BUILDING ON OUR **HISTORY**
TRANSFORMING FOR THE **FUTURE**

ANNUAL 2016 REPORT

www.victoriamutualgroup.com

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

VISION

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

CORE VALUES

- Member Focus
- Integrity
- Teamwork
- Innovation
- Excellence

MISSION

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

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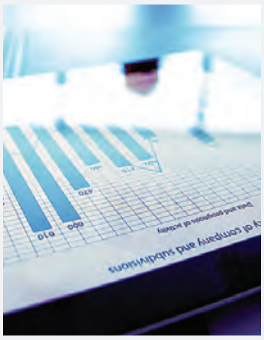


The Victoria Mutual Building Society

STATEMENT OF MUTUALITY

Victoria Mutual is a proud Jamaican mutual financial organisation that has been empowering its Members to acquire homes and achieve Financial Independence for over 138 years.

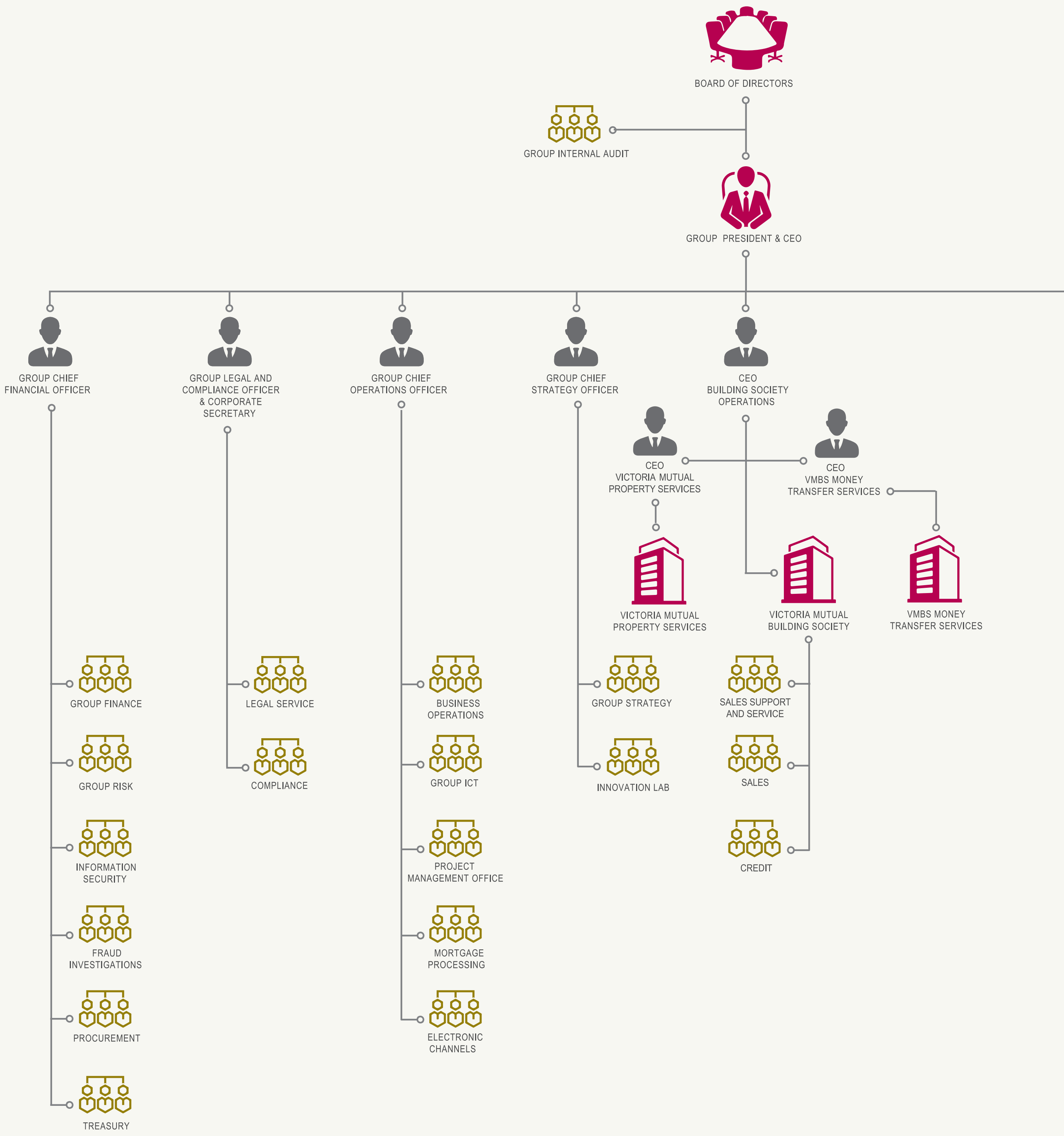
Our mutual status means that we are owned by and run for the benefit of all our Members, regardless of the size of their savings account or mortgage loan. We operate on the principle of 'One Member One Vote'; therefore each Member has an equal voice when voting on the business of the organisation.

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

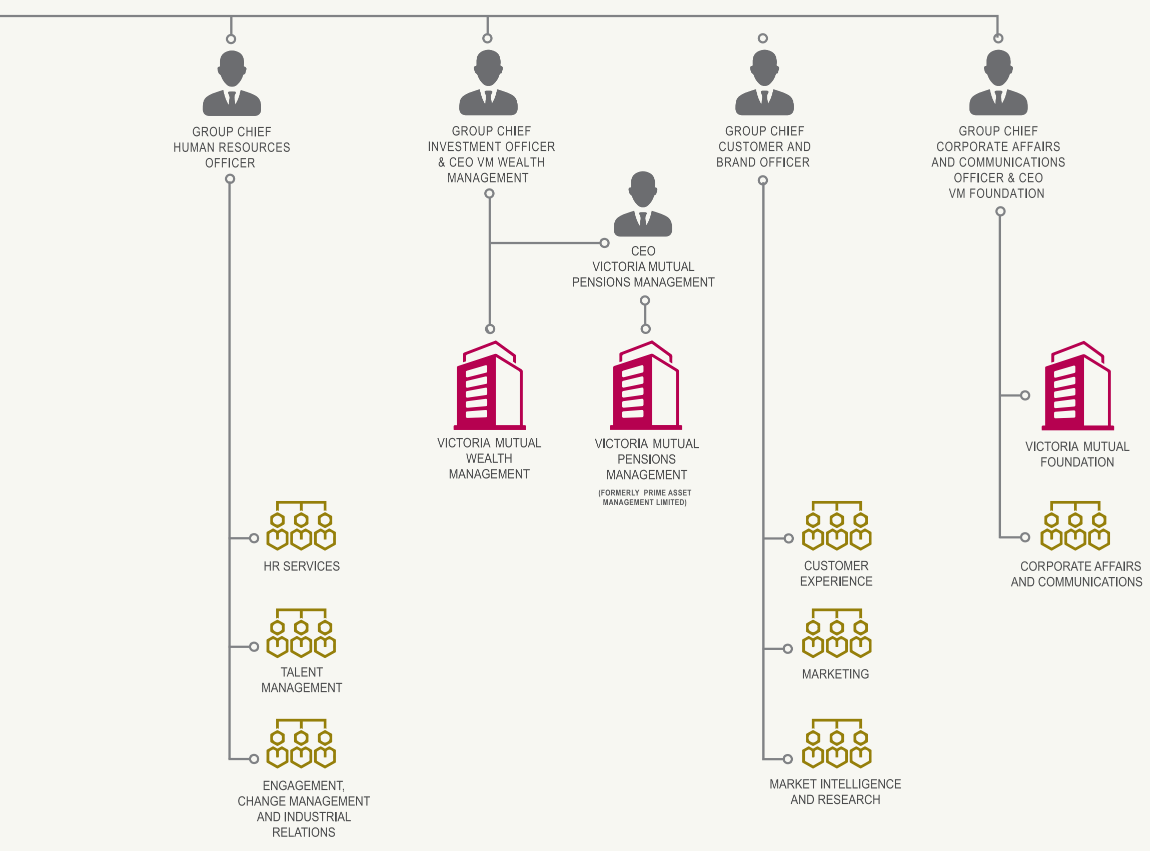
We are committed to prudent management, and therefore apply our knowledge and expertise, careful planning and measured risk, as we make sound investment decisions.

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

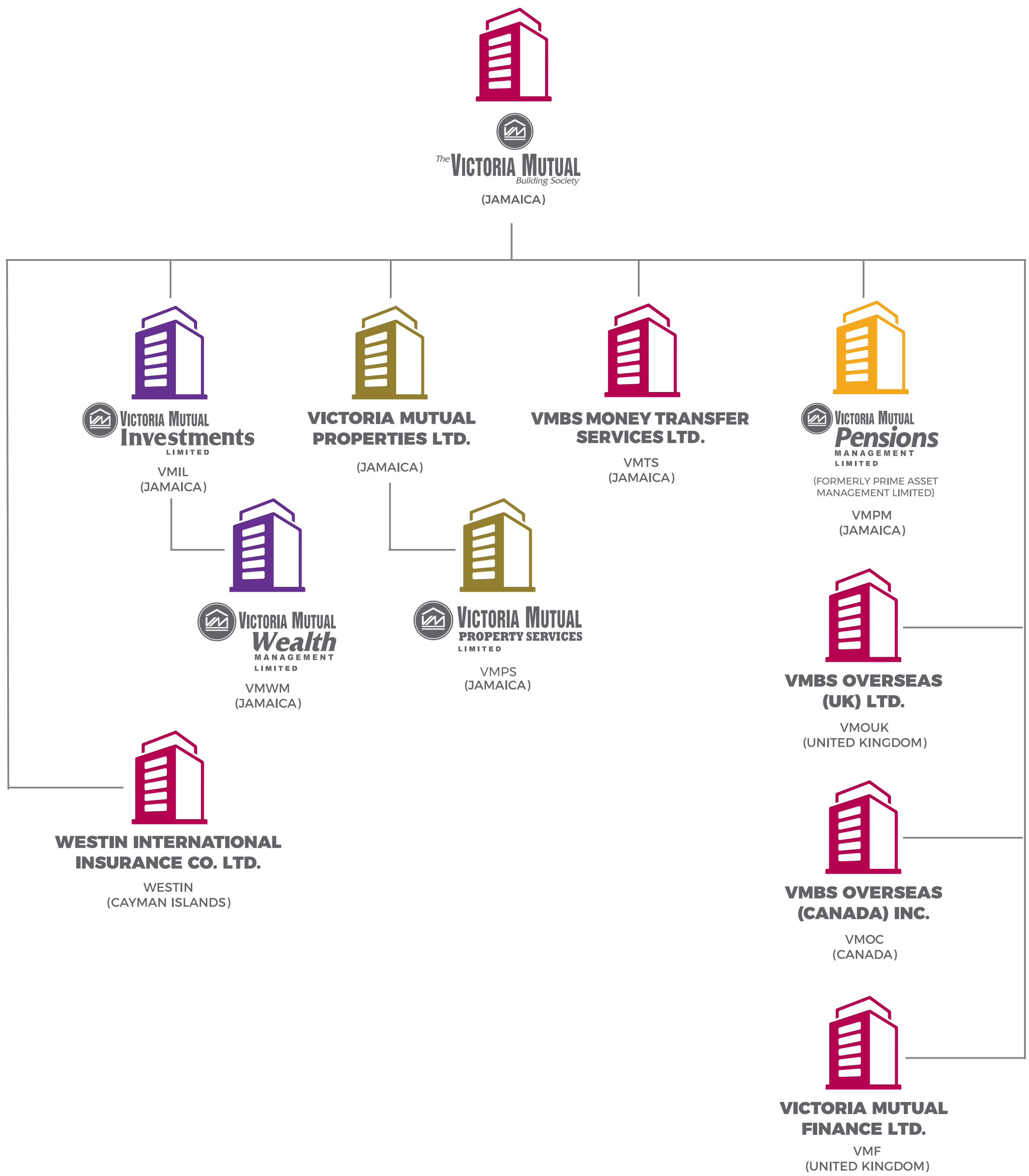
GROUP ORGANISATIONAL STRUCTURE




KEY
C-SUITE POSITIONS
STRATEGIC BUSINESS UNITS
DEPARTMENTS /UNITS


GROUP CHIEF HUMAN RESOURCES OFFICER
HR SERVICES
TALENT MANAGEMENT
ENGAGEMENT, CHANGE MANAGEMENT AND INDUSTRIAL RELATIONS
GROUP CHIEF INVESTMENT OFFICER & CEO VM WEALTH MANAGEMENT
CEO VICTORIA MUTUAL PENSIONS MANAGEMENT
VICTORIA MUTUAL WEALTH MANAGEMENT
VICTORIA MUTUAL PENSIONS MANAGEMENT
(FORMERLY PRIME ASSET MANAGEMENT LIMITED)
GROUP CHIEF CUSTOMER AND BRAND OFFICER
CUSTOMER EXPERIENCE
MARKETING
MARKET INTELLIGENCE AND RESEARCH
GROUP CHIEF CORPORATE AFFAIRS AND COMMUNICATIONS OFFICER & CEO VM FOUNDATION
VICTORIA MUTUAL FOUNDATION
CORPORATE AFFAIRS AND COMMUNICATIONS

THE VICTORIA MUTUAL BUILDING SOCIETY AND ITS SUBSIDIARIES/AFFILIATES



VM GROUP STRATEGY

OUR VISION, MISSION & CORE VALUES

In 2016, we carried out a comprehensive review of the VM Group's strategy. This review took into consideration our operating environment, as well as feedback from Members and Team Members. The review resulted in updated Vision and Mission statements, as well as adjustments to our Core Values. We also introduced Strategic Goals, which are long-term, open-ended aspirations for the organisation.

VISION

Our new Vision statement is 'To be the leading Caribbean-based mutual provider of financial services'. Previously, our vision was, 'To be the leading provider of financial services'. The changes were made to specify our focus on the Caribbean, and to underscore our commitment to mutuality.

MISSION

During the year we updated our Mission statement to be more explicit about our purpose, and to indicate our commitment to serving our communities.

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

CORE VALUES

We operate to serve the needs of our Members, and in order to emphasise that, the Core Value of **Member Focus** was introduced during the year. Four other Core Values - **Integrity, Teamwork,** Innovation and Excellence – remained unchanged.

OUR STRATEGIC GOALS & INITIATIVES

Our Strategic Goals are to become a **Strong, Integrated Financial Group**, a **Modern Mutual**, an **Employer of Choice,** and a **Model Corporate Citizen**.

STRONG, INTEGRATED FINANCIAL GROUP

This Strategic Goal relates to our intention to:

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

How will this be achieved?

We are undertaking projects and initiatives aimed at:

i. Diversifying our revenue streams through the introduction of new business lines and the formation of strategic partnerships,

ii. Integrating our services and systems across Strategic Business Units, and

iii. Strengthening our risk management.

How do you, our Members, benefit?

Your institution will remain strong, will be growing, and comprehensive solutions will be efficiently delivered to you.

MODERN MUTUAL

This Strategic Goal relates to our intention to:

- Remain relevant, innovating products, services, processes and business models to meet the needs of our Members, and
- Be Member focused, ensuring that our Members' needs and desires shape all of our actions.

How will this be achieved?

We are undertaking projects and initiatives aimed at:

i. Upgrading our core banking systems,

ii. Automating key processes and simplifying service delivery,

iii. Improving our management of innovation, and

iv. Differentiating ourselves through superior customer service.

How do you, our Members, benefit?

You will have more convenient ways to do business with us, solutions that fit your needs perfectly, quicker turn-around times for transactions, and better experiences.

EMPLOYER OF CHOICE

This STRATEGIC GOAL relates to our intention to:

- Be a preferred place of work, and
- Engage a team of talented Team Members.

How will this be achieved?

We are undertaking projects and initiatives aimed at:

- Developing the skills and competencies of our workforce, and
- Improving the level of engagement of Team Members.

How do you, our Members, benefit?

The quality of your experiences will continue to improve, as you will be served by a highly competent and engaged team.

MODEL CORPORATE CITIZEN

This Strategic Goal relates to our intention to:

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

How will this be achieved?

We are establishing a Foundation to better manage our Corporate Social Responsibility activities.

How do you, our Members, benefit?

We will have a greater impact on the quality of life of those in our communities.

The Victoria Mutual Building Society

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the One Hundred and Thirty-Eighth Annual General Meeting of The Victoria Mutual Building Society will be held in the Blue Mountain Suite, The Knutsford Court Hotel, 11 Ruthven Road, Kingston 10, Jamaica on Thursday, August 31, 2017 at 3.00 p.m. for the following purposes:-

1. **To receive the Audited Group Accounts for the year ended 31 December 2016 and the Reports of the Directors and Auditors.**

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

   Resolution No. 1

   "THAT the Audited Group Accounts for the year ended 31 December 2016 and the Reports of the Directors and Auditors circulated with the Notice convening the meeting be and are hereby adopted."

2. **To elect Directors**

   (1) The Directors retiring from office by rotation pursuant to Rule Number 61(1) of the Society's Rules are Mr. Michael McMorris and Mr. Noel daCosta and being eligible, offer themselves for re-election.

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

   Resolution No. 2 (a)

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

   Resolution No. 2 (b)

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

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

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

   Resolution No. 3

   "THAT Mr. Nigel Chambers and Ms. Nyssa Johnson, Chartered Accountants of KPMG, being eligible for re-appointment as Auditors and offering themselves for re-appointment, be and are hereby appointed Auditors of the Society pursuant to Rule 71 of the Society's Rules to hold office until the next Annual General Meeting at a remuneration to be fixed by the Directors of the Society".

4. **To approve and adopt New Rules* for the Society**

   Resolution No. 4

   "That the New Rules of The Victoria Mutual Building Society as presented to the Members are hereby approved and shall replace in their entirety, the Rules previously in existence; but the rights of existing Members and depositors prior to the adoption of the said New Rules shall not thereby be prejudiced in any manner whatsoever by the approval and adoption of the New Rules."

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

By Order of the Board

Keri-Gaye Brown
Secretary

Dated: 19th day of July 2017

***The proposed New Rules of the Society as set out in the Rule Book Insert located at the back of the annual report or at www.vmbs.com.**

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

FIVE YEAR STATISTICAL REVIEW

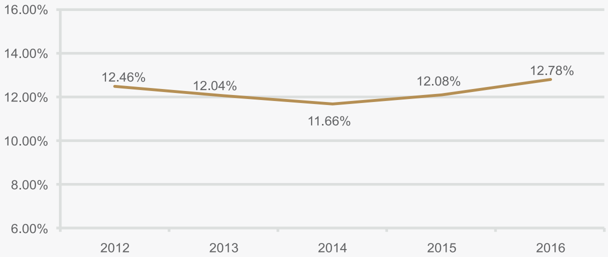
GROUP	2012	2013	2014	2015	2016
Balance Sheet ($'000)					
Earning Assets	74,831,724	81,346,911	92,651,995	97,904,190	105,466,008
Loans	26,667,330	27,169,852	30,925,659	32,902,398	34,531,088
Total Assets	78,509,247	86,178,720	97,302,033	103,638,266	112,443,562
Savings Fund	49,674,876	54,509,776	60,584,397	66,475,723	71,965,955
Capital and Reserves	9,786,003	10,374,320	11,346,756	12,515,457	14,369,837
Income Statement ($'000)					
Net Interest Income	3,342,321	3,523,454	3,740,342	3,716,033	3,816,620
Operating Revenue	4,256,040	4,661,858	4,964,049	5,330,528	5,670,307
Administration Expenses	3,052,214	3,369,744	3,591,933	4,032,290	4,308,393
Surplus before income tax	1,205,426	1,267,450	1,332,220	1,246,983	1,332,709
Surplus	1,008,448	942,881	1,006,182	961,665	990,328
Ratios					
Net Interest Margin	4.64%	4.51%	4.30%	3.90%	3.75%
Return on Capital	13.03%	12.57%	12.27%	10.45%	9.91%
Return on Assets	1.60%	1.54%	1.45%	1.24%	1.23%
Efficiency Ratio (Admin Exp:Total Assets)	4.05%	4.09%	3.92%	4.01%	3.99%
Efficiency Ratio (Cost:Income)	71.71%	72.28%	72.36%	75.65%	75.98%
Capital & Reserves as a percentage of assets	12.46%	12.04%	11.66%	12.08%	12.78%

$105B
EARNING ASSETS

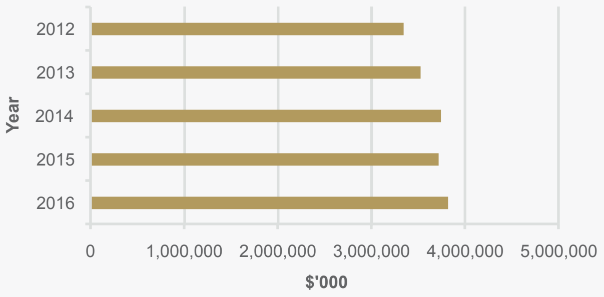
$5.7B
OPERATING REVENUE

12.78 %
CAPITAL & RESERVES

Group Capital & Reserves as % of Assets



Net Interest Income 2012 - 2016



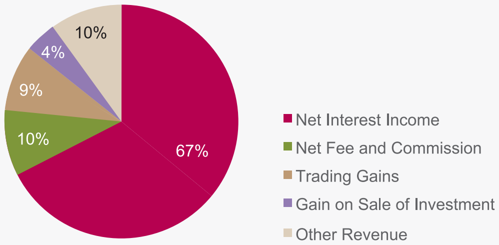
DEFINITIONS USED

Administrative Expenses	-	Administration + Personnel costs
Earning Assets	-	Cash & Cash Equivalents + Investments + Resale Agreements + Loans + Other Assets
Net Interest Income	-	Interest on loans + Interest and dividends from investments - Interest expense
Operating Revenue	-	Net interest income + Other operating revenues
Return on Capital	-	Surplus before income tax / Average Capital and Reserves
Return on Assets	-	Surplus before income tax / Average Total Assets
Net Interest Margin	-	Net interest income / Average Earning Assets
Efficiency Ratio	-	Administration Expenses / Average Total Assets
Cost: Income	-	Administration Expenses / Total Operating Revenue

SOURCES

2012 - 2016 Audited Financial Statements

Group Operating Revenue 2016



DIRECTORS' REPORT

The Directors take pleasure in presenting the One Hundred and Thirty-Eighth Annual Report and Statements of Revenue and Expenditure of the Group and the Society, for the year ended 31 December 2016, together with the Statements of Financial Position of the Group and the Society, as at that date.

SURPLUS

The Group Revenue and Expenditure Account shows Gross Revenue of $7.859 billion (2015: $7.603 billion) and Net Surplus of $990.328 million (2015: $961.665 million).

DIRECTORS

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

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

ROTATION

In accordance with Rule 61(1) of the Society's Rules, at the next Annual General Meeting, Mr. Michael McMorris and Mr. Noel daCosta will retire by rotation and being eligible, will offer themselves for re-election.

TO APPROVE AND ADOPT NEW RULES* OF THE SOCIETY

The New Rules have been implemented to better align the Society to meet the needs of its members through expanded products and services; to continue to be viable; to achieve improved efficiency through enhanced technology; to support service delivery and of importance; to protect the Society from demutualization and preserve the interests and benefits of the members over the last 139 years; and for the future continued growth of the Society.

RETIREMENT

Mr. George Dougall resigned from the Board of Directors effective July 29, 2016.

AUDITORS

Mr. Nigel Chambers and Ms. Nyssa Johnson, Auditors of the Society, retire and, in accordance with Rule 71, being eligible, offer themselves for re-appointment.

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

By Order of the Board
19th July 2017

Keri-Gaye Brown
Secretary

8-10 Duke Street, Kingston
Jamaica, West Indies

***The proposed New Rules of the Society as set out in the Rule Book Insert located at the back of the annual report or at www.vmbs.com.**

» BOARD OF DIRECTORS

Mr. Michael A. McMorris
BA
Chairman

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

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

He has a Bachelor's Degree in Economics and Politics & Public Affairs from the University of Miami, and advanced finance training from Citibank's School of Banking, where he started his career.

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

Dr. Judith Robinson
PhD, FCCA, FCA
Deputy Chairman

Dr. Judith Robinson is a Management Consultant and retired Chartered Accountant, who serves as the Deputy Chairman of the Victoria Mutual Building Society, and Chairman of its subsidiary, Victoria Mutual Pensions Management.

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

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

She has served as a director of companies in the private, public and not-for-profit sectors for more than forty years, and is especially proud of her service in the 1970s as a director of the J.T.C. Employees Cooperative Credit Union Ltd., now C&WJ Cooperative Credit Union Ltd.

She is currently a member of the Board of Directors of IGL Limited and its Human Resources Management Committee.

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

An accomplished banking executive with over two decades of strategic leadership experience and a strong track record in business growth and improving general business performance, Mr. Courtney Campbell assumed the role of President and Chief Executive Officer of the Victoria Mutual Building Society on April 18, 2016. Over the course of his career, he has held several senior executive positions, including Chief Executive Officer for First Global Bank, and the GraceKennedy Financial Group. Prior to this, he spent over 23 years with the National Commercial Bank, serving in several management positions.

He holds a BSc. in Management Studies from The University of the West Indies, and an MBA in Finance (Distinction) from the University of Wales & Manchester Business School. He is 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; Director on the Knox College Board; and a Member of the University of Technology Advisory Board. He also devotes his time to the Public Sector Transformation Oversight Committee and the Council of World Mission. A Justice of the Peace, Mr. Campbell is an Advisory Board Member of the Governor-General Programme For Excellence.

Ms. Sandra M. Shirley
MBA, BSc

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

Ms. Shirley, a former licensed securities dealer and President of First Global Financial Services Limited, is a 2006 Fellow of the Jamaican Institute of Management and a member of the Private Sector Organisation of Jamaica. She is a former Director and Vice President of the Jamaica Chamber of Commerce and has served on various other private and public sector boards.

