benefits (continued)

(iii) Post-employment medical benefits (continued)

The discount rate is the yield on long-term government securities that have maturity dates approximating the terms of the group's obligation. The calculation is performed by an independent, qualified actuary using the *projected unit credit* method.

Remeasurements of the net defined benefit liability, which comprises actuarial gains and losses are recognised immediately in other comprehensive income (OCI). The group determines the net interest expense on the defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the defined benefit liability, taking into account any changes in the defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognised in profit or loss.

When the benefits of the plan are changed or when the plan is curtailed, the portion of the change in benefit relating to past service by employees is recognised as an expense immediately in profit or loss. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

(f) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in other comprehensive income, 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 income 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 income tax purposes. Deferred 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 by the reporting date.

A deferred 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 utilised. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for the group. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(g) Impairment of 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.

The recoverable amount of non-financial assets 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. 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 exceeds its recoverable amount.

Impairment losses are recognised in the income statement.

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.

(h) Revenue recognition

Revenue is income that arises in the course of the ordinary activities of the group. Accordingly, revenue comprises interest income, fees and commissions, and income and gains from trading and holding financial instruments.

(i) Interest income under IFRS 9

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

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

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

(ii) Interest income under IAS 39

Interest income is recognised in profit or loss over the tenure of the instrument for all interest earning instruments on the accrual basis using the effective interest method. 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.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

4. Significant accounting policies (continued)

(h) Revenue recognition (continued)

(ii) Interest income under IAS 39 (continued)

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, interest is taken into account on the cash basis. IFRS requires that when receivables become doubtful of collection, 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.

There has been no doubtful interest payment for the period under review.

(iii) Fee and commission income

Fee and commission income are recognised on the accrual basis when the service has been provided. Fee and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis as the service is provided. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

(iv) Gain or loss from trading and holding securities

Gain or loss on securities trading is recognised when the group becomes a party to a contract to dispose of the securities, or, in the case of financial assets measured at fair value, upon re-measurement of those assets.

(v) Dividend income

Dividends are recognised in profit or loss when the group's irrevocable right to receive payment is established.

(i) Interest expense

Interest expense is recognised in profit or loss on the accrual basis over the tenure of the instrument 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.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

5. Cash and cash equivalents

	Group		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Bank accounts	724,001	3,392,354	89,074	341,193
Accounts with brokers	16,537	17,635	-	-
	740,538	3,409,989	89,074	341,193

6. Resale agreements

The group purchases government and corporate securities and agrees to resell them on a specified date and at a specified price ('resale agreements').

	Group	
	2018 $'000	2017 $'000
Denominated in Jamaica dollars	3,260,000	2,460,000
Denominated in United States dollars [US$7,513,209 (2017: US$7,332,093)]	957,179	911,409
	4,217,179	3,371,409
Less allowance for expected credit losses	(38)	-
	4,217,141	3,371,409

	Company	
	2018 $'000	2017 $'000
Denominated in United States dollars [US$193,986 (2017: US$Nil)]	24,714	-
Less impairment loss allowance	(6)	-
	24,708	-

Under collateralised resale agreements, the group obtains securities as collateral on terms which permit it to re-pledge or resell them to others under repurchase agreements (see note 15). At December 31, 2018, securities that the group and company held under repurchase arrangements had a fair value of $4,422,420,000 (2017: $3,627,458,000) and $27,679,000 (2017: $Nil), respectively.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

7. Investment securities

	Group		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Investment securities at fair value through profit or loss:				
Quoted equities	32,800	4,291	20,376	-
Units in unit trust funds:			-	
Denominated in Jamaica dollars	170,927	148,182	170,927	-
Denominated in United States dollars [US$280,081 (2017: US$285,222]	35,682	35,454	-	-
	239,409	187,927	191,303	-
Loans and receivables:				
Certificates of deposit:				
Bank of Jamaica	-	547,175	-	-
Corporate bonds	-	145,237	-	145,237
Government of Jamaica securities:				
US$ Global bonds[US$Nil (2017: US$317,911)]	-	39,518	-	-
	-	731,930	-	145,237
Amortised cost:				
Deferred shares	410,647	-	410,647	-
At fair value through other comprehensive				
Unquoted equities*	7,133	3,322	3,733	-
Quoted equities*	535,500	372,300	-	-
	542,633	375,622	3,733	-
Government of Jamaica securities:				
Treasury bills	4,861,516	3,537,765	-	-
Benchmark investment notes*				
US$ bonds [US$40,120,095 (2017: US$35,947,243)]*	5,111,280	4,468,390	-	-
	9,972,796	8,006,155	-	-
Bank of Jamaica securities:				
US$ Certificates of deposit [US$6,389,714 (2017: US$8,344,832)]*	814,046	1,037,297	-	-
J$ Certificates of deposit	250,131	-	-	-
	1,064,177	1,037,297	-	-
Foreign government securities:				
US$ bonds [US$7,986,909 (2017: US$10,817,900)]*	1,017,528	1,344,709	-	-
	12,597,134	10,763,783	3,733	-
	13,247,190	11,683,640	605,684	145,237
Less allowance for impairment on instruments at amortised cost	(5,832)	-	(5,832)	-
	13,241,358	11,683,640	599,851	145,237

*As at December 31, 2017 these items were classified as available-for-sale.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

7. Investment securities (continued)

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

	Group					
	2018					
	Within 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Investment securities at fair value through profit or loss:						
Quoted equities	-	-	-	-	32,800	32,800
Units in unit trust funds	-	-	-	-	206,609	206,609
At amortised cost:						
Deferred shares	-	-	410,647	-	-	410,647
At FVOCI:						
Unquoted equities	-	-	-	-	7,133	7,133
Quoted equities	-	-	-	-	535,500	535,500
Bank of Jamaica securities	250,131	453,456	360,590	-	-	1,064,177
Investment notes	-	70,002	2,886,007	1,905,507	-	4,861,516
US$ bonds	-	46,566	1,016,715	5,065,527	-	6,128,808
	250,131	570,024	4,673,959	6,971,034	782,042	13,247,190

	Group					
	2017					
	Within 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No maturity	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Investment securities at fair value through profit or loss:						
Quoted equities	-	-	-	-	4,291	4,291
Units in unit trust funds	-	-	-	-	183,636	183,636
Loans and receivables:						
Certificates of deposit	-	297,175	250,000	-	-	547,175
Corporate bonds	-	71,552	-	73,685	-	145,237
US$ Global bonds	-	-	39,518	-	-	39,518
Available-for-sale:						
Unquoted equities	-	-	-	-	3,322	3,322
Quoted equities	-	-	-	-	372,300	372,300
Bank of Jamaica securities	-	251,579	785,718	-	-	1,037,297
Investment notes	-	264,209	1,478,658	1,794,898	-	3,537,765
US$ bonds	-	-	1,170,078	4,643,021	-	5,813,099
	-	884,515	3,723,972	6,511,604	563,549	11,683,640

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

7. Investment securities (continued)

	Company		
		2018	
	1-5 years	No maturity	Total
	$'000	$'000	$'000
Investment securities at FVTPL:			
Quoted equities	-	20,377	20,377
Units in unit trust funds	-	170,927	170,927
Securities at amortised cost:			
Deferred shares	410,647	-	410,647
Securities at FVOCI			
Unquoted equities	-	3,733	3,733
	410,647	195,037	605,684

As at December 31, 2017, corporate bonds of the group and the company include a bond with a carrying value of $71,552,000 which will mature within one year, while remaining bonds with carrying values totalling $73,685,000, mature after five years from the reporting date.