She believes in giving through service and is a United Way volunteer and Immediate Past President of Soroptimist International (SI) Jamaica, as well as Vice President for the SI Caribbean Network of clubs.

Ms. Shirley holds a BSc. (Hons.) in Management Studies from The University of the West Indies, an MBA in Finance and Banking from Pace University, New York, and a Post Graduate Diploma in Investment Appraisal and Risk Analysis from Queens University, Ontario, Canada.

She also serves on the boards of Victoria Mutual Wealth Management, Victoria Mutual Pensions Management and British Caribbean Insurance Company Limited, and is an approved Pension Fund Trustee.

Rear Admiral Peter Brady
CD, CVO, MMM, JP

Rear Admiral Peter Brady has wide experience in senior and executive management in the military (Defence Force/Coast Guard) and marine administration, nationally, regionally, and internationally. Currently the Director General of the Maritime Authority of Jamaica, he served as Chief of Defence Staff in the Jamaica Defence Force, Commandant - JDF Coast Guard and Commanding Officer - HMJ Ships. He continues to provide consultancy to the Government of Jamaica on marine policy issues.

In 2006, Rear Admiral Brady was appointed Chairman of the National Hydrographic Committee, and Honorary Consul of the Principality of Monaco. He is also an Associate Fellow of The Nautical Institute.

Over the years, Rear Admiral Bailey has had several International Maritime Organisation (IMO) appointments.

Rear Admiral Brady has a Post-Graduate Degree in Marine Management from Dalhousie University, Canada and has also completed numerous training programmes. He is a Justice of the Peace and also served as Vice Chairman of the National Council on Ocean and Coastal Zone Management. In February 2017 he was appointed as Special Envoy to the International Maritime Organization (IMO) for Jamaica's bid to be elected to the IMO Council.

Throughout his career, he has received numerous awards for his distinctive service, including the IMO-Themed Seatrade Award for Maritime Education and Training.

BOARD OF DIRECTORS CONT'D

Mr. Paul Pennicook
BSc

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

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

Mr. Pennicook previously held the position of Director of Tourism for Jamaica and has also served as Senior Vice President at Air Jamaica. He now serves as President of International Lifestyles Inc, the Worldwide Representative for SuperClubs Resorts. He is a Board Member of the Victoria Mutual Building Society and Victoria Mutual Property Services.

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

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

Mrs. Jeanne P. Robinson-Foster is an Attorney-at-Law with over 30 years' experience, and is the founding partner of Robinson-Foster & Associates. She has also earned distinction in the airline industry and teaching profession, having worked at Eastern Airlines and taught at Mount Alvernia High School and the University of Technology.

Mrs. Robinson-Foster is a member of the General Legal Council of Jamaica, a director of the Board of the Sam Sharpe Teachers' College, and chair of the Good Shepherd Foundation. She was also immediate chair of the Mutual Societies Foundation of Jamaica, which sponsored a successful intervention initiative, the Centres of Excellence Programme, in six rural based high schools. She has represented the Building Societies Association on the Governor-General Achievement Awards Cornwall County Committee, and has been a member of the Board of the UWI School of Continuing Studies and the Montego Bay Chamber of Commerce. She is also a Deacon of the Calvary Baptist Church.

Mrs. Robinson-Foster has a BA from the University of the West Indies, and a Bachelor of Law and the Certificate of Legal Education. In October 2011, she was conferred with the Order of Distinction (O.D.) in the Commander Class.

Mr. Brian Goldson
MBA, BSc

Mr. Brian Goldson is an experienced and innovative business leader with expertise in the areas of finance and strategic management.

Mr. Goldson has more than 20 years of proven experience in starting and building new business enterprises and leading them to top positions in their respective markets in a number of countries in the Caribbean. He has an outstanding track record in establishing and/or managing a wide range of high volume retail consumer transactional financial services. These include the launch of Western Union Money Transfer Services, F/X Trader, and Bill Express, in several Caribbean territories.

A former equity trader, he has successfully led companies to listings on capital markets. In particular, as Chairman, he led Access Financial Services to a successful listing on the Jamaica Junior Stock Exchange in October 2009. Mr. Goldson served for 16 years as a member of senior management at GraceKennedy and Company, including the position of Managing Director of GraceKennedy Remittance Services Ltd.

He was appointed to the board of the Victoria Mutual Money Transfer Services Limited in 2013, and also serves on the board for Victoria Mutual Building Society.

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

Mr. Mathew Wright
MPHIL, MA, BA

Mr. Mathew Wright is the Principal of IWC Capital Management LLC, a New York based private equity firm specialising in multi-family residential and commercial real estate investments in New York City. Mr. Wright has over 13 years' experience in corporate finance, credit risk management and real estate management. He is the former Vice-President in the Infrastructure Finance Group of Citibank Global Capital Markets in New York, with responsibility for providing financial advisory and debt arrangement services to major infrastructure projects in North America, Latin America and the Caribbean. Mr. Wight has also served as Assistant Vice-President for Capital Markets in the Emerging Market and Corporate Bank for Citibank Jamaica.

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

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

He is a consultant with over fifteen years' experience in Corporate Relations, and has over three decades of experience in technical and engineering leadership. He worked in the beverage industry for many years, in positions such as Corporate Relations Director (Central America and Caribbean) for Diageo Plc, as well as Engineering Manager, Brewmaster, and Technical Director for the Red Stripe Brewery.

Mr. daCosta is a founding partner in the Jentech Group of engineering companies.

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

In 2012 he was appointed by the Government of Jamaica to the Order of Distinction in the Rank of Commander (CD), for his contribution to engineering and manufacturing.

Dr. Maurice McNaughton
PhD

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

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

BOARD OF DIRECTORS CONT'D

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

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

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

Mr. George Dougall
MBA, BSc

Mr. Dougall is an Electrical Engineer, who is currently the proprietor and Managing Director of Dougall Flooring Ltd., a woodwork manufacturing organisation. His previous engagements included the Managing Directorship of Jamaican Floral Exports and Wherry Wharf Ltd. Mr. Dougall, an esteemed entrepreneur, with a Masters in Business Administration, also serves on the Board of Victoria Mutual Wealth Management and brings with him sound experience as an originator of business solution and astute financial management.

Resigned July 29, 2016

A PASSION FOR SERVICE

Herbert Hall, CD

Former Director
Prime Asset Management Limited

Herbert Hall was the consummate philanthropist who dedicated his professional and personal life to advancing the lives of others. With over 50 years of sterling service in pension fund management and administration, Mr. Hall made a significant contribution to sustainable retirement planning for many Jamaicans. The founding Chairman of Prime Asset Management Limited, a subsidiary of the Victoria Mutual Group, he served as Executive Chairman for 10 years, after which he served as a Member of the Board of Directors until his passing.

The Victoria Mutual family celebrates the life of this outstanding Jamaican, whose credentials in the life insurance industry in Jamaica are worthy of admiration. A founding member of Life of Jamaica (LoJ), Mr. Hall served as Executive Vice President responsible for the Employee Benefits Division from 1980 to 1993. He then assumed the role of Chief Executive Officer of Prime Life Assurance Company until it sold its life insurance portfolio in 2003. For his exceptional work in the insurance industry in Jamaica, he was awarded a National Honour in 2002, namely the Order of Distinction (Commander).

Mr. Hall's contribution to national life was not confined to corporate Jamaica. His passion for community service led him to serve his country on a number of voluntary boards such as the Jamaica College Foundation and the Jamaica Association for the Deaf, where he served as President for over 35 years.

On behalf of the Board and the Victoria Mutual family, we extend our deepest condolences to the family, friends and associates of Herbert Hall. We hope you find comfort in the assurance that he lived an extraordinary and fulfilling life. Herbert Hall not only made a positive impact upon the lives of all those who had the pleasure of knowing him, but also on the lives of many Jamaicans who are benefitting from his distinguished contribution to the pension industry.

Walk good, dear friend and colleague.

CHAIRMAN'S REPORT

MR. MICHAEL A. MCMORRIS
Chairman

It has been an honour and a privilege to lead the Board of the Victoria Mutual Building Society (VMBS) through another successful year. The organisation is proud of its rich 138-year history of serving you, our valued Members and clients, and we remain devoted to providing you with products, services, tools and advice to help you achieve your goals and build a better quality of life. We are here to assist you in acquiring the financial skills and behaviours that will improve your financial outcomes and build long-term financial security for you and your family.

The Victoria Mutual Building Society (VMBS) was formed out of a desire to help ordinary Jamaicans acquire homes and achieve long-term financial wellness. Our founders felt that the best way to achieve this goal was to establish a Mutual financial institution that would enable its Members to pool their savings and eventually benefit from mortgage loans and other financial products and services. Our mutual status makes us different from other financial institutions, as we are owned by and run for the benefit of all our Members, not shareholders. No or low transaction fees, higher savings rates and lower mortgage rates are just some of the benefits that you receive as a Member. We estimate that the value of pricing benefits was approximately $375 million in 2016. Victoria Mutual remains committed to our roots and to the Mission of helping our Members and clients achieve home ownership and Financial Independence.

FINANCIAL PERFORMANCE

Despite a somewhat challenging operating environment characterised by shrinking margins and increased competition, I am pleased to report that the Victoria Mutual Building Society and its subsidiaries delivered a solid performance in 2016. After-Tax Surplus increased by 3% for the year ended December 31, 2016, to end the year at $990.328 million compared to $961.665 million in the prior year. In addition, the Group's Total Assets increased by $8.805 billion or 8.50%.

MACRO-ECONOMIC ENVIRONMENT

Jamaica experienced a change in government after the general elections held in February 2016. The result of the elections surprised local and international markets. However, they quickly adapted, and the country continued along the path to economic recovery. Inflation, which hit a historic low of 3.7% in 2015, declined further in 2016 to end the year at a new historic low of 1.7%. The Jamaican economy recorded eight consecutive quarters of economic growth; real GDP is projected to have grown by 1.4% and total government debt reduced to 122% of GDP by the end of the year. Interest rates continued their downward trend, and the Net International Reserves (NIR) remained at comfortable levels.

In November 2016, the Government and the International Monetary Fund (IMF) retired the Extended Fund Facility (EFF) ahead of its April 2017 expiration. The EFF was replaced with a 3-year precautionary Stand-by Facility, which comes with a new US$1.64 billion loan aimed at sustaining macroeconomic stability, boosting employment, raising the standard of living and progressively reducing poverty levels. Based on the positive direction of the economy, Moody's Investor Service upgraded its rating on Jamaica's debt from Caa2 to B3 and assigned a stable outlook, while in early 2017 Fitch affirmed its single-B sovereign rating for Jamaica.

Improved consumer and business confidence, coupled with increased access to debt and equity financing, prompted several businesses to invest in the expansion of their productive capacity to place them in a better position to take advantage of future opportunities and contribute to economic growth. I am pleased to report that in 2016, the Corporate Finance Unit at VM Wealth Management raised $99.85 million for several of our corporate clients.

Your Board is heartened that the new Government has continued much of the fiscal constraints and regulatory reform requirements of the EFF, which started under the previous administration. We are also encouraged by the continued improvement in Jamaica's growth rate and economic indicators. However, despite the macro-economic improvement and five consecutive quarters of marginal employment growth, the unemployment rate (12.9 percent in October 2016), which is disproportionately higher among the youth (28.6 percent), and high levels of crime and violence, are major areas of concern which continue to significantly retard our progress. Continued fiscal discipline, intensified job creation and an effective crime plan are essential if Jamaica is to even begin to speak credibly about a plan for a better quality of life for its citizens.

POSITIONING THE VICTORIA MUTUAL GROUP FOR CHANGE

Since the last review of the Rules of the Society over 30 years ago, significant changes have taken place in our operational and regulatory environment. Accordingly, your Board of Directors commissioned an assessment of the existing Rules of the Building Society, which revealed that in many respects they are outdated and in some operational areas, a hindrance to improving efficiency in the organisation. Consequently, your Directors mandated that the Rules be updated to take into account emerging trends and technological advancements. The proposed changes to our Rules are classified within four broad headings; (1) Modernisation, (2) Promoting Operational Efficiencies, (3) Facilitating Capital Fund-Raising, and (4) Promoting the Mutuality Principle; areas that are critical to the growth and long-term sustainability of the organisation.

PASSING OF HERBERT HALL

It is with deep regret that we announced the passing of Director Herbert Hall on January 4, 2017. Herbert is the founding Chairman of Prime Asset Management Limited, which was fully acquired by the Society in 2013, and has now become VM Pensions Management Limited. He served as Executive Chairman for ten years and later served as a member of the Board of Directors until his passing.

With over fifty years of sterling service in pension fund management and administration, Herbert not only contributed to the growth and success of the Company , but he also made a significant impact on the lives of many Jamaicans who continue to benefit from his distinguished contribution to the pension industry. The Victoria Mutual family celebrates the life of this outstanding Jamaican who dedicated his professional and personal life to community service and advancing the lives of others.

NEW PRESIDENT AND CEO

On April 18, 2016, the mantle of leadership was passed on to Courtney Campbell – who has already made significant impact on our business. We are confident that under his leadership, the organisation will build on the wins of the past decade and advance in efforts to realise our Mission of empowering Members globally to acquire their own homes and achieve their financial independence. The Board of Directors is in full support of the Strategic Goals of the Modern Victoria Mutual. While other organisations may be moving away from the mutuality model, we remain committed to this model and commend

Courtney's determination to transform Victoria Mutual into a Modern Mutual – focused on remaining relevant to the unique needs of all our Members.

BOARD CHANGES

The VMBS Board said goodbye to three Directors in 2016. It was with deep sadness that we announced the sudden passing of Fernando Deperalto on April 4, 2016. Director Deperalto joined the Victoria Mutual Board in September 2004, and served as Chairman of the Group Risk and Compliance Committee, and as a Director of both VMBS Money Transfer Services Ltd and Victoria Mutual Property Services Ltd. Fernando's expert advice and guidance helped the organisation formulate policies to strengthen Corporate Governance and operational integrity. We continue to celebrate his life and legacy of integrity and service to the organisation and country.

After serving ten years as a Director, Richard M. Powell resigned from the Boards of the Victoria Mutual Building Society (VMBS) and Victoria Mutual Wealth Management Limited (VMWM) on March 22, 2016. Richard also served as a member of the VMBS Finance Committee. His financial knowledge and global experience were of immense value to the organisation during his tenure. George Dougall resigned from the VMBS Board in July 2016 after fifteen years of invaluable service. During his tenure, he also served as a Director of the Victoria Mutual Wealth Management (VMWM) Board and was a member of the Corporate Governance, Nominations and Compensation Committee. I would like to record our appreciation and gratitude to Richard and George for their outstanding contribution and commitment to the Victoria Mutual Group.

OUTLOOK FOR 2017

Notwithstanding the challenges we identified earlier, the current economic situation and investment climate are conducive to business expansion, increased employment and economic growth. We are pleased to see that some entrepreneurs have already capitalised on increased access to debt and equity financing for expanding, retooling and reorganising their operations. With increasing business confidence, more businesses are now taking advantage of the growth opportunities that are available to them. Others however remain reluctant to make the required investments without futher assurance that the Government is committed to doing what is necessary to maintain economic stability, low-interest rates, low inflation and a stable exchange rate in the medium to long-term. VMBS counts itself among the former, rather than the latter category, and encourages other companies to do the same. We believe that a greater collective effort on the part of the Jamaican private sector will help to invoke the axiom 'a rising tide lifts all boats', and current conditions represent the best opportunity in decades for Jamaica to gain economic growth momentum.

Despite improvements in Jamaica's macro-economic indicators, we expect the Group's operating environment to be increasingly challenging in 2017. Shrinking spreads, the cost of technological advancements and regulations, as well as intensifying competition from financial and non-financial institutions, are expected to place added strain on our surplus. Nevertheless, we will attempt to mitigate these challenges by actively seeking opportunities for strategic alliances, diversification into new areas of business, improved productivity and efficiency, enhanced customer experience and prudent risk management. We remain highly confident about the Society's future and it's ever deepening ability to serve its Members well.

The success of the Victoria Mutual Group would not be possible without the support of you, our loyal Members and clients, and I would like to thank you for your continued patronage and for giving us the opportunity to serve you. Meeting your needs is our priority, and we stand ready to support you in your pursuit of home ownership and Financial Independence.

On behalf of the Board, I take this opportunity to thank the Management and Team Members across the Victoria Mutual Group for their enthusiasm, hard work and dedication to the organisation. Your efforts to provide exceptional service and build mutually beneficial relationships with our Members and clients are greatly appreciated.

MICHAEL A. MCMORRIS
Chairman

CORPORATE GOVERNANCE

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

The Corporate Governance Framework that has been adopted requires Boards and Board Committees to provide direction and oversight for the Group. The Society and each of its subsidiaries are directed by a Board of Directors, and Standing Committees of the respective Boards provide oversight in the areas of:

a) Group Audit Committee;

b) Finance, Investments and Loans;

c) Risk Management; and

d) Corporate Governance, Nominations and Compensation.

The following section provides a summary of the purpose and the scope of the mandates of each of the Standing Committees of the Society's Board of Directors.

THE GROUP AUDIT COMMITTEE

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

a) The integrity of the Society's financial statements;

b) The Society's compliance with legal and regulatory requirements;

c) The independent auditor's qualifications and independence;

d) The performance of the Society's internal audit function and the independent auditors; and

e) Internal controls and the operational environment.

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

THE FINANCE, INVESTMENTS AND LOANS COMMITTEE

This Committee assists the Board of Directors in fulfilling its responsibilities for overseeing the management of:

a) The financial performance of all entities within the Group;

b) The allocation of the Group's capital;

c) The assessment and conduct of due diligence for potential major transactions within the Group;

d) The monitoring of the performance, funding and adequacy of the pension scheme(s) operated by the Group;

e) The investment and loan portfolios of the Building Society, including the review and approval of significant loans and extensions of credit. In this regard, the Committee receives reports from and oversees the work of the Group Asset/Liability and Credit Committees of Management.

THE GROUP RISK COMMITTEE

The Risk Committee is charged with the responsibility of ensuring that appropriate policies, procedures and strategies are established and implemented on an enterprise-wide basis for managing the Group's risk exposures.

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

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

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

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

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

THE GOVERNANCE, NOMINATION AND COMPENSATION COMMITTEE

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

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

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

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

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

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

Each of these Committees is comprised exclusively of non-executive Directors and is required to convene meetings and report to their respective Boards at least once per quarter.

2016 PERFORMANCE HIGHLIGHTS

GROUP TOTAL ASSETS INCREASED BY

$8.805B OR **8.50%**

THE SOCIETY'S DEPOSIT LIABILITIES INCREASED BY

7.75% TO **$83.588B**

THE SOCIETY'S MORTGAGE PORTFOLIO INCREASED BY

5.21% OR **$1.664B**

LOAN QUALITY IMPROVED 2.89%

- Loan Quality of the mortgage portfolio improved, as loans in arrears greater than 90 days as a percentage of total mortgage loans, fell from **3.52%** to **2.89%**

IMPROVED EFFICIENCY

- The Society's Operating Efficiency, which represents operating expenses as a percentage of mean assets, improved from **4.01%** in 2015 to **3.90%** in 2016. Likewise, the Cost to Income ratio moved from **79.70%** to **78.71%** in 2016.

$14.2B OFF-BALANCE SHEET ASSETS

- The Group's Off-Balance Sheet Assets increased by $14.184 billion or 39.6%, moving from $35.819 billion in 2015 to $50.000 billion in 2016.

Victoria Mutual Wealth Management 55%

- VMWM increased its Off-Balance Sheet Assets by 55%, from $7.991 billion in 2015 to $12.396 billion in 2016, supported by the introduction of the Unit Trust product with six portfolios.

Victoria Mutual Wealth Management 4.99%

- Among the subsidiaries, Victoria Mutual Wealth Management (VMWM) increased its Profit After Tax by **4.99%** to end the year at **$326.504 million** compared with **$310.984 million** in the prior year.

Victoria Mutual Pensions Management $37.6B FUM

- VM Pensions Management Ltd. (formerly Prime Asset Management), our pension fund investment management and administration arm, increased its Funds Under Management (FUM) by 35% or $9.779 billion to end the year with funds totalling $37.604 billion.

PRESIDENT AND CEO'S REPORT

BUILDING ON OUR HISTORY, TRANSFORMING FOR THE FUTURE

COURTNEY CAMPBELL
President and CEO

BUILDING ON OUR HISTORY

It is a privilege to have been chosen to serve as the President and CEO of Victoria Mutual. My tenure here began in April 2016, and the decision to join was largely based on the rich history of the organisation, in particular its long-standing mission, and the valuable role it plays as a mutual organisation. Over the 138 years of Victoria Mutual's existence, the mission has always centred on empowering Jamaicans to acquire their own homes and achieve Financial Independence. This is something that I am personally committed to. In addition, because the organisation is a mutual entity, meaning that it is owned by and run for the benefit of its Members, it is truly a place where customers' interests come first.

Furthermore, mutuals play a very valuable role in society. This stems from their ownership structure and their mandate to focus on Members' needs. All other things being equal, financial mutuals are able to offer their products and services at better rates than their counterparts. VMBS offers lower mortgage rates, higher savings rates, no dormant fees, no mortgage commitment fees, and either no fees or the lowest fees for the vast majority of services that we offer.

Financial mutuals also play a key role in enabling financial inclusion, as they have the latitude to provide products and services in a manner that benefits underserved members of society. For example, VMBS starts paying interest on savings accounts with balances as low as $1,000. No other local financial institution pays interest on accounts with balances at that level.

I believe that Victoria Mutual can continue to play a leading role as a mutual in the local market, and look forward to contributing in that regard.

My predecessor, Richard K. Powell, was also a keen proponent of mutuality, and he played a significant role in VM's history. His 10-year tenure with the organisation strengthened the Group, and provided a solid foundation for future growth. I am grateful for his stewardship of the VM Group, and wish him the very best on the next phase of his journey.

RECENT HISTORY - 2016

The Jamaican economy remained stable in 2016. GDP growth was positive at 1.4%, there was a historically low level of inflation at 1.7%, and both exchange rate depreciation and benchmark interest rates remained in the single-digits. Also, we continued to adhere to the IMF programme in spite of a change in government at the beginning of the year.

This environment facilitated a credible performance by the VM Group in 2016. The total on-balance sheet assets of the Group increased by 8.5% to $112.4 billion, the total off-balance sheet assets of the Group increased by 40% to $50.0 billion, the Group remained well-capitalised, with Total Capital and Reserves as a percentage of Total Assets increasing from 12.1% to 12.8%, and the Group achieved a healthy Net Surplus of $990 million, which was 3% above the level achieved the previous year. Additionally, an estimated $375 million in value was created and delivered to Members through favourable interest rates and fees.

DURING THE YEAR, WE HAD SOME SIGNIFICANT SUCCESSES:

- In May, **we introduced the first on-line mortgage portal in Jamaica.** The solution allows persons interested in getting a mortgage to apply for their mortgage online, track their application all the way through to disbursement, upload required documents, receive electronic approvals and other communication related to their application, and use a range of tools and resources to help them prepare for their home ownership journey. The portal is online at **mortgagecentre.vmbs.com.**

- **Victoria Mutual Property Services more than doubled the properties it sold**. In 2016 the Company sold 95 properties, up from 42 the previous year. This significant increase is largely attributed to the launch of our new website, vmpsrealestate.com, in 2015, and an increase in co-broking with other real estate agents.

- Victoria Mutual Wealth Management introduced six Unit Trust Funds. This included three US Dollar Bond Funds, one Jamaican Dollar Bond Fund, one Local Equities Fund and one Real Estate Fund. These funds are managed by our professional fund managers, offer attractive returns, and the fees are very competitive. By the end of the year, a total of $3.3 billion had been invested in these funds.

Certainly, these accomplishments bode well for Victoria Mutual's future.

FEEDBACK – THE KEY TO OUR TRANSFORMATION

We view feedback as being of paramount importance, as it allows us to understand your needs. During 2016 we used various means to seek feedback, including circulating a quarterly newsletter and hosting a Listening Tour in which members of the Victoria Mutual Management Team and I met with VM Members across Jamaica, the United Kingdom and Florida. We received valuable information from you during this Tour, and that information is being used to guide Management decisions as we go forward, and as we continue the transformation process.

TRANSFORMING FOR OUR FUTURE

In 2016, based on a comprehensive review of the strategy that took into account an analysis of the key developments in the external environment, a review of our strengths and weaknesses, and feedback from you, we adjusted our strategy. **The VM Management Team and Board agreed that the organisation should aim to become:**

- A **Strong, Integrated Financial Group** – one that upholds best practices in Enterprise Risk Management, has a strong capital base, and grows consistently and prudently,

- A **Modern Mutual** – one that remains relevant and puts its Members first,
- A **Model Corporate Citizen**, and
- An **Employer of Choice**.

In striving to become a **Strong, Integrated Financial Group**, during the year we accelerated projects aimed at expanding the business locally and overseas, began a project to strengthen our management of risk across the enterprise, and conducted an internal re-structuring exercise to benefit more from natural synergies within the Group.

In order to become a **Modern Mutual**, we continued the implementation and upgrading of core systems, initiated the formation of an Innovation Lab where ideas that have the potential to bring value to the organisation and its Members may be assessed and developed, and created a Customer Experience function. We also undertook an activity to update the Society's Rules. Together, these actions are expected to help enhance the relevance of Victoria Mutual and enable us to become even more Member-focused.

As we continue on our journey to become a **Model Corporate Citizen**, we began the process of establishing the Victoria Mutual Foundation. We expect that this Foundation will enable us to extend the reach of our Corporate Social Responsibility activities.

Also, in an effort to become an Employer of Choice, we undertook a number of talent management initiatives. In 2016, approximately $40 million was spent on such initiatives. Various employee engagement activities took place to help keep the team engaged and energised throughout the year.

As we go forward into 2017, we will continue these projects and activities, as well as begin the process of upgrading our branches, improve the experience you have when transacting your business online, and, of course, continue to seek your feedback.

It should be noted that the investments being made in relation to our IT infrastructure are indeed significant. The total expenditure expected for our current IT projects, and those that will begin in 2017, stands at $2.5 billion.

RULE CHANGES* – A VEHICLE FOR OUR TRANSFORMATION

The Rules of the Victoria Mutual Building Society were last reviewed and over-hauled some 30 years ago. Since then, significant changes have occurred in the legal and operational landscape. For instance, a new Banking Services Act has been promulgated and electronic transitions have replaced paper-based transactions. To enable the Society to become a Modern Mutual, new Rules have been drafted. The amendments have been made to modernise them, promote operational efficiency, facilitate capital fund-raising, and promote the principle of mutuality.

More specifically:

- **Modernisation of Rules** - The current Rules refer to hard copy "pass books" being needed to be presented for processing transactions. They do not recognise electronic or online transactions, electronic account balance verification and other technology-based services. Accordingly, it is necessary for the Society to adopt Rules which reflect the prevailing realities of the market place.
- **Amendments to Promote Operational Efficiency** - The current Rules contain detailed procedures for approving and administering mortgages. In a competitive environment, this puts the Society at a severe disadvantage. Rather than having these administrative procedures embedded in the Rules, the Board of Directors should be allowed to set policies for Management to abide by. The draft Rules have been amended accordingly.
- **Rules to Promote Flexibility in Raising Capital** - A building society has no equity capital. As a mutual organisation its members are its owners. There is no reason that a building society cannot issue permanent, non-redeemable shares. Provision is therefore made in the draft Rules for the Society to have the power to issue a wider range of 'Funding Shares'. The draft Rules also allow such shares to be listed on a Stock Exchange to provide liquidity. The only difference between such shares and those issued by an ordinary company is that the shares issued by the Society would not have voting rights.

***The proposed New Rules of the Society as set out in the Rule Book Insert located at the back of the annual report or at www.vmbs.com.**

- **Rules to Protect Mutuality** - The experience of building societies and other mutual organisations in countries such as England, is that outsiders are incentivised to launch a demutualisation campaign against a society by securing votes of new members who join for no other reason than to reap wind-fall profits. These profits are customarily paid out from the target society's cash resources or by the issue of shares in the demutualised entity. This has been detrimental and unfair to the existing loyal members. This problem stems from the fact that each member, however long and loyal his membership, has only one (1) vote.Many building societies have adopted Rules to protect their loyal members from so-called "carpetbaggers". VMBS is doing likewise and amending its Rules to protect itself against the predatory practice.

These Rule changes will be proposed at our Annual General Meeting, and we ask that you support them.

THANK YOU

Our performance in 2016 was sound, and the significant changes being undertaken are progressing well due to the hard work and dedication of a number of individuals. I take this opportunity to thank the Team Members of the Victoria Mutual Group for their commitment to excellence, and extend my gratitude to the Board of Directors for their invaluable contributions.

I also thank you, our Members, for continuing to choose VM as your financial partner and for your continued feedback. Indeed, without you, this work would be meaningless.

HERE TO SERVE

As Henry Ford once said, "Coming together is a beginning; keeping together is progress; working together is success". Please rest assured that I, and the rest of the Victoria Mutual Team, remain committed to partnering with you so that you may achieve your success.

COURTNEY CAMPBELL
President and CEO

GROUP EXECUTIVES

COURTNEY CAMPBELL
MBA (Distinction), ACIB, BSc., JP
Group President &
Chief Executive Officer

JANICE MCKENLEY
F.C.C.A., F.C.A., MBA (Hons.) BSc. (Hons.),
Group Chief Financial Officer

PETER REID
BA (Hons.)
Chief Executive Officer
Building Society Operations

DEVON BARRETT
MBA, BSc.
Group Chief Investment Officer
& Chief Executive Officer
Victoria Mutual Wealth Management

GROUP EXECUTIVES

MICHAEL NEITA
MBA, BEng, BSc.
Chief Executive Officer
Victoria Mutual Property Services
Limited

LARAINE HARRISON
MBA., BA (Hons.)
Group Chief Human
Resources Officer

MICHAEL HOWARD
MBA, BSc.
Chief Executive Officer
VMBS Money Transfer Services
Limited

KATHYA BECKFORD
BSc. (First Class Honours) MSc.
(Distinction)
Group Chief Strategy Officer

GROUP EXECUTIVES

KERI-GAYE BROWN
LL.B. (Hons.), CLE
Group Chief Legal and Compliance Officer & Corporate Secretary

REZWORTH BURCHENSON
MBA, BSc.
Chief Executive Officer
Prime Asset Management Limited
Deputy Chief Executive Officer
Victoria Mutual Wealth Management

VIVIENNE BAYLEY-HAY
BSc. (Hons.)
Group Chief Corporate Affairs & Communications Officer &
Chief Executive Officer
Victoria Mutual Foundation

RICKARDO EBANKS
BSc. (Hons.)
Group Chief Operations Officer

JUDITH FORTH-BLAKE
MBA, BA (Hons.)
Group Chief Customer & Brand Officer

SENIOR LEADERS WITH GROUP FUNCTIONS

DEBBIE DUNKLEY
FCA, FCCA, MBA
Vice President
Group Finance

CHEVONNE ASHMAN
BSc., MBA, PMP
Assistent Vice President
Group ICT

JOAN BROWN
DIFA, FCCA, M.Fin.,MBA
Assistant Vice President
Risk Management

SHEALLY SOLOMON
FCCA, BBA
Assistant Vice President
Group FInance

LEADERSHIP TEAM

The Victoria Mutual Building Society

THE VICTORIA MUTUAL BUILDING SOCIETY LTD.

PETER REID
B.A (Hons.)
Chief Executive Officer
Building Society
Operations

CHRISTOPHER DENNY
MBA, BSc.
Vice President
Service & Sales Support

PAUL ELLIOTT
AICB, MBA, BSc. (Hons)
Vice President
Sales

CLIVE NEWMAN
MBA, FICB
Assistant Vice President
Credit

KARLENE WAUGH
BSc.
Assistant Vice President
Business Operations

LEIGHTON SMITH
MBA, BBA
Chief Representative
Officer - VMBS United
Kingdom

CONROY C. ROSE
CSC, MBA, BSc.
Assistant Vice President
Sales

AUDLEY KNIGHT
PFP, MBA, BBA
Assistant Vice President
Service and Sales
Support

VICTORIA MUTUAL
Wealth
MANAGEMENT

VICTORIA MUTUAL WEALTH MANAGEMENT LTD.

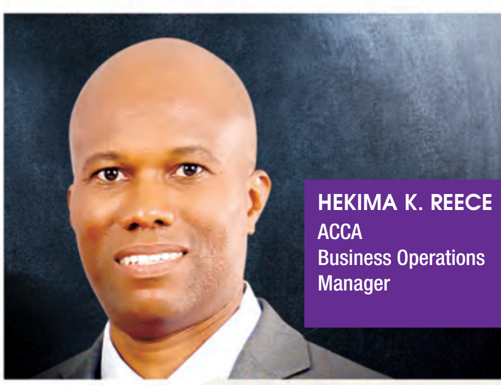

DEVON BARRETT
MBA, BSc.
Chief Executive Officer


REZ BURCHENSON
MBA, BSc.
Deputy
Chief Executive Officer


COLANDO HUTCHINSON
MBA, FCA, CFA
Head
Capital Markets


DENISE MARSHALL-MILLER
MBA
Manager
Bond Trading


EVETTE BRYAN
MBA
Manager
Treasury & Trading


HEKIMA K. REECE
ACCA
Business Operations
Manager


KARLENE MULLINGS
MBA
Manager
Sales & Client Relations


NICOLE ADAMSON
CFA, FRM, MSc.
Manager
Research & Stockbroking


SHARON STERLING
MBA
Manager
Marketing

LEADERSHIP TEAM

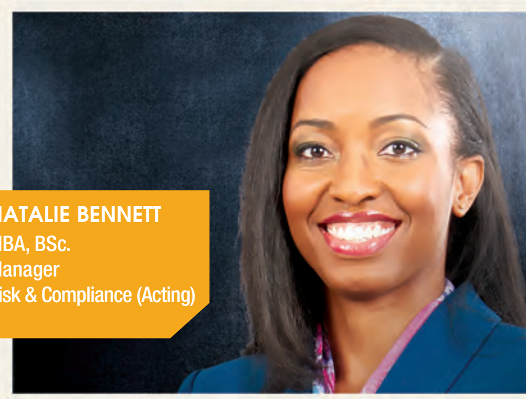
VCTORIA MUTUAL PENSIONS MANAGEMENT LTD.

(FORMERLY PRIME ASSET MANAGEMENT LTD.)

REZ BURCHENSON
MBA, BSc.
Chief Executive Officer

JUDI-ANNE MARZOUCA
BAA
Manager
Pensions Administration

TAMIEKA REECE
FCCA, MSC, BSc.
Manager
Risk & Compliance



NATALIE BENNETT
MBA, BSc.
Manager
Risk & Compliance (Acting)

LENNOX TURNER
FCCA, FCA, MBA
Manager
Treasury & Trading

VICTORIA MUTUAL PROPERTY SERVICES

VICTORIA MUTUAL PROPERTY SERVICES LTD.

MICHAEL NEITA
MBA, BEng, BSc.
Chief Executive Officer

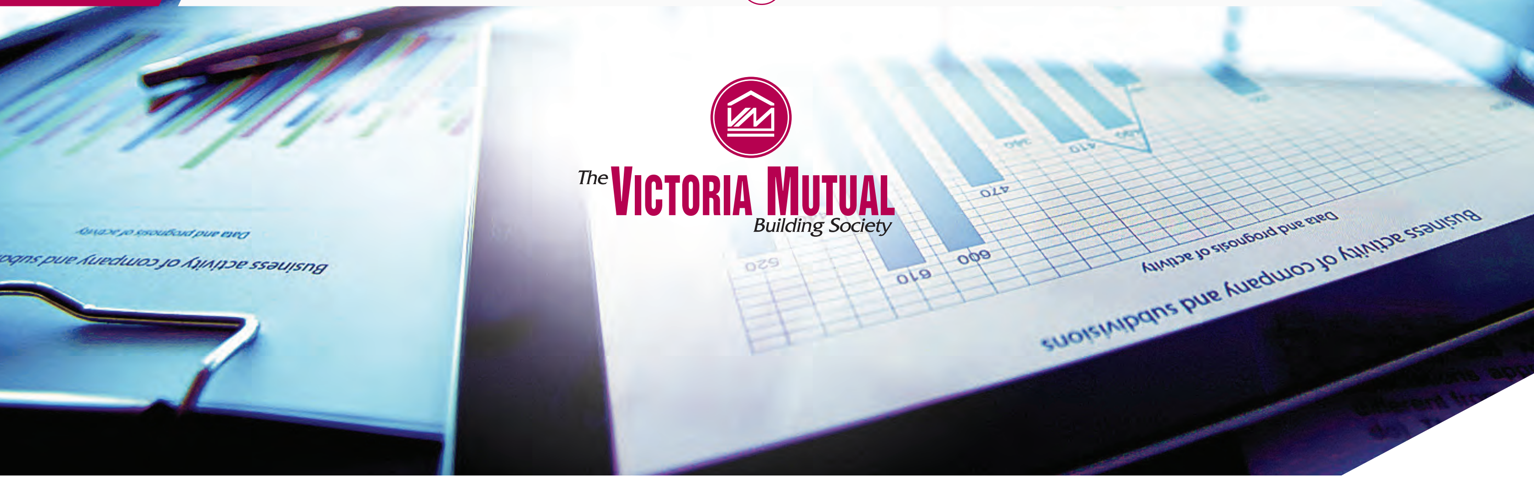
LOUIS R. CHRISTIE
MRICS
Qualifying Director

VICTORIA MUTUAL MONEY TRANSFER

VMBS MONEY TRANSFER SERVICES LTD.

MICHAEL HOWARD
MBA, BSc.
Chief Executive Officer

OWEN BRUCE
Manager
Distribution



MANAGEMENT DISCUSSION & ANALYSIS

INTRODUCTION

The Victoria Mutual Building Society (VMBS) is a mutual organisation, established 138 years ago to help average Jamaicans pool their savings in order to access mortgage loans and achieve their dream of home ownership. We remain fully committed to this mandate and to empowering our Members and clients to make sound financial decisions, as they work to achieve Financial Independence.

Our mutual status differentiates us from the many other institutions that operate within the financial services sector, as we are owned by and run for the benefit of you, our Members, and not external shareholders. This allows us to return tangible value to you, by way of higher rates on savings, lower mortgage rates and no or low transaction fees.

The organisation provides individual consumers, small and medium businesses and large corporate entities with a suite of financial services, which include savings and investments; wealth and pension fund management; mortgages; real estate and money transfer services; and general insurance. These services are offered through five strategic business units and an affiliate company, supported by a network of 16 branches and 18 ATMs.

The Victoria Mutual Building Society	Victoria Mutual Building Society	Savings, Mortgages, Share Loans, Foreign Exchange Trading and Financial Planning
Victoria Mutual Wealth Management	Victoria Mutual Wealth Management Ltd.	Fixed Income Solutions, Stocks, Bonds, Asset Management, Corporate Finance Services and Money Market Securities
Victoria Mutual Pensions Management	Victoria Mutual Pensions Management Ltd. (Formerly Prime Asset Management Ltd.)	Pension Fund Management, Pension Administration, Pension Education, Retirement Planning and Pension Consultancy
Victoria Mutual Property Services	Victoria Mutual Property Services Ltd.	Real Estate Sales & Rentals, Valuations & Appraisals, Commercial Property Management and Project Management
Victoria Mutual Money Transfer	Victoria Mutual Money Transfer Services Ltd.	Direct Bank Deposits, Free SMS Notifications, VMBS Money Transfer Card, Bill Payments and Online Transfers
BCIC An affiliate of Victoria Mutual	British Caribbean Insurance Company Ltd. (Affiliate)	Property Insurance, Motor Insurance, Accident & Roadside Assistance and Employers' Liability/ Liability Insurance

THE OPERATING ENVIRONMENT

The Jamaican economy performed credibly in 2016.

- It is estimated that GDP grew by 1.4%,
- Inflation reached a historically low level of 1.7%. Two major contributors to this were the continued fall in oil prices and favourable weather conditions, which resulted in an increased supply of local agricultural produce,
- The rate of depreciation of the local currency against the USD was within single digits at 6.7%,
- Interest rates remained at reasonable levels, with the 180-day Treasury bill rate moving between 5.7% and 6.6% during the year, and
- Over the first nine months of the fiscal year (April 1, 2016 – December 31, 2016) the Government surpassed its budgeted surplus by $22.6 billion.

This good performance was noticed by Moody's Investor Service, resulting in an upgrade of the country's credit ratings from Caa2 to B3 in November.

During the year, there was a change in Government, and the new administration implemented structures and policies that could have a positive impact on the economy. They delivered on their campaign promise to increase the income tax threshold for PAYE earners. This increased the disposable income of many Jamaicans, and has the potential to increase spending and promote growth within the economy. Also, the Government signed a new agreement with the IMF. This new arrangement is expected to serve as insurance in the event of unanticipated negative external shocks. Thirdly, the new administration renewed the Economic Programme Oversight Committee (EPOC) and established the Economic Growth Council (EGC). These committees are geared towards bolstering economic growth within the country.

In addition to new structures and policies being implemented by the Government, during 2016 there were also regulatory and legislative changes, some of which will likely lead to increased competition within the financial services sector.

In December, the Senate approved the Banking Services (Deposit Taking Institutions)(Agent Banking) Regulations. These regulations allow some banking business to be undertaken through agents. Also, in September, banking licenses were granted to Jamaica Money Market Brokers Ltd and Jamaica National Building Society.

On the international scene, there were many unforeseeable events that left investors apprehensive. Britain surprised many in June by voting to leave the European Union (EU). This led to a sharp weakening of the Pound Sterling and turmoil in the securities markets. Then in November, controversial candidate Donald Trump won the United States presidential election. Reservations still abound regarding his unconventional campaign promises, as many could significantly impact economies across the world, and people's lives.

In spite of uncertainties globally, Jamaica performed well during 2016, and the stage has been set for a continuation of that performance in 2017.

OUR OPERATIONS

CUSTOMER EXPERIENCE

The recruitment of a Group Chief Customer and Brand Officer in mid-September underscored the organisation's commitment to adopt a more strategic approach to the Customer Experience function across the Victoria Mutual Group, to deliver on its promise to provide market-leading service to our Members and clients across all distribution channels and at all points of interaction.

The newly formed unit will be staffed by a Manager, Group Customer Experience, supported by an assistant, who will be charged with the responsibility of establishing service standards across the Group entities. The Manager will focus on measuring and identifying gaps in our service delivery and engaging the appropriate partners to ensure that systemic issues are identified and addressed in the best way possible, among other things. We expect that these positions will be filled early 2017.

Based on feedback received from VMBS Members during the President's Listening Tours held across the island in November 2016 and the Members' Month meetings, many issues impacting our service to Members were escalated and addressed.

We will continue to provide opportunities for our Members and customers to give us feedback on their service experience, whether through face-to-face interactions, our Member Engagement Centre, on-line, or through our ongoing post transaction customer experience surveys.

Customer experience surveys are conducted among VMBS Branch customers on a monthly basis and will be expanded to cover other channels, as well as rolled out across all Victoria Mutual subsidiaries in 2017.

The Team's mission is to elevate the voice of the customer at the highest levels in the organisation and proactively engage and advocate on their behalf. This will ensure that we consistently deliver outstanding service at every point of contact and that we continue to retain and grow our Member and customer base across the VM Group.

GROUP INFORMATION COMMUNICATION & TECHNOLOGY AND PROJECTS

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

- **Group Information Communication & Technology (ICT) Management and Organisation**
  The ICT team was restructured to allow for a focus on the execution of innovative projects to meet the needs of our Members. A new Assistant Vice President (AVP) for Group ICT was appointed, along with two new Managers for Enterprise Systems and Information Technology Services.

- **Upgrade of Core Systems**
  The multi-year project to modernise our core banking infrastructure achieved a significant milestone in 2016 with the successful deployment of upgraded ABM management software. This upgraded platform will allow for the roll-out of modern capabilities on our ABMs in 2017. The remainder of the Core Systems Upgrade will be completed in 2017 and will position VMBS to deploy innovative new products in keeping with the needs of our Members. One example of this is longer term mortgages.

- **Payment Processing.** We are #VMProud to advise that we have joined the SWIFT network and integrated our core banking system with the international SWIFT and the local RTGS networks. With these integrations, Members can send funds electronically to their VMBS account locally and internationally at competitive rates. This improves the convenience for our Members locally and in the Diaspora, who can now save or pay their mortgage without visiting a VMBS branch office. This project also enhanced our internet banking to allow our Members to send local payments and international wires at their convenience. These new features are in pilot with a select group of Members and will be made available to all Members in 2017.

- **Investment Management System.** Your Society manages your deposited funds to maximise the returns through a range of investment activities, including the offering of mortgages and participating in local and international bond, FX and equity markets. To better manage your portfolio, we have implemented a best in class Investment Management System which went into operation in 2016 for the VMBS investment book. The project continues through 2017 with the target of implementing this platform for VM Wealth Management and VM Pensions Management Ltd. (Formerly Prime Asset Management by the first quarter of 2018.

- **Online Mortgage Processing.** Your Society is the first in Jamaica to implement a fully online platform for the submission and processing of mortgage applications. The online portal allows applicants to apply, submit their documentation and track their application through all phases. The new process digitises the mortgage experience and reduces the turnaround time for loan approval and disbursement.

- **Mobile Money.** Being true to our goal of being a Modern Mutual, we explored the opportunity presented by Mobile Money as an emerging payment capability. We conducted a pilot to test the marketability of such an offering and will use the results of the pilot to determine our timing and approach for entry into this market.

- **ABM Expansions.** We expanded our ABM network with three (3) new sites in Spanish Town Shopping Centre, Reliance Mall in Mandeville and Total, Ironshore.

- **Branch Convenience.** We improved our free internet service in our branch networks, and we are pleased to advise that all locations now have a kiosk allowing Members to sign up for internet banking; use internet banking; apply for and track their mortgage; use our Financial Independence Tool to set goals; and use a hotline to conveniently contact our Member Engagement Centre for support.

In addition to these successful deliveries in 2016, your Society is working on several other projects to improve your experience and give us new capabilities to meet the demands of various stakeholders. Other projects underway or being initiated in 2017 are as follows:

- **On-boarding Systems.** This project will improve our data collection and management of records for our Members. Most significantly, it will allow a Member to be on-boarded for products and services across the Victoria Mutual Group. These capabilities will be further enhanced to allow for online on-boarding and digital capture of signatures.

- **AML Systems.** Victoria Mutual is a sound financial entity that complies with the laws in the markets in which it operates. As part of this commitment, we implement systems that simplify the processes for ensuring compliance.

- **Workflow and Operations.** To improve your service experience, we are strengthening our core operations capabilities with the introduction of workflow systems and the automation of key processes.

- **Mobile and Internet banking.** We will aggressively evolve the capabilities of internet banking to meet the changing demands of our Members, and to facilitate various payment options. Most significantly, Members will be able to see their accounts across all VM Group entities where they do business, and transact seamlessly across their accounts.

- **Branch of the Future.** The look and feel of the branches will be brought into the 21st century, and powerful new ABMs will be installed to provide a range of services typically only possible at a teller station.

- **Mortgage Master.** We will further enhance the mortgage experience by automating phases of the process that contribute to the longest delays in the mortgage lifecycle.

- **Financial Reporting Systems.** We will implement systems to improve our financial reporting and automate key processes in our accounting functions.

OUR PEOPLE

Our Team Members continue to be valued stakeholders, playing a critical role in ensuring the success of the Victoria Mutual Group. In 2016, we implemented some key people initiatives aligned with attaining our Strategic Goal of becoming an Employer of Choice. These initiatives formed part of our talent management, change management and team member engagement programmes, as we seek to attract, develop and retain our talent.

The Strategic Plan was presented to the entire Team at a Team Rally and Fun Day at James Bond Beach in July, where the Team was energised around our new Vision, Mission, Core Values and Strategic Goals, following which a revised Organisational Structure, aligned with our Strategy, took effect on September 1, 2016.

While we continue to build our people capability and high performance culture with our talent management competency-based and culture of accountability programmes, in 2016 we implemented a robust change management programme to support our transformation initiatives. A Change Management Office was established and cross-functional teams have been certified in embedding the change management methodology in the organisation for projects, initiatives and business imperatives.

During the year, we continued our emphasis on wellness and engagement initiatives, including listening tours.

The RKP Chill Spot, named after past President Richard K. Powell, was launched at our New Kingston location, allowing Team Members to enjoy regular Friday Lymes.

Significant improvements were made to our Staff Lending Facilities, which aligned with helping our Team Members on their journey to financial independence.

In December 2016, history was made with the settlement of negotiations for three of four Bargaining Units for VMBS prior to the beginning of the new agreement period covering 2017 and 2018.


Team Members taking a short break during the Change Management Certification Workshop in November 2016.


Team Members make the time for a photo at the RKP Chill Spot.


Group President & CEO, Courtney Campbell (centre) bonding with the Falmouth Team during his 2016 Listening Tour.


Team Rally July 2016

RISK GOVERNANCE

OVERVIEW

The Group's Risk Management Framework is designed to enable proactive identification and management of risks for the achievement of the Group's objectives. It includes monitoring and controlling the significant risk exposures of the Group to ensure the resilience and stability of the Group. The Group's ability to identify, measure, monitor, report and control risks is key to delivering sustainable business performance.

RISK GOVERNANCE

The VMBS Board has overall responsibility for risk management, and the alignment with its risk appetite, business strategy and objectives. The Board is supported by the Group Risk Committee (GRC), a committee of the Board, which oversees the Group's risk management. The GRC meets at least four times a year and more frequently as required.

Additionally, for risk management purposes, the Board is supported by:

- The Audit Committee, which assists the Board in fulfilling its accountability for the efficient and effective performance of the Group's compliance with legal and regulatory requirements; the internal controls and control environment; and the performance of the Group's internal audit function,

The Management Committees which report to the Board are:

- The Credit Committee, which is responsible for credit risk management in the Society and,
- The Asset and Liability Committee (ALCO), which is primarily responsible for all aspects of treasury risk management including liquidity risk, interest rate risk, counterparty risk, and balance sheet and capital management.

RISK MANAGEMENT FRAMEWORK

The Group's Risk Management Framework operates under the 'three lines of defence' model.

First Line of Defence **MANAGEMENT**	Management and line staff, within the subsidiaries and functional business units, undertake day to day risk ownership, identification, assessment and management through implementation of the Group's Risk Management Framework.
Second Line of Defence **OVERSIGHT FUNCTION**	The Group Risk Management function and related independent Compliance functions provide independent oversight and objective challenge of the first line of defence, as well as monitor, guide and support the business in managing its risk exposure.
Third Line of Defence **INDEPENDENT ASSURANCE**	Internal Audit provides independent assessment and assurance to the Board (via the Audit Committee), on the robustness, adequacy and effectiveness of control systems operating within the first and second lines of defence in identifying and managing risk.

This model provides clarity over roles and responsibilities of staff, while enabling the GRC to establish a risk management culture and governance structure for the identification, measurement, assessment, monitoring and management of risks.

The Board-approved policies set out the key limits and escalation triggers and provides the benchmarks to which risk positions are tracked and reported to the GRC on a quarterly basis.