Certain Government of Jamaica and foreign government securities are pledged as collateral for repurchase agreements (see note 15).

Government of Jamaica securities having an aggregate face value of $32,000,000 (2017: $32,000,000) have been pledged as collateral against possible overdrafts and uncleared effects at one of the subsidiary company's bankers.

8. Net investment in finance leases

	Group & Company	
	2018	2017
	$'000	$'000
Total minimum lease payments receivable	130,457	-
Less: Unearned income	(22,086)	-
Net investment in finance leases	108,371	-

Future minimum lease payments are receivable as follows:

2019	32,645	-
2020	29,591	-
2021	29,591	-
2022	29,591	-
2023	9,039	-
	130,457	-

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

9. Loans receivable

	Group		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Margin loans	1,314,837	441,057	1,314,837	441,057
Insurance premium financing	61,302	-	61,302	-
	1,376,139	441,057	1,376,139	441,057

Margin loans receivable are used to secure borrowings (note 17).

10. Accounts receivable - others

	Group		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Interest receivable	213,636	201,999	7,234	1,979
Withholding tax and GCT recoverable, net	64,880	70,540	395	2,196
Other receivables and prepaid expenses	252,115	47,564	1,668	3,804
	530,631	320,103	9,297	7,979

11. Deferred tax asset/(liability)

(a) Deferred tax asset is attributable to the following:

	Group			
	2018			
	Balance at beginning of year	Recognised in other comprehensive income	Recognised in income (note 26)	Balance at end of year
	$'000	$'000	$'000	$'000
Property, plant and equipment	3,620	-	(14,522)	(10,902)
Investment securities	65,131	56,514	74,780	196,425
Interest receivable	(44,726)	-	(6,200)	(50,926)
Dividends receivable	(181)	-	(1)	(182)
Interest payable	33,876	-	(8,411)	25,465
Accrued vacation leave	436	-	(36)	400
Employee benefit obligation	16,500	(6,133)	1,666	12,033
Finance leases	-	-	(837)	(837)
Unused tax losses	-	-	11,435	11,435
Unrealised foreign exchange (losses)/gains	5,204	-	(5,717)	(513)
	79,860	50,381	52,157	182,398

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

11. Deferred tax asset/liability (continued)

(a) Deferred tax asset is attributable to the following (continued):

	Group			
	2017			
	Balance at beginning of year	Recognised in other comprehensive income	Recognised in income (note 26)	Balance at end of year
	$'000	$'000	$'000	$'000
Property, plant and equipment	1,573	-	2,047	3,620
Investment securities	89,443	(21,095)	(3,217)	65,131
Interest receivable	(51,727)	-	7,001	(44,726)
Dividends receivable	(234)	-	53	(181)
Interest payable	28,189	-	5,687	33,876
Accrued vacation leave	436	-	-	436
Employee benefit obligation	12,833	1,667	2,000	16,500
Unrealised foreign exchange (losses)/ gains	(5,432)	-	10,636	5,204
	75,081	(19,428)	24,207	79,860

	Company				
	Balance at December 31, 2016	Recognised in income (note 26)	Balance at December 31, 2017	Recognised in income (note 26)	Balance at December 31, 2018
	$'000	$'000	$'000	$'000	$'000
Interest receivable	10	149	(159)	159	-
Investment securities	-	-	-	(8,076)	(8,076)
Finance lease	-	-	-	(837)	(837)
Interest payable	-	-	-	71	71
Tax losses	-	-	-	10,783	10,783
	10	149	(159)	2,100	1,941

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

12. Property, plant and equipment

	Group and Company			
	Computer equipment	Furniture and fixtures	Leasehold improvements	Total
	$'000	$'000	$'000	$'000
Cost:				
December 31, 2016	14,041	23,321	20,130	57,492
Additions	953	1,998	3,458	6,409
December 31, 2017	14,994	25,319	23,588	63,901
Additions	3,043	272	381	3,696
December 31, 2018	18,037	25,591	23,969	67,597
Depreciation:				
December 31, 2016	9,813	9,725	14,468	34,006
Charge for the year	1,462	2,147	3,246	6,855
December 31, 2017	11,275	11,872	17,714	40,681
Charge for the year	1,939	2,304	2,750	6,993
December 31, 2018	13,214	14,176	20,464	47,854
Net book value:				
December 31, 2018	4,823	11,415	3,505	19,743
December 31, 2017	3,719	13,447	5,874	23,040
December 31, 2016	4,228	13,596	5,662	23,486

13. Intangible asset – computer software

	Group	
	2018	2017
	$'000	$'000
Cost:		
At beginning of year	285,470	146,384
Additions	104,939	139,086
At end of year	390,409	285,470
Amortisation:		
At beginning of year	51,976	47,590
Charge for the year	21,895	4,386
At end of year	73,871	51,976
Net book values	316,538	233,494

Additions included $ Nil (2017:$138,207,000) in respect of software development which were still in progress. These additions included $Nil (2017:$123,646,000) that were payable to related parties at the end of the year.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

14. Accounts payable – other

	Group		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Interest payable	75,811	108,313	-	6,685
Other payables and accrued expenses	371,874	320,532	46,274	17,221
	447,685	428,845	46,274	23,906

15. Repurchase agreements

The group sells government and corporate securities, or interests therein, to clients and agrees to repurchase them on a specified date and at a specified price ('repurchase agreements' or 'repos').

	Group	
	2018 $'000	2017 $'000
Denominated in Jamaica dollars	7,587,900	5,857,502
Denominated in United States dollars [US$61,751,725 (2017: US$58,786,945)]	7,867,081	7,307,458
	15,454,981	13,164,960

At December 31, 2018, securities obtained under resale agreements and certain investments (see notes 6 and 7) and interest accrued thereon are pledged by the group as collateral for repurchase agreements. These financial instruments have a carrying value of $15,772,663,000 (2017: $15,711,254,000).

16. Employee benefit obligation

(a) Pensions

The group participates in The Victoria Mutual (Defined Benefit) Pension Plan ("Plan"), which is administered by trustees.

The members make compulsory contributions at 5% of pensionable salaries and may elect to pay voluntary contributions up to 14.5% to the extent that the total contributions paid by or on behalf of a member in any year does not, in aggregate, exceed 20% of remuneration in that year.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

16. Employee benefit obligation (continued)

(a) Pensions (continued)

The employer makes ordinary annual contributions as advised by the Actuary to be adequate, in addition to the members' compulsory contributions, to ensure the solvency of the Plan or to provide for any improvement, so long as such are in keeping with the relevant Act or other applicable legislation. The Plan provides for retirement and death benefits.

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

The most recent funding actuarial valuation of the defined benefit plan, performed as of December 31, 2016, indicated that it is adequately funded. The group's contribution to the plans for the year amounted to $794,000 (2017: $496,000) [note 24].

(b) Medical obligation

The group's obligation in respect of post-employment medical benefits has been recognised primarily in respect of medical benefits for pensioners as follows:

(i) Movements in the present value of the medical obligation recognised in the statement of financial position.

	2018 $'000	2017 $'000
Balance at beginning of year	49,400	38,400
Interest cost	4,200	3,700
Current service cost	2,700	2,200
Past service cost	(1,700)	300
Benefits paid	(200)	(200)
Experience adjustments and actuarial gains recognised in OCI	(18,400)	5,000
Net (credit)/charge in profit or loss and OCI	(13,400)	11,000
Balance at end of year	36,000	49,400

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

16. Employee benefit obligation (continued)

(b) Medical obligation (continued)

(ii) Expense recognised in staff costs (note 24):

	2018 $'000	2017 $'000
Current service cost	2,700	2,200
Past service cost	(1,700)	300
Interest on obligation	4,200	3,700
Benefits paid	(200)	(200)
	5,000	6,000

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

	2018 %	2017 %
Discount rate	7.00	8.00
Medical premiums growth	5.00	7.00

(iv) As at December 31, 2018, the weighted average duration of the employee benefit obligation was 21 years (2017: 23 years).

(v) Sensitivity analysis

A half percentage point change at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the post-employment medical benefit obligations by amounts shown below:

	2018		2017	
	0.5% increase	0.5% decrease	1% increase	1% decrease
	$'000	$'000	$'000	$'000
Discount rate	32,500	40,100	39,600	62,000
Assumed medical cost trend rate	40,100	32,500	62,600	39,600

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

17. Borrowings

	Group and Company	
	2018 $'000	2017 $'000
Fixed rate secured bond (i)	-	500,000
Fixed rate credit linked note (ii)	410,625	-
Variable rate unsecured bond (iii)	1,000,000	-
Other	-	6,109
	1,410,625	506,109

(i) On August 16, 2017, the company issued a fixed rate secured bond for $500,000,000. The bond was secured by margin loans receivable (note 9). The bond attracted a fixed interest rate of 8% per annum and was repaid during the year.

(ii) The note attracts interest at 6.5% per annum paid quarterly. The principal is repayable in 2023 and is secured by deferred shares issued by the parent society.

(iii) The bond attracts interest at 7.75% per annum for the first two years and thereafter at a variable rate of 2.5 percentage points above the weighted average yield rate applicable to the six month treasury bill rate. The bond matures in 2023 and is unsecured.

18. Share capital

	2018 $'000	2017 $'000
Authorised:		
5,000,000,000 (2017: 5,000,000,000) ordinary shares at no par value		
Issued and fully paid:		
1,500,025,000 (2017: 1,500,025,000) ordinary shares	707,887	713,262
Less: share issuance costs	-	(5,375)
	707,887	707,887

(a) On November 9, 2017, a resolution was passed increasing the authorised share capital of the company from 24,000,400 ordinary shares to 5,000,000,000 ordinary shares at no par value.

By way of the said resolution, the major shareholder declared that each of the issued ordinary shares of the company be sub-divided into 50 ordinary stocks (50:1).

On December 27, 2017, the company issued 300,005,000 ordinary shares at a total value of $689,262,000 to the public through an initial public offering.

The company was listed on the Jamaica Stock Exchange on December 29, 2017.

(b) The issued share capital does not include premium of $24,000,000 (2017: $24,000,000) on the shares, in accordance with Section 39(7) of the Companies Act Jamaica. This has been retained in the share premium account.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

19. Reserves

(a) Investment revaluation reserve

This represents:

- the cumulative net change in the fair value of equity securities measured at FVOCI (2017: available-for-sale financial assets), net deferred taxes.

- the cumulative net change in the fair value of debt securities measured at FVOCI (2017: available-for-sale financial assets) until the assets are derecognised or reclassified, net of deferred tax.

This amount is increased by the amount loss allowances.

(b) Other reserve

This represents accumulated actuarial gains or losses arising from the remeasurement of the post-retirement medical benefit obligation, net of deferred taxes.

20. Non-controlling interest

This represent convertible preference shares in the subsidiary company, issued to the ultimate parent society.

The holders of this category of preference shares have the right to convert each preference share to one ordinary share. The preference shares are redeemable, redemption being at the option of the subsidiary company and dividends are payable at such time as the subsidiary company may determine. The number of units in this category totals 50,000,000 (2017: 50,000,000).

21. Net interest income

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Interest income calculated using the effective interest method:				
Investment securities	582,331	600,473	69,820	5,311
Resale agreements	75,035	98,070	-	-
Other	73,893	37,122	77,142	20,312
	731,259	735,665	146,962	25,623
Interest income of leases	7,103	-	7,103	-
	738,362	735,665	154,065	25,623
Interest expense:				
Repurchase agreements	(359,472)	(472,182)	(96,051)	(16,370)
Loans and borrowings	(96,051)	(16,370)		-
Other	(286)	(124)	(286)	(123)
	(455,809)	(488,676)	(96,337)	(16,493)
Net interest income	282,553	246,989	57,728	9,130

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

22. Gains from investment activities

	Group	
	2018	2017
	$'000	$'000
Fixed income securities	109,484	162,882
Equities	10,272	6,752
Unit trust funds	10,712	26,111
Net foreign exchange translation gains/(losses)	52,331	(2,668)
	182,799	193,077

Net foreign exchange translation gains include gains and losses arising from the translation of financial assets and liabilities denominated in foreign currencies.

23. Net fees and commissions

	Group	
	2018	2017
	$'000	$'000
Fixed income securities	1,352	3,452
Brokerage activities	24,415	27,169
Corporate advisory services	614,476	316,537
Portfolio management services	84,163	96,982
Unit trust funds	102,236	55,984
Mutual funds	39	39
	826,681	500,163

24. Staff costs

	Group	
	2018	2017
	$'000	$'000
Salaries and wages	278,589	239,607
Statutory payroll contributions	20,322	16,649
Pension plan contributions [note 16(a)]	794	496
Post-employment medical benefit [note 16(b)(ii)]	5,000	6,000
Allowances and other benefits	44,363	29,577
	349,068	292,329

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

25. Other operating costs

	Group		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Advertising and public relations	33,451	30,195	4,174	-
Asset tax	45,326	38,606	200	200
Audit fees	14,859	8,480	3,659	1,480
Bad debs written-off	-	-	1,607	-
Bank charges	6,818	7,272	-	-
Communication and courier	5,012	4,236	-	-
Depreciation and amortisation	28,888	11,241	-	-
Directors' fees	15,544	10,034	8,330	3,003
Financial Services Commission fees	9,362	8,684	-	-
Foreign exchange loss	2,856	-	2,856	-
Irrecoverable GCT	8,738	5,062	109	221
Legal and other professional fees	28,836	12,113	9,034	6,071
Outsourced services	32,432	-	-	-
Postage and telegraph	2,028	1,170	945	83
Rent, maintenance and utilities	25,716	24,023	-	-
Software maintenance and IT expenses	29,188	22,600	-	-
Stationery and office supplies	3,302	4,601	-	-
Trustee fees – retail repurchase agreements	3,843	3,877	-	-
Preference shares interest expense	-	1,819	-	1,819
Management fees	-	-	24,302	3,356
Other expenses	17,031	12,288	1,161	2,536
	313,230	206,301	56,377	18,769