The principal categories of risks to which the Group's business is exposed are set out as follows:

CREDIT RISK

Credit Risk is the risk that Members or counterparties will not meet their financial obligations when they fall due. The Group faces this risk from its lending operations to retail mortgage customers, commercial mortgage customers and investment counterparties.

The retail and commercial mortgage credit risk is managed in accordance with the Society's Credit Policy and underwriting criteria. The Society's Credit Policy is regularly reviewed and approved by the Board and contains detailed limits as to the amount and type of lending that the Society can undertake.

Treasury counterparty risk 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, the Group limits exposures to particular counterparties, investment type and investment size in accordance with Investment Policy guidelines and the Framework for Managing Counterparty Credit Risk.

LIQUIDITY RISK

The Group's core business of financing long-term mortgages and treasury investments with short-term personal and corporate savings, involves a high degree of maturity conversion, which constitutes a major financial risk that the Group must effectively manage. Wholesale and retail funding are monitored to ensure that there are no excessive concentrations in future maturities. This enhances the Group's ability to refinance maturing liabilities.

The Group's management of liquidity and funding risk aims to ensure that at all times there are sufficient liquid resources, both in amount and quality, to cover cash flow mismatches and fluctuations in funding, to retain public confidence and to enable the Group to meet financial obligations as they fall due even during stressful economic environments. This is achieved through the setting of appropriate risk limits to maintain a prudent funding mix, maturity profile and level of high quality liquid assets. The Group also has contingency funding plans in place to cope with any extreme or sudden outflow.

MARKET RISK

Market Risk is the risk that the value of, or income arising from, the Group's assets and liabilities changes adversely due to movements in interest rates, foreign exchange rates, equity prices and/or volatile market conditions. The main market risk faced by the Group is Interest Rate Risk.

Interest Rate Risk is primarily the risk of mismatches between the dates that interest receivable on assets and interest payable on liabilities reprice to market rates, thus impacting on both the net interest income and value of the Group's assets and liabilities.

Operationally, the Treasury Function is responsible for managing the Group's interest rate risk exposures, with oversight provided by the Group Risk Function.

Foreign Currency Risk is the risk of loss arising from movements in foreign exchange rates. The Group is exposed to appreciation in the value of foreign currency denominated liabilities or depreciation in foreign currency denominated assets.

Foreign Currency Risk is primarily managed by maintaining matched portfolios of foreign currency financial assets and liabilities with Board approved limits for the maintenance of currency portfolio long or short gap positions. The Treasury Function is responsible for managing the Group's foreign currency risk exposures, with oversight provided by the Group Risk Function.

Equities Risk is the risk that the current value of assets and liabilities is affected by changes in stock prices. To measure this risk, the Group uses Value-at-Risk (VaR) analysis to estimate potential losses that could occur on risk positions as a result of future movement in market rate and prices over a specified time horizon and to a given level of statistical confidence. Exposures against Board-approved limits are reviewed by the ALCO. The Group also uses concentrations limits to ensure that portfolio diversification is maintained.

Operational Risk is the risk of loss resulting from inadequate or failed internal processes and systems; or from external events which are neither market-related nor credit-related.

The management of operational risk is set out within the Group's various policies and procedures. It is the responsibility of each business area, the 'first line of defence', to identify, understand and put in place appropriate controls to mitigate risks where possible.

The framework for managing operational risk is updated periodically in line with changes in the business profile, product developments, internal management environment and external developments. The table below highlights some of the key operational risk drivers within the Group and the steps taken to mitigate such risks.

RISK DRIVER	OVERVIEW OF RISK	RISK MITIGATION
Strategic Risk	The risk of loss arising from the Group adopting the wrong business strategy, failure to properly execute business strategy, or respond to industry, economy or technological changes.	The Group 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	The risk of loss or imposition of penalties, fines, or other liabilities arising from breaches of applicable laws, regulations, or contractual obligations.	The Group Legal and regulatory risk framework aims to avoid or mitigate legal and regulatory breaches and adverse exposure. The Group Legal and Compliance Function has oversight responsibility to develop policies and procedures to safeguard the Group and ensure Team Members are guided in respect to their responsibilities to adhere to legal and regulatory requirements.

Business Continuity	Failures to establish resilient processes, adequate business continuity, and recovery arrangements.	The development of Business Continuity Plans is an integral component of the Group's operational risk control environment. A working group develops continuity plans and testing strategies to allow for the management of unexpected events, such as the loss of business critical systems.
People	Inability to attract, retain and develop people resources appropriately for the delivery of Member and customer expectations and the Group objectives.	The Group aims to mitigate this risk through a rigorous recruitment process; formal orientation of new team members; and internal training. Personal development plans are put in place to ensure team members continue to develop expertise and experience throughout their employment with the Group.
IT and Information Security	Failure to establish, develop and maintain an IT environment that secures Member and customer data and Group information.	The Group 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 Members and customers. While there is a strong focus on the development of customer interface and services, the Group 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 the Group's systems. Recognising the specialist nature of IT, information security, data governance and business resilience risks, the Group's Risk Management Framework incorporates various senior management lead working groups, which oversee specific elements of the Group's risk universe and the sustainability of the associated control environment.
Financial Crime	Internal and external crime events relating to money and financial services, including offences involving fraud or dishonesty and handling the proceeds of crime.	The Group is committed to mitigate fraud losses suffered by the organisation. Policies and procedures are in place to ensure that all reported fraud allegations are adequately and consistently addressed by the Fraud Investigation Unit. The Anti-Fraud Committee provides oversight for the Fraud Management Framework and the Fraud Investigation Unit.
Process	Financial or opportunity loss arising from the failure to develop and maintain an effective infrastructure and processes to support the delivery Group objectives.	Process risk includes business change risk, management information risk, model risk, outsourcing risk, systems and control risks, data risk and infrastructure risk. The Group continues to improve the control environment for process risk, which is managed by the first line of defence, with oversight provided by the Audit Committee.
Reputational Risk	The risk of loss arising from negative perception by Members, counterparties, investors, market analysts, debt-holders, other relevant key stakeholders or regulators that can adversely affect the Group's ability to maintain existing, or establish new business relationships and continued access to sources of funding.	To safeguard and protect the Group's reputation and brand, 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, monitoring of corporate rating, industry and market benchmarking and transparent disclosure and communications.

GROUP FINANCIAL PERFORMANCE

GROUP FINANCIAL POSITION

The Group's total on-balance sheet assets have increased by $8.805 billion or 8.5% year on year, to total $112.443 billion at December 31, 2016. This increase was primarily as a result of $5.428 billion growth in the investment portfolio and the book of loans totalling $1.629 billion.

Investments and other earning assets totalled $68.016 billion, which was an increase of $5.428 billion or 8.67% over that reported for 2015.

The loan portfolio at the end of the year totalled $34.53 billion. Net of repayments and redemptions, the mortgage book grew by $2.0 billion, of which disbursements totalled $4.5 billion, offset by repayments of $2.5 billion during the year. There was improvement in the quality of the mortgage loan portfolio, resulting in the loan quality ratio moving from 3.52% in 2015 to 2.89% at the end of 2016.

The Group's off-balance sheet assets amounted to $50 billion as at December 2016, which was $14.184 billion or 39.6% over that reported for 2015.

ON & OFF BALANCE SHEET ASSETS FOR THE VM GROUP

Figures in '000s	2016	2015
Group on balance sheet assets	112,443,562	103,638,266
VMWM off balance sheet assets	12,369,118	7,990,824
PRIME off balance sheet assets	37,604,000	27,825,000
TOTAL	**162,443,680**	**139,454,090**
Growth in on & off balance sheet assets (%)	16.5%	10.8%

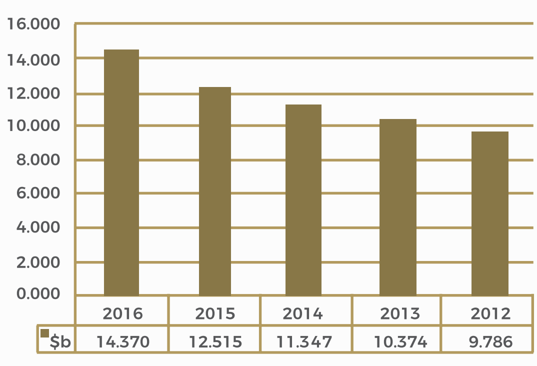
FUNDING

Despite the challenging environment, the depositors and customers of the Group continued to recognise the value of our services, which resulted in the $5.5 billion or 8% increase in the funding portfolio. During the year, keen attention was placed on the macro economic environment, as we continue to offer attractive savings products to our Members. The Group continued to develop and implement strategies in an effort to retain and increase funding obtained from Members and customers, by way of savings and repurchase agreements.

CAPITAL & RESERVES

The Group's total Capital & Reserves grew from $12.515 billion to $14.370 billion in 2016. The Society continues to transfer 100% of Net Surplus to capital after allocation is made to the Credit Facility Reserve, and in 2016, transferred $885.563 million to the Permanent Capital Fund, and $98.396 million to the Reserve Fund.

GROUP TOTAL CAPITAL & RESERVES



OPERATING RESULTS

The Group recorded a Net Surplus of $990.328 million for the year ended December 31, 2016, compared to $961.665 million for 2015. The surplus is inclusive of the Society's 31.5% share of profits in BCIC, totalling $162.625 million. The 3% growth year on year is attributable to increases in Net Interest Income and Other Operating Revenue of 3% and 15% respectively, partially offset by a 7% increase in administrative costs.

GROUP SUMMARY RESULTS ($'000'S)

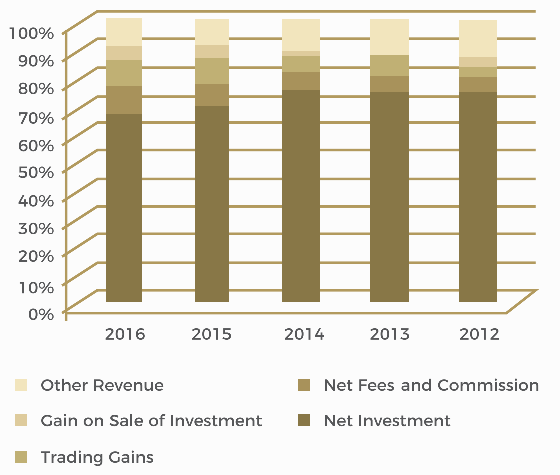
	2016	2015
Net Interest Income	3,816,620	3,716,033
Other Operating Revenue	1,853,687	1,614,495
Total Operating Revenue	**5,670,307**	**5,330,528**
Administrative Costs	4,500,223	4,204,855
Operating Surplus	**1,170,084**	**1,125,673**
Share of Profits of Associate	162,625	121,310
Surplus before Income Tax	**1,332,709**	**1,246,983**
Income Tax	342,381	285,318
Surplus after Income Tax	**990,328**	**961,665**

Operating Surplus was $1,170.084 million for the year, which was an increase of $44.411 million or 4% when compared with the 2015 results.

OPERATING REVENUE

Operating Revenue, which includes net interest income, net fees and commission income, and gain on the sale of investments and trading gains, totalled $5.670 billion for the year. This reflected an increase of $340 million or 6% over the 2015 results.

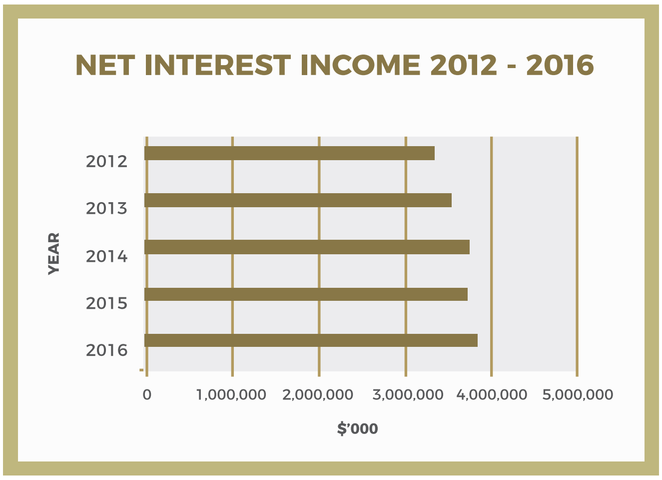
TOTAL OPERATING REVENUE



NET INTEREST INCOME

The Group's Net Interest Income totalled $3.817 billion for the Financial Year ended December 31,

2016. This was a $100.587 million or 3% increase over that reported for 2015.



Total Interest Income was $5.903 billion, which was $16 million less than that reported in 2015. This variance was a combination of an increase in loan interest income, and reduction in interest earned from investments during the period.

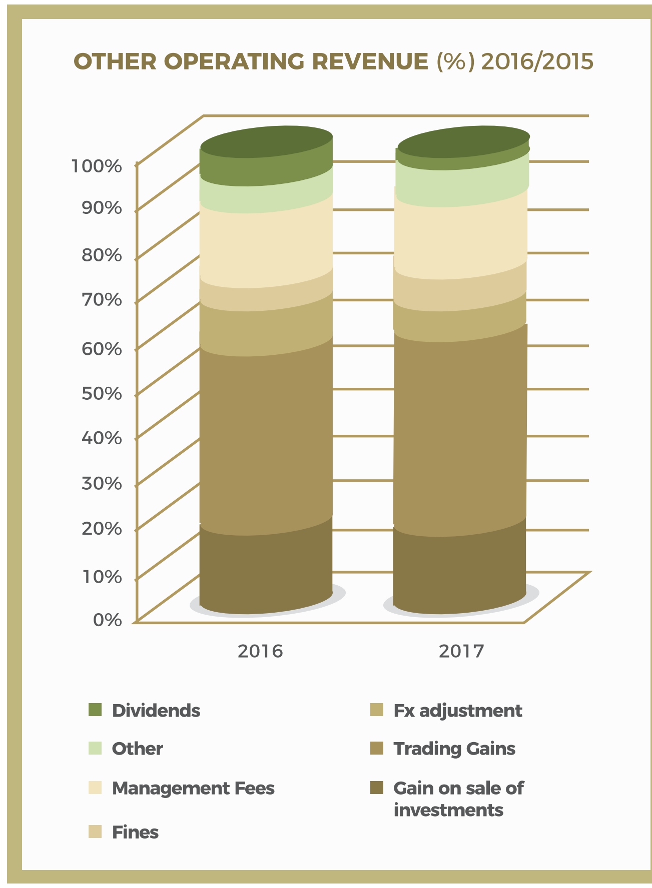
Loan Interest Income of $2.826 billion reflected a marginal increase of $4 million over that reported in 2015. This was as a result of the Society's strategy of maintaining low mortgage interest rates, as well as a $2 billion growth in the mortgage portfolio year over year.

Interest Income from Investments declined by $20.877 million or 0.7%, reflecting an overall reduction in average yields on investments during the period.

Savings rates have continued to fall across the industry, and this reduction has impacted the margin performance of the Group. Total Interest expense declined by $117.398 million or 5% for the year ended December 2016.

OTHER OPERATING REVENUE

Other Operating Revenue for the year totalled $1,853,687 million, reflecting an increase of $239,192 million or 15% above that reported for 2015. The increase was attributable to unrealised foreign exchange gains, dividend income and management fee income earned during the year.



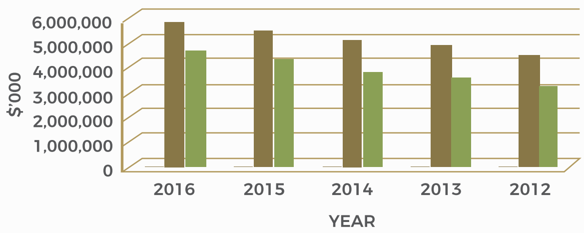
OPERATING EXPENSES

Total Operating Expenses, comprising of personnel costs and other operating expenses, have increased by $276 million to $4.308 billion, driven by continued investment in the business.

- Personnel costs increased by $184 million or 8%, which includes an increase in compensation and other benefits of $206 million, and actuarial adjustment to the defined benefit pension liability of $18 million, which were compensated by a reduction in termination expenses of $40 million during the year.

- Other operating expenses were $1.804 billion, and reflected an increase of $91.807 million or 5% over that reported for 2015. The difference included an increase in consultancy and other professional fees of $44 million, and asset tax of $10 million.

OPERATING REVENUE AND ADMINISTRATIVE EXPENSES



KEY INDICATORS

The return on average total assets was 1.23%, down from 1.24% reported for 2015. This was as a result of the growth in asset base and increase in net profit performance when compared to the previous year.

At the end of the year, the ratio of capital and reserves to total assets was 12.78%, which exceeded the standard set by the regulators.

Net Interest Margin, which measures net interest income as a percentage of mean assets, declined from 3.9% in 2015, down to 3.7% in 2016.

The Group's operating expenses as a percentage of mean assets moved from 4.01% in 2015 to 3.99% at the end of 2016, and cost to income ratio from 75.65% to 75.98% in 2016.

VMBS

SUBSIDIARIES & AFFILIATE COMPANY

Victoria Mutual Wealth Management

Victoria Mutual Pensions Management (FORMERLY PRIME ASSET MANAGEMENT LTD.)

Victoria Mutual Property Services

Victoria Mutual Money Transfer

BCIC An affiliate of Victoria Mutual

The Society owns a number of subsidiaries and has a significant investment in one affiliate: British Caribbean Insurance Company (BCIC). These entities play an important role in complementing the offerings of the Society and in helping its Members to achieve financial independence.

The key financial results of the Society's operating subsidiaries are presented in the table below.

AFTER TAX PROFIT FOR SELECTED SUBSIDIARIES (J$'MILLION)

	2016	2015
VM Wealth Management Ltd.	326.504	310.98
VM Property Services Ltd.	14.368	(0.058)
VM Money Transfer Services Ltd.	10.432	8.465
VM Pensions Management Ltd. (formerly Prime Asset Management Ltd.)	43.717	49.006*

* Restated

OVERVIEW OF BUSINESS LINES

THE VICTORIA MUTUAL BUILDING SOCIETY

The Victoria Mutual Building Society (VMBS) continues to enjoy strong brand loyalty from its Members at home and abroad. Having commenced operation in 1878 with the mission of levelling the financial playing field for all Jamaicans, we are still determined to achieve that mission. We know this is a continuous mission and are equal to the task.

For the year under review, we refocused our overall guiding strategy to achieve that end by being more Member Focused; an Integrated Group coming together to provide a Modern Mutual experience. This new approach has made us more inclusive, as all clients across the group will now be Members. This has enabled us to add more value as we integrate because we can be more mindful of value on offer throughout the group.

We recognise that we must help our Members to save so that they can start the journey to Financial Independence. We believe that our combined projects and initiatives for 2016 took us closer to that objective.

FINANCIAL PERFORMANCE

The Society's 2016 financial performance reflected steady growth, with pre-tax surplus up 12% year on year, reflecting a 4% increase in net interest income, and an improvement in the quality of the mortgage loan portfolio with the ratio falling 22%.

Surplus after tax of $785.7 million reflected moderate growth, up from $783.2 million in 2015. The effective rate of corporation tax charged for the year was 24%, up from 15% in the previous period.

The $137.9 million or 4% increase in net interest income was as a result of a $97 million or 2% increase in interest income, combined with a $40.9 million reduction in interest expense.

Interest rates have continued to fall across the industry and this is reflected in the decline in the net interest margin, falling from 4.2% in 2015 down to 4.1% in 2016.

Interest income earned from the loan book of $2.824 billion was marginally higher (0.2%) than the $2.819 billion reported for 2015. This was bolstered by a 4% increase in interest earned from investments year over year.

The overall cost of administration increased by 6%, moving from $3.613 billion in 2015 to $3.817 billion in 2016. The personnel cost component increased by 8%, moving from $1.774 billion in 2015 to $1.922 billion in 2016. Other operating expenses of $1.729 billion, inclusive of asset tax, increased by $39.4 million or 2% in 2016, compared to $1.690 billion in 2015. The cost to income ratio improved from 79.7% in 2015 to end 2016 at 78.7%.

We are pleased to report the continued growth in Total Assets of 9% during the year, moving from $89.7 billion in 2015 to $97.6 billion at the end of 2016. The financial health of the Society was also assured, as the ratio of Capital and Reserves to Total Assets was 11.6%, which was better than that reported for 2015, and more than exceeded the minimum of 6.0% required by the regulators.

HIGHLIGHTS OF THE SOCIETY'S PERFORMANCE

	2014	2015	2016
Pre-Tax Surplus ($M)	1,232.0	920.5	1,032.6
After-Tax Surplus ($M)	978.8	783.2	785.7
Total Assets ($B)	83.3	89.7	97.6
Total Loans ($B)	30.9	32.9	34.5
Deposit Liabilities ($B)	70.7	77.6	83.6
Net Interest Margin (Net Interest Income as % of Mean Interest Earning Assets)	4.73%	4.20%	4.07%
Operating Expenses (as % of Mean Assets)	86.39%	79.70%	78.71%
Capital and Reserves (as % of Assets)	10.54%	11.06%	11.63%

SAVINGS

VMBS accomplished target growth of J$4.5 billion in savings or 5.6% over the prior year. The Society continues to attract new deposits, mainly from our existing client base, but also from new clientele. This growth has been largely driven by an increased focus on our Members and their needs. During the year, our NPS surveys were used to ensure we better understand our Members and their needs. In particular, our focus has been on making as many Members as possible into 'Promoters'. By 'Promoter' we refer to those who have indicated they will tell others about us as a good place to bank, by scoring us as either a '9' or a '10' on a scale of '1' through '10'.

We continue, as well, to leverage our capabilities to help our Members achieve their Financial Independence by utilisation of our online Financial Independence tool.

It should be noted that the widely anticipated high levels of liquidity never truly materialised during 2016, as central bank operations sought to sop up an excess in the market. This meant it would be more difficult to achieve deposit growth than previously thought. Fortunately, the Society was able to make the requisite adjustments to achieve success.

MORTGAGE LOANS

During 2016, the Society granted $4.77 billion in new mortgage loans, just slightly better than the J$4.72 billion achieved the prior year. This growth occurred despite changes we made in our operations, as we sought to introduce our new mortgage centre, inclusive of an online mortgage application tool.

During the year we revised and improved our credit policy, making it easier for applicants to receive a credit decision. Also, all elements of the new Mortgage Centre and its online capabilities were perfected, making our process easier and faster than ever before, with applicants able to enjoy the convenience of tracking the progress of their application.

MORTGAGE LOAN PORTFOLIO QUALITY

Our Mortgage Portfolio quality improved again in 2016, with non-performing loans expressed as a percentage of the entire mortgage portfolio moving down from 3.52% as at December 2015 to 2.89% in December of 2016.

The relationship-based approach of managing delinquency has proved impactful, as our mortgagors continue to respond favourably to an individualised approach that has their personal needs at the centre.

EFFICIENCY

In 2016, our key efficiency initiative was one in which we sought to better align our team complement to meet existing customer demand, and to prepare ourselves to use this kind of predictive analysis to improve our plans and resource allocation. The aim and objective is to ensure our Members are able to get service from a Team Member within a reasonable period of time after entering a branch.

Our business would have been adversely impacted by the closure of our correspondent banking relationships with Barclays Bank, which was a strategic change of direction for them. The closure of our accounts happened alongside the closure of accounts maintained by them for all Jamaican financial entities. Nonetheless, we were able to put in place new and more robust arrangements and to communicate those changes to the affected Members. Thus far, our Members have made the adjustments satisfactorily, as we received feedback accordingly and have seen no adverse changes in the levels of activity.

2017 FOCUS

Going forward, the Society continues to increase focus on key areas of our business strategy to improve performance. We have restructured our team to align with a sales and service focus. We are preparing to revamp the nature of transactions conducted in our banking halls to maximise both our Members' in-branch experience, while increasing utilisation of our alternate channels. These initiatives include:

Service Improvement

- As at March 1, 2017 the new structure for the Building Society evinces a Sales structure led by Christopher Denny as Vice President of Service and Sales Support, and a Sales structure led by Paul Elliott, Vice President of Sales. Our Branch Teams will largely form the complement focused on service and sales and they will focus on maximising the Members' experience, ensuring efficiency and accountability of our operations and also in ensuring proper support is provided to the selling effort. Our sales team will dedicate their efforts in ensuring our growth targets are achieved and that our existing and aspiring Members achieve their Financial Independence.
- In recognition of the underutilisation of our alternate channels to handle up to 20% more of in-branch transactions, the Building Society will be looking at strategies to accelerate the rate at which these channels are used. In-branch transaction processing is several times more expensive than all of the alternative methods. By migrating 20% of the current volumes, more time can be spent with our Members in counsel for better financial opportunities.

Improved Electronic Offerings

- The introduction of smarter ATMs, which are able to count and credit cash immediately, and to read cheque lodgements for processing
- The redesign of branch layouts to maximise potential for the efficient execution of transactions
- Further deployment of new electronic deposit boxes in select branches
- Continued expansion of the kiosk network in our local and overseas offices
- Improved account opening procedure
- Implementation of new features to enhance our online banking platform

PETER REID
Chief Executive Officer
Building Society Operations

VICTORIA MUTUAL WEALTH MANAGEMENT LTD.

Victoria Mutual Wealth Management Limited (VMWM) is the investment arm of the VM Group, providing investment solutions including fixed income investment products (bonds), loans, stock brokerage/trading services, asset/portfolio management and corporate advisory and finance.

FINANCIAL PERFORMANCE

Despite the continued challenging local and global market conditions, 2016 turned out to be another record breaking year for VMWM, as net profits after taxes of $326 million surpassed the previous record of $310 million, set only last year in 2015, by 5%. This reflected our ability to tweak our strategy during the year in response to adverse changes in market condition.