26. Income tax

(a) The charge for income tax is computed at 33⅓% of the profit for the year for the subsidiary company and 25% for the company, as adjusted for tax purposes, and is made up as follows:

	Group		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
(i) Current income tax				
Current year	193,282	145,497	-	-
Adjustment to prior year estimate	312	84	-	-
	193,594	145,581	-	-
(ii) Deferred income tax (note 11)				
Origination and reversal of temporary differences	(63,592)	(24,058)	(13,369)	149
Unused tax losses	11,435	-	11,435	-
	(52,157)	(24,058)	(1,934)	149
Total income tax charge	141,437	121,523	(1,934)	149

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

26. Income tax (continued)

(b) The effective tax rate for 2018 was 26.23% (2017: 25.98%) for the group and 0.008% (2017: 0.001%) for the company of pre-tax profits. The statutory rates are 25% (2017: 25%) for the company and 33⅓% (2017:33⅓%) for the subsidiary company. The actual tax charge/(credit) differs from the theoretical tax charge for the year, as follows:

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Profit before income tax	539,035	467,825	219,661	191,563
Tax calculated at a rate of:				
- 25%	54,915	47,891	54,915	47,891
- 33⅓%	176,492	108,051	-	-
Adjusted for the effects of:				
Depreciation, amortisation and capital allowances	(3,464)	(299)	(3,436)	-
Income not subject to tax	(92,715)	(43,753)	(52,526)	(50,025)
(Income)/expenses not deductible for tax purposes	5,897	9,549	(887)	2,283
	141,125	121,439	(1,934)	149
Adjustment to prior year estimate	312	84	-	-
Actual tax charge	141,437	121,523	(1,934)	149

27. Financial instruments-risk management

(a) 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 its use of financial instruments in the ordinary course of business:

- credit risk
- liquidity risk
- market risk

The Board of Directors of the company has overall responsibility for the establishment and oversight of the group's risk management framework. Senior management of the company and the subsidiary company report to the respective Board of Directors on their activities. The group's risk management policies are designed to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management

(a) Introduction and overview (continued)

The group regularly reviews its risk management policies and systems to reflect changes in market conditions and product and service offerings. The respective Audit, Risk and Conduct Review Committees of the company and the subsidiary company are responsible for monitoring compliance with the group's risk management policies and for reviewing the adequacy of the risk management framework in relation to the risks faced by the group.

The Audit, Risk and Conduct Review Committees are assisted in these functions by the Victoria Mutual Group's Internal Audit Unit and the Group Risk Management Unit, which undertakes periodic reviews of risk management controls and procedures, the results of which are reported to the Audit, Risk and Conduct Review Committees.

The key risks to which the group is exposed and the manner in which it measures and manages them are as follows:

(b) Credit risk

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from credit given to customers from stock broking activities, investing activities, collateralised lending and deposits with other institutions. Balances arising from these activities include debt securities, resale agreements, cash and cash equivalents and accounts receivable.

(i) Management of credit risk

Credit risk is the single largest risk for the company's business; management therefore carefully manages its exposure to credit risk. Credit risk management and control is delegated to the company's Finance and Risk Management Committee. The Committee is responsible for oversight of credit risk, including formulating credit policies, establishing the authorisation structure for the approval of credit facilities, reviewing and assessing credit risk, and limiting concentration of exposure to counterparties.

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The company measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring Expected Credit Loss (ECL) under IFRS 9.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(b) Credit risk (continued)

(i) Management of credit risk (continued)

The company manages the credit risk on items exposed to such risk as follows:

- Cash and cash equivalents

  These are held with reputable financial institutions and collateral is not required for such accounts as management regards the institutions as strong.

- Resale agreements

  Collateral is held for all resale agreements.

- Investment securities

  In relation to its holding of investment securities, the company manages the level of risk it undertakes by investing substantially in short term Government of Jamaica, Bank of Jamaica and foreign Government debt securities; such securities are generally unsecured.

- Accounts receivable

  Exposure to credit risk is managed by regular analysis of the ability of the customers and other counter parties to meet repayment obligations.

(ii) Concentration of credit risk

There is significant concentration of credit risk in that the company holds substantial amounts of debt securities issued by the Government of Jamaica and Bank of Jamaica. There is no other significant concentration of credit risk.

(iii) Maximum exposure to credit risk and credit quality analysis

The following table sets out information about the maximum exposure to credit risk and the credit quality of financial assets measured at amortised cost, FVOCI debt instruments (2018) and available-for-sale debt assets (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(b) Credit risk (continued)

(iii) Maximum exposure to credit risk and credit quality analysis (continued)

Debt securities at FVOCI:

	Group				Available-for-sale
	2018				2017
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Total**
	$'000	$'000	$'000	$'000	$'000
Credit grade					
Investment grade	820,453	-	-	820,453	1,041,321
Non-investment grade	11,575,873	-	-	11,575,873	9,722,462
Default	-	-	197,075	197,075	-
	12,396,326	-	197,075	12,593,401	10,763,783
Loss allowance	(29,487)	-	(130,373)	(159,860)	-

Resale agreements, loans receivable and debt securities at amortised cost:

	Group	
	2018	2017
	Stage 1 12-month ECL	**Total**
	$'000	$'000
Credit grade		
Non- investment grade	6,003,965	3,371,409
Less loss allowance	(5,871)	-
	5,998,094	3,371,409

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(b) Credit risk (continued)

(iii) Maximum exposure to credit risk and credit quality analysis (continued)

Loans recoverable and debit securities at amortised cost:

Company	2018	2017
	Stage 1 12-month ECL	Total
	$'000	$'000
Credit grade		
Non- investment grade	1,786,786	-
Less loss allowance	(5,833)	-
	1,780,953	-

(iv) Impairment

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the company.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to below for a description of how the company determines when a significant increase in credit risk has occurred.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to below for a description of inputs, assumptions and estimation techniques used in measuring the ECL.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward- looking information. Please see below which includes an explanation of how the company has incorporated this in its ECL models.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(b) Credit risk (continued)

(iv) Impairment (continued)

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

- Purchased or originated credit-impaired financial assets (POCI) are those financial assets that are credit- impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The key judgements and assumptions adopted by the company in addressing the requirements of the standard are discussed below:

(a) Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and third party policies including forward-looking information.

The company uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due.

Credit risk grades:

The company uses internal credit risk gradings that reflect its assessment of the probability of default of individual counterparties. The company use internal rating models tailored to the various categories of counterparty.

Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data such as credit bureau scoring information on individual borrowers. In addition, the models enable expert judgement from the Credit Risk Officer to be fed into the final internal credit rating for each exposure. This allows for considerations which may not be captured as part of the other data inputs into the model.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(b) Credit risk (continued)

(iv) Impairment (continued)

(a) Significant increase in credit risk (continued)

Credit risk grades (continued):

For debt securities in the Treasury portfolio, external rating agency credit grades are used. These published grades are continuously monitored and updated. The PD's associated with each grade are determined based on realised default rates over the prior 12 months, as published by the rating agency.

Determining whether credit risk has been increased significantly:

The company assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower.

Credit risk is deemed to increase significantly where the probability of default on a security or a loan has moved by six (6) basis points.

As a backstop, the company considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. Some qualitative indicators of an increase in credit risk, such as delinquency or forbearance, may be indicative of an increased risk of default that persists after the indicator itself has ceased to exist. In these cases, the company determines a probation period during which the financial asset is required to demonstrate good behaviour to provide evidence that its credit risk has declined sufficiently. When contractual terms of a loan have been modified, evidence that the criteria for recognising lifetime ECL are no longer met includes a history of up-to-date payment performance against the modified contractual terms.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(b) Credit risk (continued)

(iv) Impairment (continued)

(a) Significant increase in credit risk (continued)

Definition of default (continued):

In assessing whether a borrower is in default, the company considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the company; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

(b) Incorporation of forward-looking information

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the PD, EAD and LGD vary by financial instrument. Expert judgment has also been applied in this process. Forecasts of these economic variables (the "base economic scenario") are provided by the group's Finance team on an annual basis and provide the best and worst estimate view of the economy.

The impact of these economic variables on the PD, EAD and LGD has been determined by performing a trend analysis and compared historical information with forecast macro-economic data to determine whether the indicator describes a positive, negative or stable trend and to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the company considers other possible scenarios and scenario weightings. At January 1, 2018 and December 31, 2018, the group concluded that three scenarios appropriately captured non-linearities. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(b) Credit risk (continued)

(iv) I]mpairment (continued)

(b) Incorporation of forward-looking information (continued)

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The company considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the company's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Each scenario considers the expected impact of interest rates, unemployment rates and gross domestic product (GDP).

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

(c) Measurement of the expected credit loss (ECL)

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

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

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(b) Credit risk (continued)

(iv) Impairment (continued)

(c) Measurement of the expected credit loss (ECL) (continued)

The assumptions underlying the ECL calculation - such as how the maturity profile of the PDs and how collateral values change etc. - are monitored and reviewed on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

(d) Loss allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. There were no credit losses recognised in 2017 under IAS 39 measurement basis.

Group

Debt securities at FVOCI:

	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	Total
	$'000	$'000	$'000	$'000
Balance as at January 1, 2018	30,859	22,157	-	53,016
Transfers:				
Transfer from Stage 2 to Stage 3	-	(22,157)	22,157	-
Net remeasurement of loss allowance	(1,372)	-	108,216	106,844
Balance as at December 31, 2018	29,487	-	130,373	159,860

Debt securities, loan receivable and resale agreement at amortised cost:

	Stage 1 12-month ECL
	$'000
Balance as at January 1, 2018	8,615
Net remeasurement of loss allowance	4,201
Financial assets that have been derecognised	(6,939)
Balance as at 31 December 2018	5,877

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(b) Credit risk (continued)

(iv) Impairment (continued)

(d) Loss allowance (continued)

Company

Debt securities at amortised cost:

	Stage 1 12-month ECL
	$'000
Balance as at January 1, 2018	1,638
Net remeasurement of loss allowance	4,201
Balance as at December 31, 2018	5,839

(c) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting obligations from its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. The group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due under both normal or stressed conditions. Prudent liquidity risk management procedures which the group uses include maintaining sufficient cash and marketable securities, monitoring future cash flows and liquidity on a daily basis, and maintaining a line of credit with a strong financial institution.

The group also manages this 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. In computing the 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 30.67% (2017: 38.28%).

During the year there was no change to the nature of liquidity risk to which the group is exposed, or to the manner in which it measures and manages the risk.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(c) Liquidity risk (continued)

The following table presents the undiscounted cash flows payable on the group's financial liabilities, including interest payments, on the basis of their earliest possible contractual maturity.

	Group				
	2018				
	Within 3 months	3 to 12 months	Over 12 months	Contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000
Accounts payable	1,811,638	-	-	1,811,638	1,811,638
Borrowings	25,691	78,501	1,758,197	1,862,389	1,410,625
Repurchase agreements, including interest	12,277,087	3,337,095	-	15,614,182	15,530,792
	14,114,416	3,415,596	1,758,197	19,288,209	18,753,055

	Group				
	2017				
	Within 3 months	3 to 12 months	Over 12 months	Contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000
Accounts payable	3,601,360	-	-	3,601,360	3,601,360
Due to parent society	1,819	-	-	1,819	1,819
Borrowings	10,018	526,411	-	536,429	506,109
Repurchase agreements, including interest	10,013,890	3,344,260	-	13,358,150	13,266,588
	13,627,087	3,870,671	-	17,497,758	17,375,876

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(c) Liquidity risk (continued)

	Company 2018				
	Within 3 months	3 to 12 months	Over 12 months	Contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000
Due to subsidiary	64,400	-	-	64,400	64,400
Borrowings	25,691	78,501	1,758,197	1,862,389	1,410,625
Accounts payables and accruals	46,274	-	-	46,274	46,274
	136,365	78,501	1,758,197	1,973,063	1,521,299

	Company 2017				
	Within 3 months	3 to 12 months	Over 12 months	Contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000
Due to parent society	1,819	-	-	1,819	1,819
Borrowings	10,018	526,411	-	536,429	506,109
Accounts payables and accruals	23,906	-	-	23,906	23,906
	35,743	526,411	-	562,154	531,834

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument 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 currency rates 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 the return on investments. Market risk exposures are measured using sensitivity analysis.

There has been no change in the nature of market risk to which the group is exposed or the manner in which it measures and manages the risk.

(i) Foreign currency risk

Foreign currency risk is the risk that the market value of, or the cash flows from, financial instruments will vary because of exchange rate fluctuations. The group is exposed to foreign currency risk due to fluctuations in exchange rates on transactions and balances that are denominated in currencies other

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(d) Market risk (continued)

(i) Foreign currency risk (continued)

The main currency giving rise to this risk is the United States dollar (US$). The group ensures that this risk is kept to an acceptable level by matching foreign currency assets with foreign currency liabilities, to the extent practicable. The net foreign currency exposure is kept to an acceptable level by buying or selling currencies at spot rates when necessary to address short-term imbalances. Foreign exchange gains and losses from these activities are included in other income.