VMWM's Total Operating Revenue was $808.01 million, slightly down when compared to the $808.08 million in the previous year. This was comprised mainly of Net Interest Income (NII) of $247.96 million, down $31.65 million or 11.32% versus $279.61 million in 2015; Gain from Investment Activities of $278.62 million, down $15.47 million or 5.26% versus $294.09 million in 2015; and Net Fees and Commissions (NF&C) of $279.58 million, up $46.71 million or 20.06% versus $232.87 million in 2015.

The 11.32% decline in NII was similar to the 11.18% decline faced in the previous year, but was not surprising given the continued decline in local interest rates due to improvements in the local economic environment resulting from the Government of Jamaica's fiscal discipline during the year.

Meanwhile, the 20.06% in NF&C was due to growth in our asset management and corporate advisory/finance lines of business. Third party assets under management increased by $4.39 billion or 55%, from $7.99 billion in 2015 to $12.38 billion in 2016. This was due mainly to increased promotion and the introduction of our new unit trust product with 6 new exciting and attractive portfolios - 3 US$ bond portfolios, 1 J$ bond portfolio, 1 local equities portfolio, and 1 real estate portfolio. This resulted in a $36 million or 46% increase in revenue from our asset management business, moving from $79 million in 2015 to $115 million in 2016.

Our Corporate Finance unit raised US$99.85 million on behalf of our clients in 2016, down US$2.96 million over the US$102.81 million raised in the previous year. This slight reduction was due mainly to increased competition in this line of business. Despite this, we provided our clients with excellent service, allowing us to increase revenue from this business line by $10 million or 6.5%, moving from $154 million in 2015 to $164 million in 2016.

Operating Expenses rose $25.75 million or 6.79% over the previous year, from $379.30 million to $405.05 million. This was due mainly to a $22.61 million or 11.67% increase in Staff Costs, from $193.68 million to $216.29 million, resulting from our deliberate increase in our staffing to execute our business plans.

Income tax for the year was $76.46 million, $41.33 million or 35.09% lower than $117.79 million in the previous year. This represented a tax rate of 18.97% compared to 27.47% in 2015 and reflected an increase in non-taxable income over the previous year.

ACHIEVEMENTS

Our main achievements in the year were:

- Record profits of $326 million
- Introduction of our Unit Trust
- $4.39 billion or 55% increase in third party funds under management
- 5% points improvement in our revenue mix.

DEVON BARRETT
Chief Executive Officer
Victoria Mutual Wealth Management Limited

OUTLOOK

We consider the future to be very bright for our business given the following:

1. The recent and projected improvement in the local and global economies. This has resulted in significant improvement in both consumer and business confidence and should cause higher demand for our advisory services.

2. Improved reception of our key product offerings. This is due to the fact that our promotional activities are reaping returns as more current and potential clients are now aware of our excellent offerings, which can be of benefit to them.

3. We plan to significantly increase our investment banking offering in the coming year and will be launching some exciting instruments in the first half of 2017.

VICTORIA MUTUAL Pensions MANAGEMENT

(FORMERLY PRIME ASSET MANAGEMENT LTD.)

VICTORIA MUTUAL PENSIONS MANAGEMENT LTD.

VM Pensions Management Ltd. (formerly Prime Asset Management Ltd.) is licensed by the Financial Services Commission (FSC) as a:

- Securities Dealer
- Investment Manager (Pensions)
- Administrator (Pensions)

VM Pensions services include:

1. Pensions administration
2. Pensions investment management
3. The Prime Retirement Scheme
4. Trustee training
5. Member education
6. Plan registration
7. Pensions consultancy

During 2016, we focused our efforts on the following activities, aimed towards growing our business for the long term:

1. Enhanced engagement of our staff members represented by benefit improvements, additional manpower, performance management and focus on development activities;

2. Leveraging our expertise towards client acquisition;

3. Public relations activities in an effort to boost the pensions coverage island wide; and

4. Efficiency initiatives to automate many activities which will benefit our clients and Members.

FINANCIAL PERFORMANCE

Prime's results are driven by the level of funds under management, which is driven by the investment returns earned by these funds, and Member contributions. We achieved strong financial performance during 2016 with:

1. New client acquisitions surpassing $4.6 billion;

2. An 8% increase in administration lives;

3. Operating revenue growth of $50.91 million or 28% over the previous year; and

4. An efficiency ratio (operating costs as a percentage of total revenue) of 59.9% (2015: 64.7%).

The investment performance of our pension assets under management continued to improve in 2016, attributable to improved investment markets, and a

REZ BURCHENSON
Chief Executive Officer
Victoria Mutual Pensions Management Ltd.

(Formerly Prime Asset Management Limited) reduction in the rate of inflation due to lower international fuel prices.

Our funds under management recorded strong growth of 35% to now stand at $37 billion, making Prime the fifth largest pension fund manager in Jamaica.

2017 FOCUS

Our focus for 2017 involves:

1. Market share - activities to grow our retirement scheme and our superannuation fund business;
2. Competitive Investment Management - offering our clients attractive risk adjusted returns when compared to benchmarks; and
3. Efficient Operations - leveraging our investment in technology to reduce risk, automate processes, improve regulatory compliance and increase our efficiencies.

At this juncture, we pause to recognise our valued clients and to express our gratitude for their confidence in our ability to serve them and the Membership. We reaffirm our commitment to providing excellent personalised service, while seeking to raise the awareness of pension among our Members.

To our valued team members, who in their daily activities exhibit the core values of the VM Group, we say shine on!

VICTORIA MUTUAL
PROPERTY SERVICES

VICTORIA MUTUAL PROPERTY SERVICES LTD.

Victoria Mutual Property Services Ltd. (VMPS) is the Real Estate and Property Services arm of the Victoria Mutual Group, providing real estate sales and rental services, island-wide property appraisals and valuations, as well as commercial property management services. These services complement the Society's core business of providing mortgages to finance properties in Jamaica. The Company also provides the business units within the Victoria Mutual Group with project management services.

FINANCIAL PERFORMANCE

Despite a challenging economic climate, the Company recorded operating revenue growth of 25.12% year over year to $118.9 million from $95.1 million, while Property Appraisals and Project Management revenues surpassed budget by 8% and 6% respectively. Revenues from real estate brokerage services grew by 181.1% over that of 2016.

Over the course of the year, the Company sold 95 properties valued at $1.135 million, completed 666 valuations at a combined value of $10.24 billion and completed 10 projects at a total value of $110 million.

VMPS manages 176,000 sq. ft. of commercial and residential properties. We are proud to report that we were able to reduce the year over year maintenance cost on commercial properties by 5.0%.

Our new website, **www.vmpsrealestate.com,** has seen a significant increase in traffic. Through the new site, our engagement with clients and the real estate market place continues to grow and improve.

2017 FOCUS

For 2017, the Company will focus on continuing to increase our market share in the real estate brokerage and appraisal businesses, on implementing the slate of projects prioritised for 2017 and increasing the number of buildings under management.

MICHAEL NEITA
Chief Executive Officer
Victoria Mutual Property
Services Limited

VICTORIA MUTUAL
MONEY TRANSFER

VMBS MONEY TRANSFER SERVICES LTD.

VMBS Money Transfer Services Ltd (VMTS) is a subsidiary of Victoria Mutual Building Society. VMTS, through its extensive and increasing distribution network of over 70 locations across Jamaica, provides our remittance customers with the convenience of sending and receiving their funds at any of our VMBS branch locations and VM Money Transfer agents. Our services include:

- Cash Pick-ups
- Direct deposit of remittance to account at any financial institution in Jamaica
- SMS telephone notification on the arrival of funds
- VM Money Transfer Card
- Bill Payments

Our Business relationship extends to over eight Major international remittance partners including: MoneyGram - the second largest Money Transfer company in the world, Xoom/PayPal, World Remit, NCS eMoney Services, RIA Financial Services, Choice Money Transfer, Sigue, FIS Cayman Islands and NHT Contributions.

FINANCIAL PERFORMANCE

VMTS recorded Profit After Tax of $10.43 million in 2016, representing an increase of $1.97 million or 23.24% when compared to the previous year's $8.46 million. Operating Revenue for the year totaled $75.26 million, having increased by $15.5 million or 25.93% over 2015. The number and value of transactions increased by 37.5% and 52.6%, respectively, compared to 2015.

2016 INITIATIVES

For 2016, our key initiatives were to reduce consultant fees and increase internal efficiencies; restart paying refund contributions to NHT members; restart payments from the Turks and Caicos island through our partner NCS eMoney Services; launch the new MoneyGram software across the VMTS MoneyGram distribution network; launch the new VM Money Express Full Service Centre at one location in Jamaica; start paying VMBS transaction fees and launch at least one new overseas money transfer partner.

ACHIEVEMENTS

In 2016 we:

- Reduced consultant's fees by over 38;
- Restarted paying NHT contributions in January and saw transactions increase by over 380% over previous averages;
- Restarted paying transactions from the Turks and Caicos island in January through our partner NCS eMoney Services;
- Launched the new MoneyGram software (Agent Connect) in April, which was first implemented at the VMTS MoneyGram sub-agents;
- Completed preparations for the Januaryy 2017 launch of the VM Money Express location; and
- Started paying VMBS commission per transaction processed in the branch network. We actually paid over J$7 million for the year. This was the first time we are paying VMBS commission per transaction.

2017 FOCUS AREAS

1. Expanding the VM Money Express network across Jamaica
2. Expanding the sub-agent network by approximately 30%
3. Launching new VMBS Debit/MasterCard to satisfy the VMBS Members' requirements
4. Launching new VMTS international money transfer partner in Jamaica
5. Negotiating and signing new two years NHT contract

MICHAEL HOWARD
Chief Executive Officer
VMBS Money Transfer Services

CSR A PASSION FOR IMPROVING QUALITY OF LIFE

As a home grown Jamaican organisation, we have pledged to be a **Model Corporate Citizen**, as we are passionate about our people and about the development of our country. This passion is grounded in our Core Values of **Member Focus**, **Integrity**, **Teamwork**, **Innovation** and **Excellence**. Guided by these Core Values, our 2016 Corporate Social Responsibility programme focused on empowering our communities and enhancing their quality of life through initiatives that spanned Nation building, Education and Sports.

NATION BUILDING THROUGH INTEGRITY AND TEAMWORK

National Leadership Prayer Breakfast

The Victoria Mutual Group worked closely with the National Leadership Prayer Breakfast (NLPB) Committee to host one of the major events on the nation's calendar – the National Leadership Prayer Breakfast, as the major sponsor for over 30 years.

The event again witnessed the coming together of the nation's leaders (government, civic and private sectors) and the Church, to pray for guidance in the country's affairs, using the theme, 'Righteousness Exalts a Nation'. Integrating righteousness in the country's affairs will challenge our leaders to govern with integrity and fairness, which will go a far way in helping Jamaica to regain its prominence in the Caribbean and to realise its vision of being the place of choice to live, work, raise families and do businesss.

Righteousness should also guide us in the formulation of our nation's policies, which must involve protecting the vulnerable in the society, particularly the elderly. The Eira Schader Home For the Aged in Trench Town was the chosen 2016 Charity.

As was customary, the offering collected at the Breakfast was handed over to the Charity. Over $500,000 was given which included additional monetary support of $50,000 from the VM Group.

(L-R) Rev. Dr. Stevenson Samuels, Chairman, National Leadership Prayer Breakfast Committee and Richard Powell, Former President & CEO of Victoria Mutual Group, present Lloyd Ferguson (3rd left), manager of the Eira Schader Home For The Aged in Trench Town, with a cheque valued at over Five hundred thousand dollars. Looking on is Rev. Linford Henry, Chairman, the Trench Town Ministers Fraternal.

Attendees at the Prayer Breakfast praying for the nation and its leaders.

(L-R) Rear Admiral Peter Brady, Director of Victoria Mutual, Vivienne Bayley-Hay, Group Chief Corporate Affairs & Communications Officer and Milton Samuda, Director, Victoria Mutual Wealth Management in attendance at the National Leadership Prayer Breakfast.

Former Prime Minister, the Most Hon. Portia Simpson-Miller and Prime Minister, the Most Hon. Andrew Holness, light a unity candle during the 2016 National Leadership Prayer Breakfast.

Labour Day Project

National Labour Day 2016 saw the Victoria Mutual Group joining with the entire island to work FOR HEALTH'S SAKE, (and) KEEP IT CLEAN. The team's efforts were visible in the projects undertaken in the parishes of Kingston, St. Elizabeth, St. Catherine and Mandeville.

KINGSTON

We took our support for the Eira Schader Home For the Aged in Trench Town a step further and selected the Home as our major project for Labour Day 2016. The #VMProud Volunteers partnered with members of the community to give the home a much needed facelift by assisting in cleanup activities, painting and planting a vegetable garden.

MANDEVILLE

Our Mandeville #VMProud Volunteers partnered with the Rotary Club of Mandeville to give the Mandeville Hospital Bus Bay a much needed transformation.

ST. ELIZABETH

Park Mountain Primary School in St. Elizabeth saw #VMProud Volunteers in action as they gave the school a facelift.

ST CATHERINE

Teamwork was alive and well in St. Catherine, as #VMProud Volunteers joined hands and hearts to create a pleasant environment for the students at the Tulloch Primary School in St. Catherine.

#VMProud volunteers hard at work at the Eira Schader Home for the Aged.

Courtney Campbell (2nd left), President & CEO of the VM Group, presents a refrigerator to Lloyd Ferguson (right), manager of the Eira Schader Home For The Aged in Trench Town as part of the organisation's Labour Day activities. Looking on are Victoria Mutual Executives (l-r) Rezworth Burchenson, Sharon Sterling, Andrea Bicknell and Conroy Rose (partially hidden).

Clive Newman, Assistant Vice President – Credit, Victoria Mutual Group, helps to prepare the soil for a vegetable garden at the Eira Schader Home for the Aged in Trench Town.

#VMProud Volunteers giving the Mandeville Hospital Bus Bay a much needed transformation.

#VMProud Volunteer Erica Robinson hard at work at the Park Mountain Primary School in St. Elizabeth.

Governor-General Achievement Awards

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

For its 25th staging, the event was held using the theme **'Inspiring Individuals. Building Stronger Communities.'** In 2016 a total of 37 awardees were honoured for making a positive difference in the lives of others and their communities, despite facing personal challenges.

The GGAA Awardees fall within the age cohort of 18 and 35 and are awarded on the basis of academic performance and voluntary service. Members of the Diaspora are not to be left out. Those who are not only making an impact on their home country but also on the territories in which they reside, are also eligible for the Governor-General Jamaican Diaspora Award for Excellence.

Victoria Mutual also received an award for being a sponsor of the prestigious awards since 1991.

His Excellency the Most Hon. Sir Patrick Allen presents Courtney Campbell, President & CEO, Victoria Mutual Group, with a plaque for the organisation's 25 Years of Service to the Governor General Achievement Awards.

Their Excellencies Sir Patrick Allen and Lady Allen (sitting centre), the Custodes for the County of Cornwall, Governor- General Programme for Excellence leadership Team and GGAA sponsor representatives pose for a photo with the Governor-General Achievement Awardees for the County of Cornwall following the GGAA Ceremony for the county of Cornwall on June 23, 2016.

INTEGRITY AT THE CORE

Marriage & the Family Series

Victoria Mutual seeks to serve a broader and deeper mission than just home ownership. It is a mission of upliftment. We are here to make lives flourish and we demonstrated the commitment to this goal through our revamped Marriage & the Family Series. We believe that better family life is an important foundation for building a better Jamaica.

For the 29th staging, we used the theme 'Living the Life You Want', to not only promote healthy family lives and strong values, but to encourage individuals to strive for a better life for themselves and their families, while providing resources on financial planning and career development.

The day's activities began with an engaging children's village hosted by the Christian volunteer group, Fusion Jamaica. Both the young and the young at heart enjoyed face painting, balloon sculpting, bubble blowing, art and craft, story book reading, stilt walking, 'box hockey', and quad ski walking.

The over 400 patrons in attendance also benefitted from:

- Panel discussions on retirement, savings and investments
- A mini expo
- Live entertainment
- Free counselling services and
- Motivational speeches

Courtney Campbell (left), President and CEO of Victoria Mutual, hangs out with Kevin Scott, the second place winner in the JCDC Children's Gospel Song Competition at the 29th staging of the annual Victoria Mutual Marriage & the Family Series held at Emancipation Park on Sunday, June 26.

Gospel Recording Artiste, Jermaine Edwards, gives a passionate performance at the 29th staging of the annual Victoria Mutual Marriage & the Family Series.

Ricardo Ellis (left), Financial Services Specialist at VMBS, emphasises the importance of young people knowing how to prioritise saving as emcee Jennifer 'Jenny Jenny' Small and his colleague Crystal Blake-Nicholson (right) look on.

MEMBER FOCUSED AND CELEBRATING EXCELLENCE IN EDUCATION AND SPORTS

There is no doubt that Jamaicans are filled with potential. This is most often reflected in several sectors in our society, especially in Education and Sports.

In support of excellence, Victoria Mutual has often sought to reward the efforts of our young scholars as well as our athletes. The reason for support in this arena are twofold: we believe an educated populace is needed for Jamaica's quest to achieve developed status, and we have witnessed the transformational capabilities of sports on the lives of young people and brand Jamaica.

Scholarship Awards 2016

Our annual Scholarship Awards reward the scholastic achievements of VMBS Savers by providing them with financial assistance to pursue their academic goals. To date, over 1600 students have been beneficiaries of the programme.

A total of 54 students were further celebrated and rewarded for their educational achievements at the 31st staging of the Awards on August 19. During the ceremony, we reinforced our commitment to education as we find joy in assisting our student savers with achieving their educational goals. We take pride in providing avenues, financial or otherwise, to help make Members' dreams a reality. For educational dreams, we provide a financial head start on the journey to a brighter future.

Educational excellence was not the only thing on display, as an Olympic undertone guided the activities. The hard work and dedication employed by the athletes at the Rio Olympics to reap success was used as a parallel to highlight to the recipients the need for dedication and hard work in order for them to achieve their own successes.

VMBS GSAT 'Head-Start' Bursary
46 students received the VMBS Head Bursary valued at $15,000 each.

Junior Plan Scholarship
4 students received the Junior Plan Scholarship valued at $150,000 each, to be dispersed over 5 years.

Future Plan Scholarship
3 students received the Future Plan scholarships of $120,000 each towards their undergraduate degree.

Master Plan Scholarship
As is customary one Master Plan saver received a $150,000 scholarship towards the final year of study at a local tertiary institution.

Minister of Education, Youth and Information, Senator The Hon. Ruel Reid (right), poses with two of the 2016 VMBS Future Plan Scholarship recipients, Jermaine Daley (left) and Roshanna Spence (centre) after he presented them with their awards at the 2016 VMBS Scholarship Awards Presentation Ceremony held at the Knutsford Court Hotel on August 19.

2016 VMBS Save 2 Grow Bursary Recipient, Kevaughn Bernard strikes a pose at the VMBS Champions podium after being presented with his award.

Jaden Chin, one of the four recipients of the 2016 VMBS Junior Plan Scholarship, collects his award from Laraine Harrison, Vice President, Group Human Resources, Victoria Mutual, at the 2016 VMBS Scholarship Awards Presentation Ceremony held at the Knutsford Court Hotel.

VMBS Save 2 Grow Bursary recipient Jordon Bailey is on his mark and ready to start his educational journey in high school, after receiving his award at the 2016 VMBS Scholarship Awards Presentation Ceremony, held under the theme 'Head Start to a Brighter Future'.

EXCELLENCE ON THE FIELD

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

The VMBS/ St. James Football Association Under-13 Football Competition once again invested in our children's future, providing opportunities for our young footballers to hone their skills in an environment that not only taught them techniques of the game, but imparted important life skills.

Thirty four schools vied for the championship title under the theme 'Saving Goals', so chosen to encourage the players to not only save goals during football games, but to develop excellent saving habits.

The 8-week competition had veteran national goal keeper and former participant in the competition, Donovan Ricketts, as Keynote Speaker for the Opening Ceremony.

In his address, Ricketts encouraged the players to believe in themselves and their ability to be great individuals in life and in whatever career they choose. He also noted that for those who wish to undertake a career in sports, participating in the competition is a good start.

"The Under-13 Competition is the start of an important journey for you players – one filled with promise, potential and endless possibilities. This is something you need to believe because there are people who believe in you and in the greatness that lies within you," he said. "Great sporting careers don't start with the World Cup; they begin in backyards, on playgrounds and in competitions just like this," he continued.

Granville All Age walked away with the 2016 title, the cash prize, as well as training equipment. This was intended to not only further enhance the skills of the young football players, but also to ensure that this competition continues on the path of having a sustained impact long after the final match in the season has been played.

The other teams rounding out the top four – Irwin Primary, Howard Cooke Primary and Flankers Primary – were also rewarded for a superb performance.

Sectional prizes were awarded to the Top Coach and Top Goal Scorer for 2016.

Members of the Granville All Age Football Team pose with their prizes as the 2016 Champions in the VMBS/St. James Football Association Under-13 Competition at the Prize Handover Ceremony.


Crystal Blake Nicholson, Financial Services Specialist, VMBS; Rembrant Allen, Assistant Coach, Irwin Primary; Andre Neil, Head Coach, Irwin Primary; Audley Knight, Assistant Vice President, Sales & Service, Western Region, VMBS; and Hopeton Gilchrist, Coordinator, VMBS/St. James Football Association Under 13 Competition join runner-up team, Irwin Primary after they collected their prizes at the 2016 VMBS/St. James FA U13 Competition Prize Handover Ceremony at Granville All Age School.


Captain of the St. James Preparatory Team, Donovan Ricketts, Jnr., clears the ball during the kick-off match of the 26th VMBS/St. James Football Association Under-13 Football Competition.


Audley Knight, Assistant Vice President, Sales & Service (Western Region),VMBS, delivers the Sponsor's Remarks at the Opening Ceremony of the 2016 VMBS/St. James Football Association Under-13 Football Competition.


Guest Speaker at the 2016 VMBS/St. James FA Opening Ceremony Donovan Ricketts (left) addressing the audience. Listening intently are Crystal Blake-Nicholson, Financial Services Specialist, VMBS and Emcee at the Opening Ceremony and Audley Knight, Assistant Vice President Sales and Service (Western Region), VMBS.

BUSINESS HIGHLIGHTS

INNOVATION IN SERVICE

VICTORIA MUTUAL IN THE DIASPORA

Your Society continues its tradition of assisting Jamaicans overseas to maintain a strong connection to their homeland by offering opportunities to not only contribute to the development of their beloved country, but also to assist their families back home through our offices overseas in Canada, the United States and the United Kingdom.

As of August 8, 2016 the nature of our relationship in the Canadian Diaspora changed. The VMBS Canadian Representative Office location was permanently closed for business, and our Members with Canadian ties now enjoy access to multiple services through our online facilities via our website, as well as through our Member Engagement Centre. This decision was in support of the Society's Strategic Goal to become a #ModernMutual, and to streamline our customer service via our virtual capabilities, in keeping with the trends in the market.

While our Canadian Office has been closed, the Representative Offices in the United States and United Kingdom remain active.

Our service to the Diaspora continues to extend beyond the offering of financial products and services, but we are also fully integrated in these communities - supporting their initiatives to preserve the Jamaican culture as well as to contribute to the development of our homeland.

The following provides snapshots of the activities of our representative offices in the United States and the United Kingdom.

VICTORIA MUTUAL BUILDING SOCIETY (VMBS) FLORIDA REPRESENTATIVE OFFICE

The VMBS Florida Representative Office continues the mission of the Society in 'partnering with communities to improve quality of life', and as part of its Corporate Social Responsibility (CSR) programme, participated in various social outreach initiatives and sponsored projects across the United States. Some of the initiatives undertaken in 2016 include the annual Domino Tournament, Penn Relays, First-time Home Ownership Seminars, Jamaican Women of Florida Conference, and the Grace Jamaican Jerk Festival, as well as the staging of the Society's bi-annual Community Forum and Members Luncheon, hosted by our Group President & CEO, Courtney Campbell. Through these endeavours, the Society was able to provide easy access to information on savings and fixed deposit accounts, as well as mortgage loan options geared towards real estate acquisition in Jamaica.

While we have continued to make our mark through supporting our Diaspora Members, in 2016 we also relocated to a new, larger space in Miramar, Florida in a move to heighten the quality of service we offer Members who visit us to conduct business.

We encourage the Diaspora community to continue to invest in our island home, as we work together to achieve the 2030 Vision for **Jamaica...the place of choice to live, work, raise families and do business**.

Franz Hall, Consul General (left) and Christopher Denny, Vice President, Distribution, Victoria Mutual, pause for a photo before the start of the VMBS Florida Representative Office's 3rd Bi-Annual Open Discussion in South Florida.

Panellists at the Victoria Mutual Building Society Florida Representative Office's 3rd Bi-Annual Open Discussion (l-r) Courtney Campbell, President & CEO, Victoria Mutual; Gary 'Butch' Hendrickson, Vice President, Private Sector Organisation of Jamaica; Marlene Street-Forrest, General Manager, Jamaica Stock Exchange and Dr. Myrton Smith, President, Medical Association of Jamaica. The Open Discussion was held at the Signature Grand Hotel, Davie, Florida under the theme, 'Jamaica the Place of Choice'.

(L-R) Christopher Denny, Vice President, Distribution; Franz Hall, Consul General; Courtney Campbell, President & CEO, Victoria Mutual; Suzette Rochester, Chief Representative Officer, VMBS Florida Representative Office; and Wayne Messam, Mayor, City of Miramar, in S. Florida pause for a photo before the start of the Members Luncheon in Florida.

VICTORIA MUTUAL BUILDING SOCIETY (VMBS) UNITED KINGDOM REPRESENTATIVE OFFICE

The issue of Correspondent Banking relationships has been of primary concern for all Indigenous Financial Institutions throughout the English speaking Caribbean for some time.