At the reporting date, the group's exposure to foreign currency risk was as follows, in nominal amounts:

	Group		Company	
	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000
Foreign currency assets:				
Cash and cash equivalents	1,919	7,379	20	24
Resale agreements	7,495	7,332	194	-
Investments	54,811	55,747	-	-
Loans receivable	-	-	161	274
Accounts receivable	11,676	5,794	-	-
	75,901	76,252	375	298
Foreign currency liabilities:				
Accounts payable	13,538	12,822	-	-
Repurchase agreements	61,751	58,787	-	-
	75,289	71,609	-	-
Net foreign currency assets	612	4,643	375	298

Foreign exchange rates

The group uses the average of Bank of Jamaica's buying and selling rates [see note 4(b)]. The rates as at the reporting date were as follows:

	2018	2017
United States dollar	127.3995	124.3041

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(d) Market risk (continued)

(i) Foreign currency risk (continued)

Sensitivity to foreign exchange rate movements:

A 2% strengthening (2017: 2%) and a 4% weakening (2017: 4%) of the Jamaica dollar against the United States dollar at December 31, 2018 would have increased/(decreased) profit by the amounts shown in the table below. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis as for 2017.

	Group			
	2018		2017	
	% Change in Currency Rate	Effect on Profit	% Change in Currency Rate	Effect on Profit
	%	$'000	%	$'000
Currency:				
US$	2% Revaluation	(2,125)	2% Revaluation	(11,543)
US$	4% Devaluation	(1,063)	4% Devaluation	23,086

	Company			
	2018		2017	
	% Change in Currency Rate	Effect on Profit	% Change in Currency Rate	Effect on Profit
	%	$'000	%	$'000
Currency:				
US$	2% Revaluation	(1,909)	2% Revaluation	(741)
US$	4% Devaluation	954	4% Revaluation	1,482

(ii) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The group manages this risk by monitoring interest rates daily. Even though there are no formally predetermined gap limits, where possible and to the extent judged appropriate, the maturity profile of its financial assets is matched by that of its financial liabilities; where gaps are deliberately arranged, management expects that its monitoring will, on a timely basis, identify the need to take appropriate action to close a gap if it becomes necessary.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

The following table summarises the carrying amounts of assets, liabilities and equity to arrive at the group's interest rate gap based on the earlier of contractual repricing and maturity dates.

	Group 2018				
	Within 3 months	3 to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	950	-	-	739,588	740,538
Resale agreements	4,006,369	210,772	-	-	4,217,141
Loans receivables	160,073	852,491	363,575	-	1,376,139
Investment securities	4,169,970	500,022	7,795,156	776,210	13,241,358
Accounts receivable	-	-	-	1,399,352	1,399,352
Total financial assets	**8,337,362**	**1,563,285**	**8,158,731**	**2,915,150**	**20,974,528**
Borrowings	-	-	1,410,625	-	1,410,625
Accounts payable	-	-	-	1,887,449	1,887,449
Repurchase agreements	12,202,334	3,252,641	-	-	15,454,975
Total financial liabilities	**12,202,334**	**3,252,641**	**1,410,625**	**1,887,449**	**18,753,049**
Total interest sensitivity gap*	**(3,864,972)**	**(1,689,356)**	**6,748,106**	**1,027,701**	**2,221,479**
Cumulative gap	**(3,864,972)**	**(5,554,328)**	**1,193,778**	**2,221,479**	**-**

	Group 2017				
	Within 3 months	3 to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	567,546	-	-	2,842,443	3,409,989
Resale agreements	3,121,635	249,774	-	-	3,371,409
Investment securities	3,536,706	548,755	7,034,630	563,549	11,683,640
Accounts receivable	613,987	34,365	295,742	320,103	1,264,197
Total financial assets	**7,839,874**	**832,894**	**7,330,372**	**3,726,095**	**19,729,235**
Due to parent society	-	-	-	1,819	1,819
Borrowings	-	506,109	-	-	506,109
Accounts payable	-	-	-	3,702,988	3,702,988
Repurchase agreements	10,180,398	2,984,562	-	-	13,164,960
Total financial liabilities	**10,180,398**	**3,490,671**	**-**	**3,704,807**	**17,375,876**
Total interest sensitivity gap*	**(2,340,524)**	**(2,657,777)**	**7,330,372**	**21,288**	**2,353,359**
Cumulative gap	**(2,340,524)**	**(4,998,301)**	**2,332,071**	**2,353,359**	**-**

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

	Company				
	2018				
	Within 3 months	3 to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	-	-	-	89,074	89,074
Investment securities	-	-	410,647	189,204	599,851
Net investment in finance lease	8,122	15,909	84,340	-	108,371
Resale agreements	24,708		-	-	24,708
Loans receivable	160,073	852,491	363,575	-	1,376,139
Other receivables	-	-	-	9,297	9,297
Total financial assets	**192,903**	**868,400**	**858,562**	**287,575**	**2,207,440**
Borrowings	-	-	1,410,625	-	1,410,625
Accounts payable	-	-	-	46,274	46,274
Due to subsidiary	-	-	-	64,400	64,400
Total financial liabilities	-	-	**1,410,625**	**110,674**	**1,521,299**
Total interest sensitivity gap*	**192,903**	**868,400**	**(552,063)**	**176,901**	**686,141**
Cumulative gap	**192,903**	**1,061,303**	**509,240**	**686,141**	**-**

	Company				
	2017				
	Within 3 months	3 to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	314,603	-	-	26,590	341,193
Investment securities	-	-	145,237	-	145,237
Due from fellow subsidiaries	-	-	-	280,452	280,452
Accounts receivable	110,950	34,365	295,742	7,979	449,036
Total financial assets	**425,553**	**34,365**	**440,979**	**315,021**	**1,215,918**
Due to parent society	-	-	-	1,819	1,819
Borrowings	-	506,109	-	-	506,109
Other payables	-	-	-	23,906	23,906
Total financial liabilities	-	**506,109**	-	**25,725**	**531,834**
Total interest sensitivity gap*	**425,553**	**(471,744)**	**440,979**	**289,296**	**684,084**
Cumulative gap	**425,553**	**(46,191)**	**394,788**	**684,084**	**-**

* The total gap relates to financial instruments recognised in the statement of financial position as there are no unrecognised financial instruments.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

Average effective yields by the earlier of contractual re-pricing and maturity dates are as follows:

	Group			
	Within 3 months	3 to 12 months	Over 12 months	Overall average
December 31, 2018:	%	%	%	%
Assets				
J$ Cash and cash equivalents	0.05	-	-	0.05
US$ Cash and cash equivalents	0.10	-	-	0.10
J$ Resale agreements	2.69	-	-	2.69
US$ Resale agreements	2.54	2.45	-	2.52
J$ Investment securities	2.11	-	7.29	2.97
US$ Investment securities	-	3.75	7.08	6.81
J$ Margin loans	11.09	12.99	10.80	11.63
US$ Margin loans	8.00	-	7.55	7.78
Net investment in finance leases	8.75	8.75	8.75	8.75
Liabilities				
Borrowings	-	8.00	-	8.00
J$ Repurchase agreements	2.49	3.79	-	2.63
US$ Repurchase agreements	2.05	2.70	-	2.25