In 2016, VMBS and its operating subsidiaries in the United Kingdom were impacted by our then banking partner's decision to terminate services extended through this relationship.

Despite the aforementioned challenge, the UK Representative Office, VMBS Overseas UK Ltd, facilitated Members in the UK Diaspora submitting documents for opening accounts and applying for mortgages to purchase property in Jamaica. Through several marketing and CSR initiatives, the Building Society achieved a record performance, disbursing £1,325,219.00 in mortgages and opening over 1,300 savings accounts in 2016.

The Company's subsidiary in the United Kingdom, Victoria Mutual Finance Limited, was approved and licensed as a Mortgage Broker, with permission to advise and arrange regulated mortgage contracts in the United Kingdom. As the only Jamaican Financial Institution in the UK Diaspora with this regulatory approval, we believe this confirms our commitment to helping Jamaicans at Home and in the Diaspora achieve Financial Independence.

In 2016, we also continued to partner with our Diaspora Members in the UK to assist them with acquiring their own homes and to achieve Financial Independence, as well as supporting their initiatives to improve quality of life in their communities and back home in Jamaica. A major part of this thrust was the London leg of the Listening Tour which formally introduced our new President & CEO to the UK Members and to further engage our Members on how we can better serve their needs and build their Financial Independence.

The photos below are a few of the highlights of our activities for 2016.

(L) President & CEO, Victoria Mutual, Courtney Campbell shares with our Members of the Diaspora during the London leg of the Victoria Mutual listening tour at Kensington Town Hall in October 2016. Listening attentively are, (L-R) VMFL Director , Delores Cooper O.D; Deputy High Commissioner for Jamaica, Mrs. Angela Rose-Howell and CEO, Building Society Operations, VMBS Peter Reid.

(L-R) Ms. Tanesha Westcarr, UK Youth Advisor, Jamaican Advisory Board; Khori Hyde, Brand Director, Brit Jam; Leighton Smith, Chief Representative Officer, VMBS UK; Angelia Christian, Founder of the Angel Foundation and Delores Cooper O.D, VMFL Director after the Kensington Town Hall Meeting that formed part of the London leg of VMBS' Listening Tour in October 2016.

Leighton Smith, Chief Representative Officer, VMBS UK, addresses Members of the Jamaican Diaspora at the Town Hall Meeting held in Birmingham in October 2016. The Town Hall Meeting formed part of the VMBS Listening Tour which formally introduced Courtney Campbell, the new President & CEO to the VMBS Members as well as engaged the Diaspora to assist them to build their Financial Independence.

PRESIDENT'S LISTENING TOUR

At Victoria Mutual we are more than just talk – we are accountable to our Members. You are the owners of this august institution, and so we recognise the need to hear your vision for your Society. To this end, during our anniversary celebrations in November 2016, our recently appointed President & CEO, Courtney Campbell, embarked on a Listening Tour across Jamaica. High on the agenda was to get your feedback so we can better serve your needs. Other legs of the tour included visits to the United States and the United Kingdom, which took place earlier in the year.

The President's Listening Tour also demonstrated the #Power of VM Membership. As a part owner of this organisation, your contribution is needed to shape us into realising our Vision of becoming the leading Caribbean-based mutual provider of financial services. Overall, the Tour gave us invaluable feedback about our business operations as well as your needs, and provided a wonderful opportunity for us to connect in a real way with those we serve.

See highlights of the tour below.

MEMBERS' MONTH

We marked VMBS' 138th year Anniversary in November 2017 with the inaugural staging of our Members' Month campaign. An island-wide President's Listening Tour, television, radio and press ads along with public relations initiatives formed the basis of the activities.

The theme for the Members Month campaign was #PowerOfVMMembership, which focussed on the benefits of mutuality to our members, the wider community and Jamaica. The President's Listening Tour also provided an opportunity to build stronger engagement with VMBS Members and get their feedback on issues which are of importance to them.

Eight Members' Meetings were held across the island, attracting a total of just under 1,000 Members and their guests. Two outside broadcasts were also held, which served to carry the message of mutuality and the benefits of VM Membership to a wider audience.

The meetings were very well supported by the Executive and respective Branch teams.

FINANCIAL INDEPENDENCE DREAM PROMOTION

As the old adage says, 'encouragement sweetens labour!' In an effort to reward and encourage you for saving - an important part of the journey towards Financial Independence – we launched our Financial Independence Dream Promotion in 2015. On April 18, 2016, the Grand Prize winner was presented with the keys to her brand new home, valued at $13 million and located in the coveted Caymanas Club Estate in St. Catherine.

After being presented with her keys, Velma Buckley described her feelings. "I am happy. I am overjoyed. The reality is just sinking in. I was always looking around to purchase a home in one of these developments and it is so unbelievable that I actually won!"

This diligent saver, who has been a Member for over 25 years, is also a self-appointed Ambassador of VMBS, encouraging all her co-workers to join the Building Society so they too can become proud homeowners.

The 6-month long promotion saw 33 winners being awarded a range of prizes monthly, with the top monthly winner receiving furniture, appliances and electronics valued at up to J$200,000. There was also another significant moment midway through the promotion. In December 2015, a lucky Member walked away with the top monthly prize of J$1 million dollars towards a Home Deposit/Closing Cost or Home Makeover.





2016 BRANCH LEADERSHIP
EASTERN REGION

LEFT TO RIGHT

ALLISON MORGAN
Branch Manager
Liguanea

ANDREA BICKNELL
Branch Manager
Half Way Tree

AINSLEY WHYTE
Branch Manager
New Kingston

CONROY ROSE
CSC, MBA., BSc
Assistant VIce President
Sales

CHERESE STEWART
Branch Manager
Linstead

RUTH OLIVER
Branch Manager
Spanish Town

JOY BUNTING-PUSEY
Branch Manager
Portmore

AUDRIA RANNIE
Branch Manager
Duke Street (Acting)

SHELLIANN AFFLICK
Branch Manager
Papine

WESTERN REGION

LEFT TO RIGHT

KAREN FOOTE
Branch Manager
Falmouth
(Resigned)

ERICA ROBINSON
Branch Manager
Santa Cruz

AUDLEY KNIGHT
PFP, MBA, BBA
Assistant Vice President
Service and Sales Support

FAITHLINE CAMPBELL
Branch Manager
Mandeville

SIMONE GEORGE-DAVEY
Branch Manager
Savanna-la-Mar

SUZETTE RAMDANIE-LINTON
Branch Manager
Montego Bay & Fairview Sub-Branch

MARVIA EVANGELIST ROACH
Branch Manager
May Pen

CHARMAINE McCONNELL-TAYLOR
Branch Manager
Ocho Rios

Financial Statements

December 31, **2016**

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

INDEPENDENT AUDITORS' REPORT

To the Members of
THE VICTORIA MUTUAL BUILDING SOCIETY

Report on the Audit of the Financial Statements

Opinion

We have audited the separate financial statements of The Victoria Mutual Building Society ("the Society") and the consolidated financial statements of the Society and its subsidiaries ("the Group"), set out on pages 71 to 148, which comprise the Group's and Society's statements of financial position as at December 31, 2016, the Group's and Society's income statements, statements of comprehensive income, changes in capital and reserves and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Society as at December 31, 2016, and of the Group's and the Society's financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Basis for Opinion

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

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

INDEPENDENT AUDITORS' REPORT

To the Members of
THE VICTORIA MUTUAL BUILDING SOCIETY

Report on the Audit of the Financial Statements (continued)

*Auditors' Responsibilities for the Audit of the Financial State*ments

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

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

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

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

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

INDEPENDENT AUDITORS' REPORT

To the Members of
THE VICTORIA MUTUAL BUILDING SOCIETY

Report on additional matters as required by the Building Societies Act

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

Report on additional matters as required by the Building Societies Act

We have examined the mortgage deeds and other securities belonging to the Society. Title deeds numbering 7,475 were produced to us and actually inspected by us, and we are satisfied that the remaining 301 deeds not inspected by us were in the hands of attorneys or elsewhere in the ordinary course of business of the Society.

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

Nigel R. Chambers

Nyssa A. Johnson

Chartered Accountants
Kingston, Jamaica

March 23, 2017

THE VICTORIA MUTUAL BUILDING SOCIETY

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016

	Notes	Group 2016 $'000	Group 2015 $'000	Society 2016 $'000	Society 2015 $'000
ASSETS					
Cash and cash equivalents	7	11,735,649	11,467,126	11,389,021	11,109,747
Investments - Jamaica Government securities	8	28,300,992	27,837,054	19,540,037	18,573,016
- Other	9	10,601,812	10,283,261	6,196,842	6,409,760
Resale agreements	10	17,377,510	13,000,258	16,694,578	12,742,180
Loans	11	34,531,088	32,902,398	34,549,540	32,923,104
Other assets	12	2,918,957	2,414,093	2,203,719	2,005,569
Income tax recoverable		123,209	123,317	114,700	123,317
Deferred tax assets	13(a)	79,519	45,287	-	-
Employee benefits asset	14	2,466,111	1,910,111	2,466,111	1,910,111
Interest in subsidiaries	15	-	-	1,224,534	1,228,886
Interest in associate	16	1,099,076	1,010,535	659,200	659,200
Intangible assets	17	1,658,932	1,182,231	948,062	497,512
Investment and foreclosed properties	18	500,801	535,426	618,121	652,746
Property, plant and equipment	19	1,049,906	927,169	951,943	828,764
Total assets		**112,443,562**	**103,638,266**	**97,556,408**	**89,663,912**
LIABILITIES					
Savings fund:					
Shareholders' savings	20	70,843,355	65,388,652	71,684,234	66,280,724
Depositors' savings	21	1,122,600	1,087,071	1,122,600	1,087,071
		71,965,955	66,475,723	72,806,834	67,367,795
Due to specialised institution		10,780,843	10,208,764	10,780,843	10,208,764
		82,746,798	76,684,487	83,587,677	77,576,559
Income tax payable		4,152	51,035	-	-
Other liabilities	22	1,282,618	1,176,121	681,652	542,066
Repurchase agreements	23	12,565,035	12,039,440	-	-
Loan payable	24	-	-	525,481	525,481
Deferred tax liabilities	13(b)	439,018	233,800	438,973	233,658
Employee benefits obligation	14	1,036,104	937,926	981,304	873,126
Total liabilities		**98,073,725**	**91,122,809**	**86,215,087**	**79,750,890**
CAPITAL AND RESERVES					
Permanent capital fund	25	7,866,415	6,980,852	7,866,415	6,980,852
Reserve fund	26(i)	949,763	851,367	949,763	851,367
Retained earnings reserve	26(ii)	908,857	459,943	908,857	459,943
Capital reserve on consolidation	26(iii)	82	82	-	-
Credit facility reserve	26(iv)	1,182,620	1,380,914	1,182,620	1,380,914
Investment revaluation reserve	26(v)	626,818	303,806	423,666	229,946
General reserve		10,000	10,000	10,000	10,000
Currency translation reserve	26(vi)	327,109	245,505	-	-
Retained earnings		2,498,173	2,282,988	-	-
Total capital and reserves		**14,369,837**	**12,515,457**	**11,341,321**	**9,913,022**
Total liabilities and capital and reserves		**112,443,562**	**103,638,266**	**97,556,408**	**89,663,912**

The financial statements on pages 68 to 148, were approved for issue by the Board of Directors on March 23, 2017 and signed on its behalf by:

_________________________ Director

Michael A. McMorris

_________________________ Director

Courtney Campbell

Countersigned:

_________________________ Corporate Secretary

Keri-Gaye Brown

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

THE VICTORIA MUTUAL BUILDING SOCIETY

INCOME STATEMENTS

YEAR ENDED DECEMBER 31, 2016

		Group		Society	
	Notes	2016	2015	2016	2015
		$'000	$'000	$'000	$'000
Interest income	29	5,903,123	5,919,934	5,226,903	5,129,905
Interest expense	29	(2,086,503)	(2,203,901)	(1,679,961)	(1,720,849)
Net interest income		3,816,620	3,716,033	3,546,942	3,409,056
Fee and commission income	30	677,453	478,531	244,620	191,373
Fee and commission expenses	30	(102,104)	(68,720)	(63,530)	(68,720)
Net fee and commission income		575,349	409,811	181,090	122,653
Other operating revenue	31	1,278,338	1,204,684	1,121,677	1,002,232
Net interest income and other revenue		5,670,307	5,330,528	4,849,709	4,533,941
Personnel costs	32	(2,504,017)	(2,319,721)	(1,922,074)	(1,774,141)
Depreciation and amortisation	17,18,19	(191,830)	(172,565)	(166,029)	(149,632)
Other operating expenses	33	(1,804,376)	(1,712,569)	(1,729,019)	(1,689,642)
		(4,500,223)	(4,204,855)	(3,817,122)	(3,613,415)
Share of profits of associate	16	162,625	121,310	-	-
Surplus before income tax		1,332,709	1,246,983	1,032,587	920,526
Income tax charge	34	(342,381)	(285,318)	(246,922)	(137,290)
Surplus for the year		**990,328**	**961,665**	**785,665**	**783,236**

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

THE VICTORIA MUTUAL BUILDING SOCIETY

STATEMENTS OF COMPREHENSIVE INCOME

YEAR ENDED DECEMBER 31, 2016

	Notes	Group 2016 $'000	Group 2015 $'000	Society 2016 $'000	Society 2015 $'000
Surplus for the year		990,328	961,665	785,665	783,236
Other comprehensive income					
Items that will never be reclassified to the income statement:					
Net gain on remeasurement of employee benefits asset and obligation		497,377	246,524	492,977	242,324
Deferred income tax on net gain on remeasurement of employee benefits asset and obligation		(147,353)	(73,864)	(146,153)	(72,697)
Items that may be reclassified to the income statement:					
Foreign currency translation difference on foreign operations and other adjustments		81,604	(186,161)	-	-
Unrealised gains on available-for-sale financial assets		390,750	105,841	286,918	175,803
Realised gains on available-for-sale financial assets		(296)	-	8,892	-
Deferred income tax on available-for-sale investments		28,107	24,438	-	-
Other comprehensive income for the year, net of tax		850,189	116,778	642,634	345,430
Total comprehensive income for the year		1,840,517	1,078,443	1,428,299	1,128,666

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

THE VICTORIA MUTUAL BUILDING SOCIETY

GROUP STATEMENT OF CHANGES IN CAPITAL AND RESERVES

YEAR ENDED DECEMBER 31, 2016

	Permanent capital fund $'000	Reserve fund $'000	Retained earnings reserve $'000	Capital reserve on consolidation $'000	Credit facility reserve $'000	Investment revaluation reserve $'000	General reserve $'000	Currency translation reserve $'000	Retained earnings $000	Total capital and reserves $000
Balances at December 31, 2014	**6,363,075**	**782,725**	**290,316**	**82**	**1,284,097**	**83,269**	**10,000**	**188,295**	**2,344,897**	**11,346,756**
Total comprehensive income for the year										
Surplus for the year	-	-	-	-	-	-	-	-	961,665	961,665
Other comprehensive income:										
Change in fair value of available-for-sale investments, net of tax	-	-	-	-	-	130,279	-	-	-	130,279
Foreign currency translation difference on foreign subsidiaries' balances and other adjustments	-	-	-	-	-	-	-	57,210	(243,371)	(186,161)
Gain on remeasurement of employee benefits asset and obligation, net of tax	-	-	169,627	-	-	-	-	-	3,033	172,660
Total other comprehensive income	-	-	169,627	-	-	130,279	-	57,210	(240,338)	116,778
Total comprehensive income for the year	-	-	169,627	-	-	130,279	-	57,210	721,327	1,078,443
Movements between reserves										
Credit facility reserve transfer	-	-	-	-	96,817	-	-	-	(96,817)	-
Other transfers [notes 25 and 26(i)]	617,777	68,642	-	-	-	-	-	-	(686,419)	-
Total movement between reserves	617,777	68,642	-	-	96,817	-	-	-	(783,236)	-
Share of investment revaluation of associate	-	-	-	-	-	90,258	-	-	-	90,258
Balances at December 31, 2015	**6,980,852**	**851,367**	**459,943**	**82**	**1,380,914**	**303,806**	**10,000**	**245,505**	**2,282,988**	**12,515,457**

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

THE VICTORIA MUTUAL BUILDING SOCIETY
STATEMENTS OF COMPREHENSIVE INCOME (CONT'D)
YEAR ENDED DECEMBER 31, 2016

	Permanent capital fund $'000	Reserve fund $'000	Retained earnings reserve $'000	Capital reserve on consolidation $'000	Credit facility reserve $'000	Investment revaluation reserve $'000	General reserve $'000	Currency translation reserve $'000	Retained earnings $000	Total capital and reserves $000
Balances at December 31, 2015	**6,980,852**	**851,367**	**459,943**	**82**	**1,380,914**	**303,806**	**10,000**	**245,505**	**2,282,988**	**12,515,457**
Total comprehensive income for the year										
Surplus for the year	-	-	-	-	-	-	-	-	990,328	990,328
Other comprehensive income:										
Change in fair value of available-for-sale investments, net of tax	-	-	-	-	-	411,535	-	-	7,322	418,857
Foreign currency translation difference on foreign subsidiaries' balances and other adjustments	-	-	-	-	-	-	-	81,604	-	81,604
Realised gains on available-for-sale financial assets	-	-	102,090	-	-	(102,386)	-	-	-	(296)
Net gain on remeasurement of employee benefits asset and obligation, net of tax	-	-	346,824	-	-	-	-	-	3,200	350,024
Total other comprehensive income	-	-	448,914	-	-	309,149	-	81,604	10,522	850,189
Total comprehensive income for the year	-	-	448,914	-	-	309,149	-	81,604	1,000,850	1,840,517
Movements between reserves										
Credit facility reserve transfer	-	-	-	-	(198,294)	-	-	-	198,294	-
Other transfers [notes 25 and 26(i)]	885,563	98,396	-	-	-	-	-	-	(983,959)	-
Total movement between reserves	885,563	98,396	-	-	(198,294)	-	-	-	(785,665)	-
Share of investment revaluation of associate	-	-	-	-	-	13,863	-	-	-	13,863
Balances at December 31, 2016	**7,866,415**	**949,763**	**908,857**	**82**	**1,182,620**	**626,818**	**10,000**	**327,109**	**2,498,173**	**14,369,837**

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

THE VICTORIA MUTUAL BUILDING SOCIETY

SOCIETY STATEMENT OF CHANGES IN CAPITAL AND RESERVES

YEAR ENDED DECEMBER 31, 2016

	Permanent capital fund $'000	Reserve fund $'000	Retained earnings reserve $'000	Credit facility reserve $'000	Investment revaluation reserve $'000	General reserve $'000	Retained earnings $'000	Total $000
Balances at December 31, 2014	**6,363,075**	**782,725**	**290,316**	**1,284,097**	**54,143**	**10,000**	**-**	**8,784,356**
Total comprehensive income for the year								
Surplus for the year	-	-	-	-	-	-	783,236	783,236
Other comprehensive income:								
Change in fair value of available-for-sale Investments, net of tax	-	-	-	-	175,803	-	-	175,803
Net gain on remeasurement of employee benefits asset and obligation, net of tax	-	-	169,627	-	-	-	-	169,627
Total other comprehensive income	-	-	169,627	-	175,803	-	-	345,430
Total comprehensive income for the year	-	-	169,627	-	175,803	-	783,236	1,128,666
Movements between reserves								
Credit facility reserve transfer	-	-	-	96,817	-	-	(96,817)	-
Other reserves [notes 25 and 26(i)]	617,777	68,642	-	-	-	-	(686,419)	-
Total movement between reserves	617,777	68,642	-	96,817	-	-	(783,236)	-
Balances at December 31, 2015	**6,980,852**	**851,367**	**459,943**	**1,380,914**	**229,946**	**10,000**	**-**	**9,913,022**

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

THE VICTORIA MUTUAL BUILDING SOCIETY
SOCIETY STATEMENT OF CHANGES IN CAPITAL AND RESERVES (CONT'D)
YEAR ENDED DECEMBER 31, 2016

	Permanent capital fund $'000	Reserve fund $'000	Retained earnings reserve $'000	Credit facility reserve $'000	Investment revaluation reserve $'000	General reserve $'000	Retained earnings $'000	Total $000
Balances at December 31, 2015	**6,980,852**	**851,367**	**459,943**	**1,380,914**	**229,946**	**10,000**	**-**	**9,913,022**
Total comprehensive income for the year								
Surplus for the year	-	-	-	-	-	-	785,665	785,665
Other comprehensive income:								
Unrealised gains on available-for-sale financial assets	-	-	-	-	286,918	-	-	286,918
Gain on remeasurement of employee benefits asset and obligation, net of tax	-	-	346,824	-	-	-	-	346,824
Realised losses/(gains) on available-for-sale financial assets	-	-	102,090	-	(93,198)	-	-	8,892
Total other comprehensive income	-	-	448,914	-	193,720	-	-	642,634
Total comprehensive income for the year	-	-	448,914	-	193,720	-	785,665	1,428,299
Movements between reserves								
Credit facility reserve transfer	-	-	-	(198,294)	-	-	198,294	-
Other reserves [notes 25 and 26(i)]	885,563	98,396	-	-	-	-	(983,959)	-
Total movement between reserves	885,563	98,396	-	(198,294)	-	-	(785,665)	-
Balances at December 31, 2016	**7,866,415**	**949,763**	**908,857**	**1,182,620**	**423,666**	**10,000**	**-**	**11,341,321**

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

THE VICTORIA MUTUAL BUILDING SOCIETY

GROUP STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2016

	Notes	2016	2015
		$'000	$'000
Cash flows from operating activities			
Surplus for the year		990,328	961,665
Adjustments for:			
Depreciation	17,18,19	191,830	172,565
Employee benefits asset and obligation		59,481	41,956
Interest income	29	(5,903,123)	(5,919,934)
Interest expense	29	2,086,503	2,203,901
Gain on disposal of investment property and property, plant and equipment		(8,491)	(15,834)
Share of profits of associate	16	(162,625)	(121,310)
Change in allowance for loan losses	11(b)	6,417	5,143
Income tax expense	34	342,381	285,318
		(2,397,299)	(2,386,530)
Unrealised exchange gains on foreign currency balances		(119,543)	(70,493)
Loan advances, net of repayments		(1,635,107)	(1,981,882)
Change in other assets		(703,706)	(195,768)
Employee benefits, net		(19,926)	(18,800)
Net receipts from shareholders and depositors		5,014,800	5,203,869
Due to specialised institution		572,079	822,851
Change in other liabilities		106,497	393,357
		817,795	1,766,604
Interest and dividends received		6,189,913	5,970,730
Interest paid		(2,183,150)	(2,051,934)
Income taxes paid		(337,416)	(445,178)
Net cash provided by operating activities		4,487,142	5,240,222
Cash flows from investing activities			
Government of Jamaica securities		60,510	680,508
Other investments		(318,551)	(4,484,877)
Resale agreements		(4,377,252)	2,839,442
Purchase of intangible assets	17	(524,094)	(418,486)
Additions to investment properties	18	-	(8,957)
Purchase of property, plant and equipment	19	(254,573)	(286,614)
Proceeds of disposal of property, plant and equipment		28,470	73,523
Repurchase agreements		525,595	(623,320)
Net cash used by investing activities		(4,859,895)	(2,228,781)
Cash flows from financing activity			
Loans payable, net		572,079	(1,840,721)
Net increase in cash and cash equivalents for year		199,326	1,170,720
Cash and cash equivalents at beginning of year		11,467,126	10,267,797
Effect of exchange rate fluctuations on cash and cash equivalents		69,197	28,609
Cash and cash equivalents at end of year	7	11,735,649	11,467,126

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

THE VICTORIA MUTUAL BUILDING SOCIETY
SOCIETY STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Surplus for the year		785,665	783,236
Adjustments for:			
Depreciation	17,18,19	166,029	149,635
Unrealised exchange losses on foreign currency balances		(75,625)	(37,939)
Employee benefits obligation		64,881	33,356
Interest income	29	(5,226,903)	(5,129,905)
Interest expense	29	1,679,961	1,720,849
Gain on disposal of property, plant and equipment		(8,491)	(15,674)
Gain on sale of investments		(227,239)	(213,053)
Change in loan impairment	11(b)	6,417	5,143
Income tax expense	34	246,922	137,290
		(2,588,383)	(2,567,062)
Loan advances, net of repayments		(1,632,853)	(1,981,836)
Interest in subsidiaries, (current account)		4,352	(235,311)
Change in other assets		(289,172)	(134,065)
Employee benefits, net		(19,726)	(18,700)
Net receipts from shareholders and depositors		5,427,149	5,569,943
Due to specialised institution		572,079	822,851
Change in other liabilities		139,586	14,925
		1,613,032	1,470,745
Interest and dividends received		5,317,925	5,032,579
Interest paid		(1,668,071)	(1,728,572)
Income taxes paid		(179,143)	(322,398)
Net cash provided by operating activities		5,083,743	4,452,354
Cash flows from investing activities			
Government of Jamaica securities		(420,838)	(250,873)
Other investments		212,918	(2,069,647)
Resale agreements		(3,952,398)	1,183,208
Purchase of intangible assets	17	(491,343)	(351,633)
Additions to investment properties	18	-	(8,957)
Purchase of property, plant and equipment	19	(233,769)	(247,464)
Proceeds of disposal of property, plant and equipment		28,470	73,113
Net cash used by investing activities		(4,856,960)	(1,672,253)
Cash flows from financing activity			
Loans payable, being cash used by financing activity		-	(1,840,721)
Net increase in cash and cash equivalents for year		226,783	939,380
Cash and cash equivalents at beginning of year		11,109,747	10,152,295
Effect of exchange rate fluctuations on cash and cash equivalents		52,491	18,072
Cash and cash equivalents at end of year	7	11,389,021	11,109,747

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2016

1. IDENTIFICATION

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

During the year, the principal activities of the Society and its subsidiaries [note 1(b)] comprised granting home loans, accepting deposits, trading in foreign currencies, providing money transmission services, investing funds, insurance premium financing, investment holding, stockbroking and securities trading, and real estate services.