	Group			
	Within 3 months	3 to 12 months	Over 12 months	Overall average
December 31, 2017:	%	%	%	%
Assets				
J$ Cash and cash equivalents	0.05	-	-	0.05
US$ Cash and cash equivalents	0.10	-	-	0.10
J$ Resale agreements	4.55	-	-	4.55
US$ Resale agreements	1.34	2.49	-	1.66
J$ Investment securities	5.11	6.07	11.00	5.18
US$ Investment securities	-	4.75	6.71	6.63
J$ Margin loans	9.55	9.06	8.71	9.11
US$ Margin loans	8.25	8.00	-	8.13
Liabilities				
Borrowings	-	8.00	-	8.00
J$ Repurchase agreements	4.92	6.00	-	5.20
US$ Repurchase agreements	1.56	2.30	-	1.74

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

Average effective yields by the earlier of contractual repricing and maturity dates are as follows (continued):

	Company			
	Within 3 months	3 to 12 months	Over 12 months	Overall average
December 31, 2018:	%	%	%	%
Assets				
J$ Cash and cash equivalents	0.05	-	-	0.05
US$ Cash and cash equivalents	0.10	-	-	0.10
J$ Margin loans	11.09	12.99	10.80	11.63
US$ Margin loans	8.00	-	7.55	7.78
US$ resale agreements	1.65	-	-	1.65
J$ Investments	-	-	6.50	6.50
Net investment in finance leases	8.75	8.75	8.75	8.75
Liabilities				
Borrowings	-	-	7.39	7.39

	Company			
	Within 3 months	3 to 12 months	Over 12 months	Overall average
December 31, 2017:	%	%	%	%
Assets				
J$ Cash and cash equivalents	3.20	-	-	3.20
US$ Cash and cash equivalents	0.10	-	-	0.10
J$ Margin loans	9.55	9.06	8.71	9.11
US$ Margin loans	8.25	8.00	-	8.13
J$ Investments	-	9.00	9.00	9.00
Liabilities				
Borrowings	-	8.00	-	8.00

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivity to interest rate movements

The following shows the sensitivity to interest rate movements at the reporting date on the group's profit and equity. The analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis is performed on the same basis as for 2017.

	2018	2017
J$ interest rates	Increase by 100 bps Decrease by 100 bps	Increase by 100 bps; Decrease by 100 bps
US$ interest rates	Increase by 100 bps Decrease by 100 bps	Increase by 100 bps; Decrease by 50 bps

2018			2017		
Change in basis points	**Effect on profit**	**Effect on equity**	**Change in basis points**	**Effect on profit**	**Effect on equity**
JMD / USD	**$'000**	**$'000**	**JMD / USD**	**$'000**	**$'000**
+100/+100	(70,890)	(439,363)	+100 / + 50	(24,925)	(209,686)
-100/ - 100	70,890	521,960	- 100 / - 50	24,925	218,570

(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 while managing risk.

The group's equity securities that are listed on the Jamaica Stock Exchange total $568,300,000 (2017: $376,591,000). An increase or decrease of 10% (2017: 15%) in share prices would result in an increase or an equal decrease, respectively, in profit of $3,280,000 (2017: $644,000) and an increase or equal decrease in other comprehensive income of $56,830,000 (2017: $56,489,000).

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(e) Capital management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern, so that it can continue to provide returns to its shareholders and benefits for other stakeholders, to maintain a strong capital base to support the development of its business and to comply with the capital requirements set by the regulators of the subsidiary company.

The Financial Services Commission ("FSC") stipulates and monitors capital requirements for the non-deposit-taking financial services sector. The FSC requires that the subsidiary company maintains a capital base of which at least 50% is to be of Tier 1 capital. In addition, the FSC employs certain ratios to test capital adequacy and solvency.

The subsidiary company's regulatory capital position as at the reporting date was as follows:

	2018	2017
	$'000	$'000
Tier 1 Capital	1,771,632	1,655,624
Tier 2 Capital	52,334	40,067
Total regulatory capital	1,823,966	1,695,691
Risk-Weighted Assets:		
On statement of financial position	10,544,598	9,506,948
Foreign exchange exposure	53	530,910
	10,544,651	10,037,858
Operational risk-weighted assets	273,419	247,527
	10,818,070	10,285,385

Capital adequacy ratios:

	FSC Benchmark	2018	2017
Tier 1 Capital/Total regulatory capital	Greater than 50%	97.13%	97.64%
Total regulatory capital/risk-weighted assets	Minimum 10%	16.86%	16.49%
Actual capital base /total assets	Greater than 6%	10.65%	9.92%

The 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.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

27. Financial instruments-risk management (continued)

(e) Capital management (continued)

There was no change in the way the subsidiary company manages its capital during the financial year.

The Jamaica Stock Exchange ("JSE") monitors the capital requirements of the subsidiary as a member dealer.

The subsidiary company's capital position as at the reporting date was as follows:

	2018	2017
	$'000	$'000
Net Free Capital	1,420,258	1,495,594
Minimum Capital Requirements	(870,445)	(861,644)
Excess of Net Free Capital	549,813	633,950
Total Liabilities	17,405,655	17,232,891

	JSE Benchmark	2018	2017
Net Free Capital/Total Liabilities	Greater than 5%	8.16%	8.68%

Throughout the year, the subsidiary company met all the requirements of the FSC and JSE relating to capital adequacy.

28. Financial instruments - fair values

(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.

When 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.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

28. Financial instruments - fair values (continued)

(a) Definition and measurement of fair values (continued)

Where a quoted market price is not available, fair value is computed using alternative techniques making use of available input data; the group uses 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.

Fair value hierarchy: The different levels in the hierarchy have been defined as follows:

Level 1
Included in the Level 1 category are financial assets and 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
Included in the Level 2 category are financial assets and 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
Included in the Level 3 category are financial assets and 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. The techniques used to estimate fair values, together with the inputs used, are describe below. The use of assumptions and estimates means that the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

28. Financial instruments - fair values (continued)

(b) Valuation techniques for investment securities classified as Level 2 as well as any significant unobservable inputs used.

The following table shows the valuation techniques used in measuring the fair value of investment securities.

Type	Valuation techniques
J$ denominated securities issued or guaranteed by the Government of Jamaica and Bank of Jamaica securities.	• Obtain bid yield from yield curve provided by a recognised pricing source (which uses market-supplied indicative bids); • Using this yield, determine price using accepted formula; and • Apply price to estimate fair value.
US$ denominated Government of Jamaica securities and foreign government securities.	• Obtain bid price provided by a recognised broker/dealer, namely, Oppenheimer; and • Apply price to estimate fair value.
Units in unit trust funds	• Obtain prices quoted by unit trust managers; and • Apply price to estimate fair value.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

28. Financial instruments - fair values (continued)

(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.