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

Entity	Country of incorporation	Nature of business	Percentage equity held by: The Society	Percentage equity held by: Subsidiaries
Victoria Mutual Investments Limited and its wholly-owned subsidiary:	Jamaica	Insurance premium financing and investment holding	100	-
Victoria Mutual Wealth Management Limited	Jamaica	Stockbroking and securities trading	-	100
Victoria Mutual Properties Limited *and its wholly-owned subsidiary	Jamaica	Development and letting of real property	100	-
Victoria Mutual (Property Services) Limited	Jamaica	Housing development, property management and sales	-	100
Victoria Mutual Finance Limited	United Kingdom	Provision of management services to the Society	100	-
VMBS Money Transfer Services Limited	Jamaica	Management of the money transfer services of the Society	99	-
VMBS Overseas (UK) Limited	United Kingdom	Promotion of the business of the Society	100	-
VMBS Overseas (Canada) Inc* (inactive)	Canada	Money Transfer	100	-
Westin International Insurance Company Limited	The Cayman Islands	General insurance	100	-
Prime Asset Management Limited	Jamaica	Pension management	100	-

* Subject of an undertaking, given to Bank of Jamaica, for winding up.

(c) Interest in associated company

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

2. REGULATIONS AND LICENCE

The Society is licensed, and these financial statements are delivered, under the Building Societies Act, the Banking Services Act 2014 and Regulations 2015, that became effective on September 30, 2015.

The Society has two subsidiaries, The Victoria Mutual Wealth Management Limited and Prime Asset Management Limited that are licensed by the Financial Services Commission. Victoria Mutual Wealth Management Limited is a licensed investment advisor and securities dealer. It is also a member of the Jamaica Stock Exchange and is regulated as a securities broker/dealer. Prime Asset Management Limited is a licensed Pension Fund Manager.

3. BASIS OF PREPARATION

(a) Statement of compliance

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

Certain new, revised and amended standards and interpretations became effective for the current financial year. The Group has assessed them and has adopted those which are relevant to its financial statements. The adoption of these amendments and improvements did not result in any changes to the amounts recognised or disclosed in the financial statements.

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

(i) IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value though profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

(ii) IFRS 15, *Revenue From Contracts With Customers*, effective for accounting periods beginning on or after January 1, 2018, replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two entities in the same line of business exchange non-monetary assets to facilitate sales to other parties.

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

3. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (cont'd)

New, revised and amended standards and interpretations that are not yet effective (cont'd)

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

There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

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

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

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

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

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

- The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
- A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.
- Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.
- An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.
- Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

3. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (cont'd)

New, revised and amended standards and interpretations that are not yet effective (cont'd)

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

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

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

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

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

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

- IFRS 12, *Disclosure of Interests in Other Entities*, effective retrospectively for annual reporting periods beginning on or after January 1, 2017, has been amended to clarify that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

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

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

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

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

3. BASIS OF PREPARATION (CONT'D)

(b) Basis of measurement

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

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

- the defined-benefit liability is the present value of the unfunded obligation.

(c) Functional and presentation currency

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The financial statements are presented in Jamaica dollars ($), which is the functional currency of the Society. The financial statements of other entities included in the consolidated financial statements that have different functional currencies are translated into Jamaica dollars in the manner set out in note 4(n). Amounts are rounded to the nearest thousand.

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

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

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

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

(i) Key sources of estimation uncertainty

(1) Pension and other post-employment benefits

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

3. BASIS OF PREPARATION (CONT'D)

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

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

(1) Pension and other post-employment benefits (cont'd)

Making these estimates requires certain assumptions, including a discount rate, inflation rate, rate of future increases in medical claims, pensions and salaries, as more fully set out in notes 4(h) and 14. Management provides the actuaries with some of the information, including key assumptions, used in estimating the employee benefit amounts. The possibility of significant differences between actual results and the assumptions used means that uncertainty is inherent in these estimates.

(2) Allowance for impairment losses on financial assets

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

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

(3) Goodwill

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

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

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

3. BASIS OF PREPARATION (CONT'D)

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

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

(5) Income taxes

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

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

(6) Fair value of financial instruments

There are no quoted market prices for a significant portion of the Group's financial assets and liabilities. Accordingly, fair values of several financial assets are estimated using prices obtained from a yield curve. The yield curve is, in turn, obtained from a pricing source which uses indicative prices submitted to it by licensed banks and other financial institutions in Jamaica. There is significant uncertainty inherent in this approach, which is categorised as a Level 2 fair value (see notes 8, 9 and 28). Some other fair values are estimated based on quotes published by broker/dealers, and these are also classified as Level 2. The estimates of fair value arrived at from these sources may be significantly different from the actual price of the instrument in an actual arm's length transaction.

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

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

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

The following are relevant to these financial statements:

- In classifying financial assets as "held-for-trading", the Group has determined that they meet the description of trading assets set out in accounting policy 4(b).

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

3. BASIS OF PREPARATION (CONT'D)

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

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

The following are relevant to these financial statements (cont'd):

- In designating financial assets as at fair value through profit or loss, the Group has determined that they have met the criteria for this designation.
- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date.
- In classifying financial assets as 'loans and receivables' the Group has determined that, *inter alia*, they are not traded in an active market. This determination sometimes requires judgement.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The Group's financial statements include the audited financial statements of the Society and its subsidiaries as at and for the year ended December 31, 2016, after eliminating intra-group amounts, and the Group's interest in its associate. The investment in associate is accounted for using the equity method.

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

Associated entities are those, other than a subsidiary or joint venture, over which the Group has significant influence, but not control, over financial and operating decisions. Significant influence is presumed to exist when the Group holds at least 20% but not more than 50% of the voting power of another entity. The consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, from the date significant influence commences until the date significant influence ceases.

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

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

(i) Classification of financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

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

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

Loans and receivables: On initial recognition these are measured at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses. Where securities classified as loans and receivables become quoted in an active market, such securities 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 these are measured at fair value, plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses. Any sale or reclassification of a significant amount of held-to-maturity investments that are not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the financial year in which sale or reclassification occurs and the following two financial years.

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

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

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

Available-for-sale (cont'd):

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

(c) Financial instruments – Other

(i) Cash and cash equivalents

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

Cash and cash equivalents are measured at amortised cost.

(ii) Resale and repurchase agreements

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

The Group enters into transactions whereby it transfers assets but retains either all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions. Repurchase agreements are accounted for as short-term collateralised borrowing, and are classified as other liabilities. On initial recognition and subsequently, the securities given as collateral are retained in the statement of financial position and measured in accordance with their original measurement principles. The proceeds of sale are reported as liabilities and are 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.

(iii) Derivatives

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

(iii) Derivatives (cont'd)

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 the income statement.

(iv) Other assets

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

(v) Loans payable

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

(vi) Other liabilities

Other liabilities are measured at cost or amortised cost.

(d) Revenue recognition

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

(i) Interest income

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

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Revenue recognition (cont'd)

(i) Interest income (cont'd)

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

(ii) Commissions and other income

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

(e) Interest expense

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

(f) Fee and commission expenses

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

(g) Income tax

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

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

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

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Income tax (cont'd)

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

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

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

(h) Employee benefits

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

(i) General benefits

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as the related service is provided. The expected cost of vacation leave that accumulates is recognised over the period that the employee becomes entitled to the leave. Post employment benefits are accounted for as described in paragraphs (ii), (iii) and (iv) below. Other long-term benefits, including termination benefits, which arise when either: (1) the employer decides to terminate an employee's employment before the normal retirement date, or (2) an employee decides to accept voluntary redundancy in exchange for termination benefits, are accrued as they are earned during service and charged as an expense, unless not considered material, in which case they are charged when they fall due for actual payment.

The Group has a defined-contribution pension plan and a defined-benefit pension plan to provide post-employment pensions (see note 14).

(ii) Defined-contribution pension plan

This plan is closed to new members and no further contributions are being made.

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Employee benefits (cont'd)

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

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

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

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

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

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Employee benefits (cont'd)

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

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

(iii) Other post-employment benefits

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

(i) Interest in subsidiaries

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

(j) Intangible assets

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

(ii) Computer software

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

(k) Investment and foreclosed properties

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

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Property, plant and equipment and depreciation

(i) Cost

(a) Recognition and measurement

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

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

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

(b) Subsequent costs

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

(ii) Depreciation

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

The depreciation rates are as follows:-

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

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Identification and measurement of impairment

(i) Non-derivative financial assets

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

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

Financial assets measured at amortised cost

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

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

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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

Differential impacts of IFRS and regulatory requirements

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

As set out above, IFRS permits only specific impairment allowances, based on assessment of individual loans and/or a portfolio of loans with similar risk characteristics, and requires that the future cash flows of impaired loans be discounted and, thereafter, the increase in the present value be reported as interest income. The portion of the loan loss provision required under the Banking Services Act (2014) which is in excess of the requirements of IFRS is treated as an appropriation of retained earnings and included in a non-distributable "credit facility reserve" [note 26(iv)].

Available-for-sale financial assets

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

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

Equity-accounted investment

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

(ii) Non-financial assets

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

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

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

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

(n) Foreign currencies

(i) Transactions and balances

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(n) Foreign currencies (cont'd)

(i) Transactions and balances (cont'd)

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

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

(ii) Foreign subsidiaries

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

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

5. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

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

Notes 5(a) to (d) present information about the Group's exposure to each of the above-listed risks and the Group's objectives, policies and processes for measuring and managing risk.

Risk management framework

The Board of Directors of the Society has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the following three committees for risk management purposes:

(i) Risk Management Committee
(ii) Finance Committee
(iii) Audit Committee

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

Introduction and overview (cont'd)

Risk management framework (cont'd)

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

The risk management policies are established by the Risk Management Committee 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. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

There are, in addition, an Asset and Liability Committee ("ALCO") and a Credit Committee, comprising members of executive management. ALCO reports to the Risk Management Committee as well as to the Finance Committee of the Board and has responsibility to monitor the liquidity, interest rate and foreign exchange risks of the Group. The Credit Committee reports to the Finance Committee and has responsibility to monitor the credit risk of the Society.

The Society, Victoria Mutual Wealth Management Limited and Prime Asset Management Limited have audit committees. The Society's Audit Committee is responsible for monitoring the Group's compliance with risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committees are assisted in these functions by Group Internal Audit, which undertakes both regular and *adhoc* reviews of risk management controls and procedures, the results of which are reported to the Audit Committees.

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

(a) Credit risk

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

(i) Exposure to credit risk

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

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

The carrying amount of financial assets shown on the statement of financial position.

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd)

(i) Exposure to credit risk (cont'd)

(2) For financial assets not recognised in the statement of financial position:

	Group and Society	
	2016	2015
	$'000	$'000
Loan commitments	286,761	1,224,526

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

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

(1) Loans receivable

The management of credit risk in respect of loans receivable is delegated to the Society's Finance Committee. The Committee is responsible for oversight of credit risk, including formulating credit policies, establishing the authorisation structure for the approval of credit facilities, reviewing and assessing credit risk, and limiting concentration of exposure to counterparties.

Quality of loans receivable

The credit quality of loans is assessed by reference to the extent to which loans are current or past due, and by the extent of impairment.

Definition of impaired loans

Impaired loans are loans for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan.

Past due but not impaired loans

These are loans where contractual interest or principal payments are past due but the Group believes that impairment allowance is not appropriate on the basis of the level of security available and/or the stage of collection of amounts owed to the Group.

	Group and Society	
	2016	2015
	$'000	$'000
Past due but not impaired loans		
Under 3 months	5,403,225	5,284,581
3 months – 6 months	155,549	187,945
Over 6 months – 12 months	102,251	88,129
Over 12 months	312,322	506,173
Total carrying amount	5,973,347	6,066,828

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd)

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

(1) Loans receivable (cont'd)

Past due and impaired loans (cont'd)

These are loans where contractual interest or principal payments are past due and the Group believes that impairment allowance is appropriate on the basis of the level of security available and/or the stage of collection of amounts owed to the Group.

	Group and Society	
	2016	2015
	$'000	$'000
Past due and impaired loans		
3 months – 6 months	69,129	2,494
Over 6 months – 12 months	9,739	8,825
Over 12 months	285,228	256,537
Total carrying amount	364,096	267,856

Loans with renegotiated terms

Loans with renegotiated terms have been restructured due to deterioration in the borrowers' financial position and the Group has made concessions that it would not otherwise consider. Once a loan is restructured, it remains in this category irrespective of satisfactory performance after restructuring. The main restructuring activities were granting moratoria and rescheduling repayments. At December 31, 2016, the outstanding principal balances on loans that were restructured during the year amounted to $57,698,292 (2015: $135,982,000).

Allowances for impairment

The Group has established an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. Information on the impairment allowance is provided in note 11(b).

Write-off policy

The Group writes off a loan (and any related allowances for impairment losses) when it determines that the loans are uncollectible. This determination is usually made after considering information such as changes in the borrower's financial position, or that proceeds from collateral will not be sufficient to cover the entire exposure.

Collateral

Loan collateral represents mortgages over property, liens over motor vehicles and hypothecation of deposits held. The fair value of collateral that the Group held for loans past due (greater than three months) was $3,618,686,000 (2015: $3,843,766,000). [see note 5(a)(iii)].

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd)

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

(1) Loans receivable (cont'd)

Foreclosure

The Group sometimes acquires properties by way of foreclosure in the process of recovering amounts from defaulting borrowers. At the reporting date, the carrying amount of these assets was $262,541,502 (2015: $290,114,000). The Group's policy is, in accordance with regulatory requirements, to pursue realisation of the collateral in a timely manner, that is, within three years of acquisition. No financial or other assets (other than real property mentioned herein) were obtained during the year by taking possession of collateral.

(2) Cash and cash equivalents

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

(3) Investment securities

The Group manages the level of risk it undertakes by investing substantially in short-term investments which are Government of Jamaica securities, and subsequently monitoring the financial condition and performance of the debtors/issuers. There is significant concentration in securities issued or guaranteed by Government of Jamaica.

No investment securities were considered impaired at the reporting date.

(4) Resale agreements and certificates of deposit

Collateral is held for resale agreements other than those acquired from Bank of Jamaica, as set out in note 5(a)(iii) below.

(5) Accounts receivable

Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet repayment obligations and by changing these lending limits where appropriate.

(iii) Collateral and other credit enhancements held against financial assets

The Group holds collateral against loans and advances to customers and others in the form of mortgage interests over property, other registered securities over other assets, and guarantees. Estimates of fair value of such collateral are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over balances with banks or broker/dealers, except when securities are held under resale agreements. Collateral is generally not held against investment securities, and no such collateral was held at the current and previous reporting dates.

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd)

(iii) Collateral and other credit enhancements held against financial assets (cont'd)

An estimate, made at the time of borrowing, of the fair value of collateral and other security enhancements held against loans to borrowers and others is shown below:

	The Group				The Society			
	Loans and advances		Resale agreements		Loans and advances		Resale agreements	
	2016	2015	2016	2015	2016	2015	2016	2015
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Against neither past due nor impaired financial assets:								
Real property	75,745,870	72,222,839	-	-	75,745,870	72,222,839	-	-
Debt securities	-	-	20,392,568	18,764,221	-	-	18,134,613	17,444,195
Liens on motor vehicles	11,064	17,772	-	-	11,064	17,772	-	-
Hypothecation of deposits	1,959,017	2,075,639	-	-	1,959,017	2,075,639	-	-
Subtotal	77,715,951	74,316,250	20,392,568	18,764,221	77,715,951	74,316,250	18,134,613	17,444,195
Against past due (greater than 3 months) but not impaired financial assets:								
Real property	3,055,658	3,369,117	-	-	3,055,658	3,369,117	-	-
Against past due (greater than 3 months) and impaired financial assets:								
Real property	563,027	474,649	-	-	563,027	474,649	-	-
Total	81,334,636	78,160,016	20,392,568	18,764,221	81,334,636	78,160,016	18,134,613	17,444,195

There was no change in the types of exposures to credit risk to which the Group is subject or its approach to measuring and managing this risk during the year.

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate as a result of changes in market prices, whether caused by factors specific to the individual security or its issuer, or factors affecting all securities traded in the market. These arise mainly from changes in interest rates, foreign exchange rates, credit spreads and equity prices and will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

Management and monitoring of market risks

The Group separates its exposure to market risks between trading and non-trading portfolios. Market risks from trading activities are monitored by ALCO. ALCO monitors the price movement of securities on the local and international markets for both debt and equity securities. Market risks are managed through risk limits approved by the Board of Directors.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates and exchange rates. Interest rate risk and the other market risks associated with the non-trading portfolio are also monitored by ALCO and managed in the following way:

(i) Interest rate risk

Interest rate risk is the potential for economic loss due to future interest rate changes within a specified period. It arises when there is a mismatch between interest-earning assets and interest-bearing liabilities. It can be reflected as a loss of future net interest income and/or a decline in current fair values.

The following table summarises the carrying amounts of financial assets and liabilities in the statement of financial position to arrive at the Group's interest rate gap based on the earlier of contractual re-pricing and maturity dates.

The Group manages the risk by monitoring the savings fund to ensure its stability, by monitoring lending activity, by adjusting interest rates to the extent practicable within the overall policy of encouraging long-term savings, by facilitating home ownership, and by carefully managing interest margins.

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd)

(i) Interest rate risk (cont'd)

A summary of the interest rate gap at the reporting date, using historical data as a basis, is as follows:

	Group					
	2016					
	Immediately rate sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 12 months $'000	Non-rate sensitive $'000	Total $'000
Cash and cash equivalents	3,612,016	4,550,065	400,542	409,593	2,763,433	11,735,649
Investments	6,852,557	20,533,059	2,769,013	7,265,584	1,482,591	38,902,804
Resale agreements	4,985,868	7,036,137	4,743,095	612,410	-	17,377,510
Loans	-	34,531,088	-	-	-	34,531,088
Other assets	-	-	-	-	1,891,400	1,891,400
Total financial assets	15,450,441	66,650,349	7,912,650	8,287,587	6,137,424	104,438,451
Savings fund	-	48,683,697	13,070,803	10,211,455	-	71,965,955
Due to specialised institution	-	10,780,843	-	-	-	10,780,843
Other liabilities	-	-	-	-	1,282,618	1,282,618
Repurchase agreements	-	9,917,111	2,623,982	23,942	-	12,565,035
Total financial liabilities	-	69,381,651	15,694,785	10,235,397	1,282,618	96,594,451
Total interest rate sensitivity gap *	15,450,441	(2,731,302)	(7,782,135)	(1,947,810)	4,854,806	7,844,000
Cumulative gap	**15,450,441**	**12,719,139**	**4,937,004**	**2,989,194**	**7,844,000**	**-**

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd)

(i) Interest rate risk (cont'd)

	Group					
	2015					
	Immediately rate sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 12 months $'000	Non-rate sensitive $'000	Total $'000
Cash and cash equivalents	8,393,203	1,215,494	1,239,208	-	619,221	11,467,126
Investments	6,142,881	19,183,755	5,114,988	6,637,432	1,041,259	38,120,315
Resale agreements	1,597,263	1,787,185	8,032,783	1,583,027	-	13,000,258
Loans	-	32,902,398	-	-	-	32,902,398
Other assets	5	13,255	11,595	-	1,532,244	1,557,099
Total financial assets	16,133,352	55,102,087	14,398,574	8,220,459	3,192,724	97,047,196
Savings fund						
Due to specialised institution	-	49,454,500	12,990,559	4,030,664	-	66,475,723
Other liabilities	-	10,208,764	-	-	-	10,208,764
Repurchase agreements	-	-	-	-	1,176,121	1,176,121
Loan payable	-	8,401,520	3,637,920	-	-	12,039,440
Total financial liabilities	-	68,064,784	16,628,479	4,030,664	1,176,121	89,900,048
Total interest rate sensitivity gap *	16,133,352	(12,962,697)	(2,229,905)	4,189,795	2,016,603	7,147,148
Cumulative gap	**16,133,352**	**3,170,655**	**940,750**	**5,130,545**	**7,147,148**	**-**

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd)

(i) Interest rate risk (cont'd)

	Society 2016					
	Immediately rate sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 12 months $'000	Non-rate sensitive $'000	Total $'000
Cash and cash equivalents	4,075,981	4,489,001	400,542	409,593	2,013,904	11,389,021
Investments	6,852,557	15,385,696	2,437,899	-	1,060,727	25,736,879
Resale agreements	4,985,868	6,985,990	4,110,310	612,410	-	16,694,578
Loans	-	34,549,540	-	-	-	34,549,540
Other assets	-	-	-	-	1,210,157	1,210,157
Total financial assets	15,914,406	61,410,227	6,948,751	1,022,003	4,284,788	89,580,175
Savings fund	-	49,524,576	13,070,803	10,211,455	-	72,806,834
Due to specialised institution	-	10,780,843	-	-	-	10,780,843
Loans payable					525,481	525,481
Other liabilities	-	-	-	-	681,652	681,652
Total financial liabilities	-	60,305,419	13,070,803	10,211,455	1,207,133	84,794,810
Total interest rate sensitivity gap *	15,914,406	1,104,808	(6,122,052)	(9,189,452)	3,077,655	4,785,365
Cumulative gap	**15,914,406**	**17,019,214**	**10,897,162**	**1,707,710**	**4,785,365**	-

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd)

(i) Interest rate risk (cont'd)

	Society 2015					
	Immediately rate sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 12 months $'000	Non-rate sensitive $'000	Total $'000
Cash and cash equivalents	8,109,172	1,198,923	1,239,208	-	562,444	11,109,747
Investments	6,142,881	13,246,632	4,593,922	-	999,341	24,982,776
Resale agreements	1,620,105	1,644,101	7,894,947	1,583,027	-	12,742,180
Loans	-	32,923,104	-	-	-	32,923,104
Other assets	-	-	-	-	1,193,408	1,193,408
Total financial assets	15,872,158	49,012,760	13,728,077	1,583,027	2,755,193	82,951,215
Savings fund	-	50,346,572	12,990,559	4,030,664	-	67,367,795
Due to specialised institution	-	10,208,764	-	-	-	10,208,764
Loans payable	-	-	-	-	525,481	525,481
Other liabilities	-	-	-	-	542,066	542,066
Total financial liabilities	-	60,555,336	12,990,559	4,030,664	1,067,547	78,644,106
Total interest rate sensitivity gap *	15,872,158	(11,542,576)	737,518	(2,447,637)	1,687,646	4,307,109
Cumulative gap	**15,872,158**	**4,329,582**	**5,067,100**	**2,619,463**	**4,307,109**	-

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

Sensitivity to interest rate movements

The following table shows the effect on surplus and reserves of a reasonably possible change in interest rates of the amount indicated. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant. The analysis is performed on the same basis as for 2015.

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(i) Interest rate risk (cont'd)

Sensitivity to interest rate movements

	Group		Society	
	2015			
	Increase	(Decrease)	Increase	(Decrease)
Jamaica dollar	100bps	150bps	100bps	150bps
Foreign currencies	100bps	50bps	100bps	50bps
	$'000	$'000	$'000	$'000
Effect on surplus or deficit	11,673	(84,981)	79,347	(119,021)
Effect on reserves	(677,540)	674,045	92,336	(89,981)

(ii) Foreign currency risk

Foreign currency risk is the risk that the fair value of, or the cash flows from, financial instruments will vary because of exchange rate fluctuations in respect of transactions and balances that are denominated in currencies other than the Jamaica dollar. The main currencies giving rise to this risk are the United States dollar, Canadian dollar and the British Pound.

The Group manages this risk by ensuring that the net exposure is kept to an acceptable level through matching foreign currency assets and liabilities as far as practicable. At the reporting date, the net exposure, in nominal currencies, was as follows:

	Group					
	2016			2015		
	USD '000	GBP '000	CDN '000	USD '000	GBP '000	CDN '000
Foreign currency assets	238,864	71,653	9,169	202,520	69,173	9,269
Foreign currency liabilities and capital	(228,668)	(69,568)	(9,123)	(190,908)	(68,876)	(8,998)
Net foreign currency assets	10,196	2,085	46	11,612	297	271

	Society					
	2016			2015		
	USD '000	GBP '000	CDN '000	USD '000	GBP '000	CDN '000
Foreign currency assets	170,453	71,452	9,169	144,002	68,972	9,272
Foreign currency liabilities	(162,763)	(69,501)	(9,124)	(136,084)	(68,764)	(9,002)
Net foreign currency assets	7,690	1,951	45	7,918	208	270

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(ii) Foreign currency risk (cont'd)

Sensitivity to foreign exchange rate movements

The Group uses the average of Bank of Jamaica's buying and selling rates for balances denominated in foreign currencies [see policy 4(n)]; the rates are as follows:

	2016	2015
	J$	J$
United States Dollar	127.96	120.03
Canadian Dollar	95.14	84.09
Pound Sterling	157.22	176.43

A 1% (2015: 1%) strengthening of the Jamaica dollar against the following currencies at December 31, 2016 would have decreased profit by the amounts shown below. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis as for 2015.

	Group		Society	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
United States Dollar	(13,047)	(13,938)	(9,840)	(9,504)
Pound Sterling	(3,293)	(523)	(3,067)	(367)
Canadian Dollar	(44)	(228)	(43)	(265)
	(16,384)	(14,689)	(12,950)	(10,136)

A 6% (2015: 8%) weakening of the Jamaica dollar against the following currencies at December 31, 2016 would have increased surplus by the amounts shown. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis as for 2015.