		Group					
		2018					
		Carrying amount			Fair value*		
	Notes	FVOCI $'000	Fair value through profit or loss $'000	Total $'000	Level 1 $'000	Level 2 $'000	Total $'000
Financial assets measured at fair value:							
Quoted equities	7	535,500	32,800	568,300	568,300	-	568,300
Units in unit trust funds	7	-	206,609	206,609	-	206,609	206,609
Bank of Jamaica securities	7	1,064,177	-	1,064,177	-	1,064,177	1,064,177
Government of Jamaica securities	7	9,972,796	-	9,972,796	-	9,972,796	9,972,796
Foreign government securities	7	1,017,528	-	1,017,528	-	1,017,528	1,017,528
		12,590,001	239,409	12,829,410	568,300	12,261,110	12,829,410

		Company				
		2018				
		Carrying amount	Fair value*			
	Notes	Fair value through profit or loss $'000	Level 1 $'000	Level 2 $'000	Total $'000
Financial assets measured at fair value:					
Quoted equities	7	170,927	170,927	-	170,927
Units in unit trust funds	7	20,376	-	20,376	20,376
		191,303	170,927	20,376	191,303

		Group						
		2017						
		Carrying amount				Fair value*		
	Notes	Loans and receivables $'000	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:								
Quoted equities	7	-	372,300	4,291	376,591	376,591	-	376,591
Units in unit trust funds	7	-	-	183,636	183,636	-	183,636	183,636
Bank of Jamaica securities	7	-	1,037,297	-	1,037,297		1,037,297	1,037,297
Government of Jamaica securities	7	-	8,006,155	-	8,006,155	-	8,006,155	8,006,155
Foreign government securities	7	-	1,344,709	-	1,344,709	-	1,344,709	1,344,709
		-	10,760,461	187,927	10,948,388	376,59	10,571,797	10,948,388
Financial assets not measured at fair value:								
Government of Jamaica securities	7	39,518	-	-	39,518	-	41,992	41,992

* The group and company do not disclose the fair values of cash and cash equivalents, unquoted equities, certificates of deposit, resale agreements, accounts receivable, accounts payable and repurchase agreements because the carrying amounts of these financial instruments are a reasonable approximation of fair values.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

29. Related party transactions and balances

(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 or of a parent 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 an entity 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 (a)(i) above.

(7) A person identified in (a)(i) 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 a part providing key management services to the group or to the parent of the group;

A related party transaction is a transfer of resources, services or obligations between the group and related parties, regardless of whether a price is charged.

(b) Identity of related parties

The group has a related party relationship with its parent society, fellow subsidiaries, associate of parent society, key management personnel, including directors and the pension plan.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

29. Related party transactions and balances (continued)

(c) The statement of financial position includes balances, arising in the ordinary course of business, with related parties, as follows:

	Group			
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Cash and cash equivalents:				
Parent society	276,742	590,577	10,318	328,210
Repurchase agreements:				
Ultimate parent society	1,499,379	1,284,549	-	-
Fellow subsidiaries	-	59,826	-	-
Associate of ultimate parent society	154,011	99,659	-	-
Directors	-	1,545	-	-
Key management personnel, excluding directors	17,168	22,156	17,168	-
Ultimate parent society	1,000,000	50,000	-	-
Investment securities:				
Ultimate parent society	410,647	-	410,647	-
Accounts receivable:				
Parent Company	-	-	-	280,452
Loans receivable:				
Directors	29,665	-	29,665	-
Due to ultimate parent society	-	1,819	-	1,819
Accounts payable – other:				
Due to ultimate parent society	37,666	158,753	37,666	-
Subsidiary			64,400	
Associate of ultimate parent society	1,162	1,253	-	-
Fellow subsidiaries	30,601	14,547	-	-
Directors	-	3	-	-
Key management personnel, excluding directors	7	153	-	-

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

29. Related party transactions and balances (continued)

(d) The income statement includes the following income earned from, and expenses incurred in, transactions with related parties, in the ordinary course of business:

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Interest and dividend income:				
Ultimate parent society	21,352	8,586	18,706	726
Directors	-	494	-	-
Key management personnel, excluding directors	-	526	-	-
Subsidiary	-	-	-	200,100
Commission expense:				
Fellow subsidiary	26,729	5,697	-	-
Operating expenses:				
Subsidiary	-	-	23,400	-
Ultimate parent society	94,226	112,167	-	50,000
Fellow subsidiary	5,478	8,280	-	3,358
Interest and dividend expense:				
Ultimate parent society	204,902	246,497	168,003	201,982
Fellow subsidiaries	1,385	1,464	-	-
Associate of ultimate parent society	4,978	15,285	-	-
Directors	8	67	-	-
Key management personnel, excluding directors	238	361	-	-
Directors' fees (note 25)	15,545	10,034	8,330	3,003
Short-term employee benefits:				
Key management personnel, excluding directors	78,194	72,008	-	-

30. Dividends

On November 13, 2018 (2017: November 22, 2017) the Board of Directors declared an interim dividend of $0.12 (2017: $8.34) per ordinary stock unit of the paid up capital stock of 1,500,025,000 (2017: 24,000,400) ordinary stock units, paid to the shareholders on record as at November 27, 2018 (2017: October 31, 2017).

On February 26, 2018, the Board of Directors declared an interim dividend of 0.02 per ordinary stock units of the paid up capital stock of 1,500,025,000 ordinary stock units paid to the shareholders on record as at March 9, 2018.

VICTORIA MUTUAL INVESTMENTS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

Year ended December 31, 2018

31. Managed funds and custodial arrangements

The group acts as agent and earns fees for managing clients' funds on a non-recourse basis under management agreements. The group has no legal or equitable right or interest in these funds and, accordingly, they have been excluded from the financial statements. At December 31, 2018, these funds amounted to $24,313,239,000 (2017: $19,875,308,000).

Additionally, at December 31, 2018, there were custodial arrangements for assets totalling $24,560,120,000 (2017: $22,077,031,000).

32. Capital commitment

	Group	
	2018	**2017**
	$'000	**$'000**
Intangible asset – computer software	-	85,895

33. Earnings per share

The calculation of basic earnings per share is calculated by dividing the profit for the year attributable to owners of the company of $397,598,000 (2017: $346,302,000), by a weighted average number of ordinary shares held during the year.

	2018	**2017**
Weighted- average number of ordinary shares (basic)		
Issued ordinary shares at 1 January*	1,500,025,000	1,200,020,000
Effect of shares issued on December 27, 2017	-	3,287,726
Weighted- average number of ordinary shares at December 31	1,500,025,000	1,203,307,726
Basic earnings per share (cents)	27¢	29¢

* This was adjusted in 2017 for the stock split during that year [Note 18(a)].

CORPORATE DATA

Registered Office
6-10 Duke Street, Kingston

Corporate Office
73-75 HWT Road, Kingston 10

Place of Business
53 Knutsford Boulevard, Kingston 5

Chairman

Michael A McMorris

Directors

Courtney Campbell
Janice Mckenley
Sandra Shirley
Devon Barrett
Phillip Silvera
Noel Hann
Milton Samuda
Matthew Wright

Company Secretary

Keri-Gaye Brown

Auditor

KPMG
P.O Box 76
6-10 Duke Street
Kingston

Attention Mr. Chadrick Lindsay - Manager

Banker

National Commercial Bank Jamaica Limited
32 Trafalgar Road
Kingston 5

Attorney

Messrs Patterson, Mair, Hamilton
Temple Court
85 Hope Road
Kingston 6

VICTORIA MUTUAL
Investments
LIMITED