	Group		Society	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
United States Dollar	78,282	111,505	59,041	76,029
Pound Sterling	19,761	4,183	18,405	2,937
Canadian Dollar	262	1,822	257	2,119
	98,305	117,510	77,703	81,085

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd)

(iii) Equity price risk

Equity price risk arises from equity securities held by the Group as part of its investment portfolio. Management monitors the mix of debt and equity securities in its investment portfolio based on market expectations. The primary goal of the Group's investment strategy is to maximise investment returns.

The equity securities which the Group holds are listed on the Jamaica Stock Exchange. An increase or decrease of 10% (2015: 20%) in share prices would result in an increase or an equal decrease, respectively, in reserves of $148,550,900 (2015: $193,036,000) for the Group and $104,921,128 (2015: $143,181,000) for the Society.

There was no change during the year in the nature of the market risks to which the Group is exposed or the way in which it measures and manages these risks.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management requires the Group to maintain sufficient cash and marketable securities, monitor future cash flows and liquidity on a daily basis and have funding available through an adequate amount of committed facilities.

The management of the Group ensures that sufficient funds are held in short-term marketable instruments to meet its liabilities when due, without incurring unacceptable losses or risk damage to the Group's reputation.

The daily liquidity position is monitored by reports covering the positions of the Group. All liquidity policies and procedures are subject to review and approval by the Finance Committee.

The Society and Victoria Mutual Wealth Management Limited are subject to externally imposed liquidity ratios. These ratios are taken into account by management in its measurement and management of liquidity risk.

(i) The key measure used for managing liquidity risk of the Society is the ratio of net liquid assets to shareholders' and depositors' savings. For this purpose, net liquid assets include cash and cash equivalents and investment in debt securities for which there is an active and liquid market, less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. This calculation is used to measure the Society's compliance with the liquidity limit established by Bank of Jamaica.

	Ratio of net liquid assets to deposits from customers	
	2016	2015
Regulator's minimum required ratio	5.00%	5.00%

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd)

(i) (Cont'd)

	Ratio of net liquid assets to deposits from customers 2016	2015
Actual ratios:		
As at December 31	18.29%	14.07%
Average for the year	16.00%	14.99%
Highest % attained for the year	22.06%	19.29%
Lowest % attained for the year	12.19%	13.12%

(ii) The stockbroking subsidiary, Victoria Mutual Wealth Management Limited, manages liquidity risk by keeping a pre-determined portion of its financial assets in liquid form. The key measure used for monitoring liquidity risk is the ninety day liquidity gap ratio. The numerator is calculated by subtracting the total assets maturing within ninety days from the total liabilities which fall due in ninety days. The denominator is total liabilities. The ninety day liquidity gap ratio at the end of the year was as follows:

	Ninety-day liquidity gap ratio 2016	2015
Regulator's minimum required ratio	25.00%	25.00%
Actual ratio	81.65%	75.76%

(iii) Maturity profile

The following table presents the contractual maturity profile of financial liabilities, including interest payments, on the basis of their earliest possible contractual maturity.

	Group						
	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	Over 5 years $'000	Contractual cash flows $'000	Carrying amount $'000
				2016			
Due to savers	106,051	48,895,798	14,025,259	15,441,982	-	78,469,090	71,965,955
Due to specialised institutions	5,015,300	23	963	969,677	5,817,501	11,803,464	10,780,843
Repurchase agreements	-	8,541,948	3,999,145	23,942	-	12,565,035	12,565,035
Other liabilities	592,559	690,059	-	-	-	1,282,618	1,282,618
				2015			
Due to savers	124,519	48,616,468	14,111,229	10,173,560	-	73,025,776	66,475,723
Due to specialised institution	4,013,173	-	1,556	782,715	6,301,710	11,099,154	10,208,764
Repurchase agreements	-	8,124,783	4,129,409	-	-	12,254,192	12,039,440
Other liabilities	-	1 ,176,121	-	-	-	1,176,121	1,176,121

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd)

(iii) Maturity profile (cont'd)

	Society						
	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	Over 5 years $'000	Contractual cash flows $'000	Carrying amount $'000
	2016						
Due to savers	106,051	49,736,677	14,025,259	15,441,982	-	79,309,969	72,806,834
Due to specialised institutions	5,015,300	23	963	969,677	5,817,501	11,803,464	10,780,843
Other liabilities	-	681,652	-	-	-	681,652	681,652
Loan payable	-	-	-	-	525,481	525,481	525,481
	2015						
Due to savers	124,519	49,508,540	14,111,229	10,173,560	-	73,917,848	67,367,795
Due to specialised institutions	4,013,173	-	1,556	782,715	6,301,710	11,099,154	10,208,764
Other liabilities	-	542,066	-	-	-	542,066	542,066
Loan payable	-	-	-	-	525,481	525,481	525,481

There was no change to the Group's approach to managing liquidity risk during the year.

(d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than financial risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness and to eliminate control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to identify operational risk is assigned to senior management. This responsibility is supported by overall Group standards for the management of operational risk in the following areas:

- periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- appropriate segregation of duties, including the independent authorisation of transactions;
- reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- reporting of operational losses and proposed remedial action; and
- development of contingency plans.

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Operational risk (cont'd)

- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Group Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to senior management of the Group and the Audit Committees.

6. CAPITAL MANAGEMENT

Capital risk is the risk that the Group fails to comply with mandated regulatory requirements, resulting in a breach of capital adequacy ratios and the possible suspension or loss of one or more licenses. The Group's objectives when managing capital, which is a broader concept than the "capital" mentioned on the face of the statement of financial position are:

- To comply with the capital requirements set by the regulators;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide benefits for members and other stakeholders; and
- To maintain a strong capital base to support the development of its business.

(a) The Society

Bank of Jamaica requires that building societies maintain a minimum of 10% (2015: 10%) of their risk weighted assets in capital.

	Society	
	2016 $'000	2015 $'000
Capital base (note 27)	12,216,204	10,798,348
Qualifying capital	10,362,634	9,271,154
On balance sheet risk weighted assets	50,106,300	40,739,022
Off balance sheet risk weighted assets –Loan commitments	286,762	1,224,349
Foreign exchange exposure	3,267,589	2,592,033
Total risk assessed assets	53,660,651	44,555,404
Risk based capital adequacy ratio	19.31%	20.81%
Regulatory requirement	10.00%	10.00%

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

6. CAPITAL MANAGEMENT (CONT'D)

(b) Victoria Mutual Wealth Management Limited

The Financial Services Commission monitors compliance with the capital requirements established for entities involved in non-deposit taking financial services. The subsidiary's regulatory capital position as at the reporting date was as follows:

	2016 $'000	2015 $'000
Tier 1 Capital	1,500,736	1,300,088
Tier 2 Capital	43,867	43,867
Total regulatory capital	1,544,603	1,343,955
Risk weighted assets		
On statement of financial position	7,458,620	6,658,561
Foreign exchange exposure	263,213	381,400
	7,721,833	7,039,961
Operational risk-weighted assets	218,894	-
	7,940,727	7,039,961

Capital ratios	Minimum required		Actual	
	2016	2015	2016	2015
Total regulatory qualifying capital/ Total risk weighted assets	10.00%	10.00%	19.45%	19.09%
Tier 1 Capital/Total regulatory capital	50.00%	50.00%	97.25%	96.7%
Capital base/Total assets	6.00%	6.00%	9.89%	8.75%

(c) Prime Asset Management Limited

Prime Asset Management Limited is regulated by the Financial Services Commission. The subsidiary's regulatory capital position as at the reporting date was as follows:

	2016 $'000	2015 $'000
Tier 1 Capital	63,202	64,661
Tier 2 Capital	-	(9,534)
Total regulatory capital	63,202	55,127
Risk-Weighted Assets:		
Per statement of financial position	109,957	133,773
Foreign exchange exposure	63,980	40,164
	173,937	173,937

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

6. CAPITAL MANAGEMENT (CONT'D)

(c) Prime Asset Management Limited (cont'd)

Capital adequacy ratios	Minimum required		Actual	
	2016	2015	2016	2015
Total regulatory capital/risk-weighted assets	10.00%	10.00%	23.74%	31.69%
Tier 1 Capital/Total regulatory capital	50.00%	50.00%	100%	117.29%
Actual capital base /total assets	6.00%	6.00%	25.09%	35.29%

7. CASH AND CASH EQUIVALENTS

	Group		Society	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Cash in hand and at banks and other financial institutions	3,759,756	2,827,254	3,413,128	2,469,875
Statutory reserves held at Bank of Jamaica	699,956	640,197	699,956	640,197
Term deposits at banks	7,275,937	7,999,675	7,275,937	7,999,675
	11,735,649	11,467,126	11,389,021	11,109,747

Statutory reserves, required by regulation to be held at Bank of Jamaica, comprise cash reserves. They are not available for use by the Society in the ordinary course of business. The amounts are determined by the percentage of specified liabilities stipulated by Bank of Jamaica. For the rate to remain at no more than one per cent of specified liabilities, as defined, the Society must have qualifying assets of a stipulated percentage of the specified liabilities, currently 40% (2015: 40%).

8. INVESTMENTS - JAMAICA GOVERNMENT SECURITIES

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

	Group		Society	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Available-for-sale securities				
Securities denominated in United States dollars:				
Bonds	6,269,555	7,065,340	2,600,944	2,635,965
Securities denominated in Jamaica dollars:				
Bonds	9,833,899	9,259,910	9,833,899	9,259,899
Certificates of deposit	5,050,746	4,793,662	-	-
Treasury bills	876,612	275,044	876,612	273,921
	15,761,257	14,328,616	10,710,511	9,533,820
	22,030,812	21,393,956	13,311,455	12,169,785

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

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

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Balance brought forward	22,030,812	21,393,956	13,311,455	12,169,785
Fair value through profit or loss				
Securities denominated in				
Jamaica dollar:				
Derivative - Put option	192,707	203,954	192,707	203,954
Loans and receivables				
Securities denominated in				
United States dollars:				
Bonds	162,188	156,812	120,590	116,945
Securities denominated in:				
Jamaica dollars:				
Certificates of deposit	725,401	1,326,008	725,401	1,326,008
Indexed bonds	-	79,979	-	79,979
United States dollars:				
Certificates of deposit	2,988,737	2,206,368	2,988,737	2,206,368
Pounds Sterling:				
Certificates of deposit	2,201,147	2,469,977	2,201,147	2,469,977
	6,270,180	6,443,098	6,228,582	6,403,231
	28,300,992	27,837,054	19,540,037	18,573,016

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

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Within 3 months	3,558,030	1,309,980	3,360,194	1,309,980
From 3 months to 1 year	1,871,341	1,021,273	1,552,291	549,634
From 1 year to 5 years	13,091,026	16,540,602	7,845,977	9,832,375
Thereafter	9,780,595	8,965,199	6,781,575	6,881,027
	28,300,992	27,837,054	19,540,037	18,573,016

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

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

Reclassified financial assets

As at October 1, 2008, the Group reclassified certain investment securities, previously classified as available-for-sale, to loans and receivables, in accordance with paragraph 50(E) of IAS 39. The standard requires that the reclassification be made at the fair value of the assets at the date of the reclassification.

	2016		2015	
	Carrying value $'000	Fair value $'000	Carrying value $'000	Fair value $'000
	Group			
US$ denominated GOJ Global bonds	150,980	156,812	152,114	153,126
	Society			
US$ denominated GOJ Global bonds	109,382	120,590	116,945	113,115

(a) Fair value gains of $11,199,541 (2015: $2,909,000) for the Group and $11,208,225 (2015: $2,918,000) for the Society, excluding deferred taxation, would have been included in reserves for the year had the investments not been reclassified as loans and receivables. This amount was estimated on the basis of the bid price of the securities as at December 31, 2016. Management believes that this price is indicative of the active market for the securities at the reporting date.

(b) The annual weighted average effective interest rate on the investment securities at the date of reclassification was 9.76% for USD denominated securities and 10.50% for EURO denominated securities, for the Group, and 11.625% for USD denominated securities for the Society. The undiscounted cash flows to be recovered from the investment securities reclassified are $219,448,000 (2015: $219,823,000) for the Group and $165,082,000 (2015: $165,453,000) for the Society.

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

9. INVESTMENTS – OTHER

	Group		Society	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Investments securities at fair value through profit or loss:				
Quoted equities	145,600	49,043	-	-
Loans and receivables:				
Bank deposits	103,726	438,223	-	-
Bonds	-	1,682,806	-	1,682,806
Held to maturity securities:				
Bonds	1,980,574	75,950	1,980,574	75,950
Available-for-sale:				
Bonds	7,020,527	7,108,587	3,155,542	3,925,579
Ordinary shares - quoted	1,336,456	916,135	1,049,211	715,909
Ordinary shares - unquoted	3,453	3,040	39	39
Units in unit trusts	11,476	9,477	11,476	9,477
	10,601,812	10,283,261	6,196,842	6,409,760

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

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

	Group		Society	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Immediately	1,496,987	977,695	1,060,728	725,425
Within 3 months	353,893	798,462	38,004	240,057
From 3 months to 1 year	693,850	898,224	650,092	491,812
From 1 year to 5 years	4,826,216	4,216,627	2,489,108	2,714,750
Thereafter	3,230,866	3,392,253	1,958,910	2,237,716
	10,601,812	10,283,261	6,196,842	6,409,760

10. RESALE AGREEMENTS

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

10. RESALE AGREEMENTS (CONT'D)

	Group		Society	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Denominated in Jamaica dollars	2,042,435	4,802,826	7,503,623	6,699,349
Denominated in Sterling	8,032,560	1,463,715	8,032,560	1,463,715
Denominated in United States dollars	7,302,515	6,733,717	1,158,395	4,579,116
	17,377,510	13,000,258	16,694,578	12,742,180

Under resale agreements, the securities obtained as collateral may themselves be sold under repurchase agreements (see note 23). At December 31, 2016, such securities had a fair value of $20,392,568,778 (2015: $13,608,985,000) and $18,134,613,000 (2015: $13,518,673,000) for the Group and the Society, respectively.

11. LOANS

(a) Composition of loans

	Group		Society	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Conventional mortgage loans	33,300,278	31,613,119	33,300,278	31,613,119
Mortgage escrow (see below)	434,781	451,346	434,781	451,346
Allowance for impairment	(183,002)	(176,585)	(183,002)	(176,585)
Net conventional mortgage loans	33,552,057	31,887,880	33,552,057	31,887,880
Share loans	862,974	935,052	862,974	935,052
Commercial loans	351		18,803	20,706
Staff loans	115,706	79,466	115,706	79,466
Total loans, net	34,531,088	32,902,398	34,549,540	32,923,104
		-		

Mortgage escrow represents insurance premiums paid by the Society on behalf of mortgagors. These amounts are recoverable over one year and are collected as part of monthly mortgage installments.

(b) Allowance for impairment

	Group and Society	
	2016	2015
	$'000	$'000
Balances at the beginning of the year	176,585	171,442
Net charge against income for the year	6,417	5,143
Balances at the end of the year per IAS 39 [see (c) below]	183,002	176,585

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

11. LOANS

(c) Credit facility reserves

	Group and Society	
	2016	2015
	$'000	$'000
Regulatory loan loss provision	1,365,622	1,557,499
Less: Impairment allowance based on IAS 39		
[see (b) above]	(183,002)	(176,585)
Credit facility reserve at end of year	1,182,620	1,380,914

The loan loss provision in excess of the impairment allowance required under IFRS is included in a non-distributable credit facility reserve [note 26(iv)].

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

	Group		Society	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Within three months	205,477	56,652	223,929	25,969
3 months to 1 year	140,588	98,338	140,588	98,338
From 1 year to 5 years	2,181,105	2,027,167	2,181,105	2,027,167
Thereafter	32,003,918	30,720,241	32,003,918	30,771,630
	34,531,088	32,902,398	34,549,540	32,923,104

12. OTHER ASSETS

	Group		Society	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Interest receivable	989,720	997,054	813,750	904,772
Income tax recoverable	1,026,498	856,994	993,562	812,161
Late fees	54,738	41,853	54,738	41,853
Margin loan receivable	268,626	101,646	-	-
Sundry receivables and prepayments	579,375	416,546	341,669	246,783
	2,918,957	2,414,093	2,203,719	2,005,569

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

13. DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets

Deferred tax assets are attributable to the following:

	Group						
	2014 $'000	Recognised in income $'000	Recognised in equity $'000	2015 $'000	Recognised in income $'000	Recognised in equity $'000	2016 $'000
Investments	27,563	(15,561)	24,438	36,440	24,896	28,107	89,443
Other receivables	(40,004)	8,339	-	(31,665)	(20,668)	-	(52,333)
Property, plant and equipment	(1,391)	(3,130)	-	(4,521)	6,373	-	1,852
Other liabilities	36,099	(4,524)	-	31,575	(3,096)	-	28,479
Employee benefit obligation	18,891	700	(1,167)	18,424	(150)	(1,200)	17,074
Unrealised foreign exchange loss	(4,877)	(525)	-	(5,402)	(30)	-	(5,432)
Provision for vacation leave	436	-	-	436	-	-	436
	36,717	(14,701)	23,271	45,287	7,325	26,907	79,519

Deferred tax assets of approximately $3,687,000 (2015:$4,293,000) have not been recognised in respect of tax losses of certain subsidiaries [note 35(b)] as management does not consider that it is probable that taxable profits will be available against which the asset will be realised within the foreseeable future.

(b) Deferred tax liabilities

Deferred tax liabilities are attributable to the following:

	Group						
	2014 $'000	Recognised in income $'000	Recognised in equity $'000	2015 $'000	Recognised in income $'000	Recognised in equity $'000	2016 $'000
Other receivables	(245)	103	-	(142)	97	-	(45)
Employee benefits asset	(468,210)	(24,243)	(80,580)	(573,033)	15,840	(150,960)	(708,153)
Property, plant and equipment	46,402	31,036	-	77,438	(47,355)	-	30,083
Employee benefits obligation	225,415	28,639	7,883	261,937	(27,647)	4,807	239,097
	(196,638)	35,535	(72,697)	(233,800)	(59,065)	(146,153)	(439,018)

	Society						
	2014 $'000	Recognised in income $'000	Recognised in equity $'000	2015 $'000	Recognised in income $'000	Recognised in equity $'000	2016 $'000
Employee benefits asset	(468,210)	(24,243)	(80,580)	(573,033)	15,840	(150,960)	(708,153)
Property, plant and equipment	46,402	31,036	-	77,438	(47,355)	-	30,083
Employee benefits obligation	225,415	28,639	7,883	261,937	(27,647)	4,807	239,097
	(196,393)	35,432	(72,697)	(233,658)	(59,162)	(146,153)	(438,973)

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

14. EMPLOYEE BENEFITS ASSET/OBLIGATION

The Group provides post-employment pension benefits through a defined-contribution pension plan and defined-benefit pension plan, both administered by trustees.

The defined-contribution plan is closed to new entrants and there are no further contributions. The defined-benefit plan is funded by contributions from the Group and employees in accordance with the rules of the plan. The Society has made an application to establish a new defined contribution plan for new employees after December 31, 2016.

Under the existing defined-contribution plan, retirement benefits are based on the Group's and employees' accumulated contributions plus interest and, therefore, the Group has no further liability to fund benefits. The defined-benefit plan, under which retirement benefits are calculated by reference to, *inter alia*, final salary, is subject to a triennial actuarial funding valuation, the most recent being as at December 31, 2013. For purposes of determining the employee benefit asset or obligation included in the financial statements at the end of the period and the costs for the period, an IAS 19 actuarial valuation is done each year.

The Group also provides post-employment medical benefits to retirees.

The amounts in the statement of financial position in respect of the defined-benefit pension plans and post-employment medical benefits are as follows:

	Group		Society	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Employee benefits asset (i)	2,466,111	1,910,111	2,466,111	1,910,111
Post-employment medical benefit obligation (ii)	1,036,104	937,926	981,304	873,126

(i) Employee benefits asset

(a) Amount recognised in the statement of financial position

	Group and Society	
	2016	2015
	$'000	$'000
Present value of funded obligations	(3,611,489)	(3,525,889)
Fair value of plan assets	6,234,400	5,436,000
Unrecognised amount due to limitation	(156,800)	-
	2,466,111	1,910,111

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

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

(i) Employee benefits asset (cont'd)

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

	Group and Society	
	2016 $'000	2015 $'000
Balance at beginning of year	3,525,889	2,826,800
Benefits paid	(178,700)	(142,911)
Voluntary contributions	37,200	27,000
Service cost	155,200	111,000
Interest cost	306,900	273,600
Remeasurement (gain)/loss arising from:		
Experience adjustment	(149,800)	(82,900)
Financial assumption	(85,200)	513,300
Balance at end of year	3,611,489	3,525,889

(c) Movement in plan assets

	2016 $'000	2015 $'000
Fair value of plan assets at beginning of year	5,436,000	4,387,500
Contributions paid into the plan	93,600	78,600
Benefits paid by the plan	(178,700)	(142,900)
Net interest income on plan assets	458,400	413,800
Remeasurement gain on assets included in other comprehensive income	425,100	699,000
Fair value of plan assets at end of year	6,234,400	5,436,000
Plan assets consist of the following:		
Equity securities	2,263,300	1,934,600
Government securities	2,776,600	2,640,900
Resale agreements	-	126,700
Real estate fund	1,110,600	-
Other assets	83,900	733,800
	6,234,400	5,436,000

(d) Credit recognised in the income statement

	2016 $'000	2015 $'000
Current service costs	104,000	64,100
Interest on obligation	306,900	273,600
Net interest income on plan assets	(458,400)	(413,800)
	(47,500)	(76,100)

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

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

(i) Employee benefits asset (cont'd)

(e) Items recognised in other comprehensive income

	Group and Society	
	2016	2015
	$'000	$'000
Remeasurement (gain)/loss in obligation	(235,000)	430,400
Remeasurement gain in asset	(425,100)	(699,000)
Change in effect of asset ceiling	156,900	-
	(503,200)	(268,600)

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

	Group and Society	
	2016	2015
	%	%
Discount rate at December 31	9.0	8.5
Future salary increases	7.0	6.0
Future pension increases	5.0	5.0

(g) Sensitivity analysis

A one percentage point change at the reporting date to one of the relevant financial assumptions, holding other assumptions constant, would have affected the defined benefit obligations by amounts shown below:

	Group and Society			
	2016		2015	
Financial assumptions	1% point increase	1% point decrease	1% point increase	1% point decrease
	$'000	$'000	$'000	$'000
Discount rate	(537,472)	711,776	(525,688)	574,650
Assumed rate of salary escalation	246,993	(206,710)	221,793	(189,172)
Future rate of pension	405,514	(337,142)	416,017	(344,279)

(h) The Group expects to pay $6,965,792 in contributions to the defined-benefit plan in 2017.

(ii) Other post employment benefits

The employee benefits obligation represents the present value of the constructive obligation to provide medical and other benefits to retirees.

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

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

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

(a) Movement in present value of defined benefit obligation

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Present value of obligation at the start of the year	937,926	811,883	873,126	751,383
Interest cost	80,947	78,663	76,147	74,063
Current service cost	40,134	39,393	36,234	35,393
Benefits paid	(14,626)	(14,089)	(14,426)	(13,989)
Adjustment due to change in policy	(14,100)	-	-	-
Remeasurement (gain)/loss arising from:				
Changes in demographic assumptions	-	(70,396)	-	(66,196)
Experience adjustments	(20,473)	92,972	(20,473)	92,972
Financial assumptions	26,296	(500)	30,696	(500)
	1,036,104	937,926	981,304	873,126

(b) Expense recognised in the income statement

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Adjustment due to change in policy	(14,100)	-	-	-
Interest cost	80,947	78,663	76,147	74,063
Current service costs	40,134	39,393	36,234	35,393
	106,981	118,056	112,381	109,456

(c) Items in other comprehensive income

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Remeasurement loss on obligation	5,823	22,076	10,223	26,276

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

	Group and Society	
	2016 %	2015 %
Financial assumptions:		
Discount rate	9.0	8.5
Medical claims growth	8.0	7.0

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

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

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

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

Statistical assumptions:

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining life expectancy of an individual retiring at age 65 is 21 years for males and 26 years for females.

(e) Sensitivity to changes in financial assumptions

A one percentage point change at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by amounts shown below:

	Group			
	2016		2015	
	1% point increase $'000	1% point decrease $'000	1% point increase $'000	1% point decrease $'000
Assumed medical cost trend rate and rate of salary escalation	241,100	(179,300)	213,900	(158,200)
Discount rate	(179,300)	241,100	(158,200)	213,900

	Society			
	2016		2015	
	1% point increase $'000	1% point decrease $'000	1% point increase $'000	1% point decrease $'000
Assumed medical cost trend rate and rate of salary escalation	225,600	(167,800)	192,800	(142,600)
Discount rate	(167,800)	225,600	(142,600)	192,800

15. INTEREST IN SUBSIDIARIES

	Society	
	2016 $'000	2015 $'000
Shares, at cost [see note 1(b)]	929,610	929,610
Current accounts	294,924	299,276
	1,224,534	1,228,886

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

16. INTEREST IN ASSOCIATE

The carrying amount of interest in associated company represents the cost of shares acquired and the Group's share of post acquisition reserves in British Caribbean Insurance Company Limited (BCIC), as follows:

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Shares, at cost [see note 11(c)]	659,200	659,200	659,200	659,200
Share of post-acquisition profits	297,196	222,518	-	-
Share of investment revaluation reserve	142,680	128,817	-	-
	1,099,076	1,010,535	659,200	659,200

The following table summarises the financial information of BCIC showing fair value adjustments on acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in this material associate.

	2016 $'000	2015 $'000
Percentage ownership interest	**31.5%**	**31.5%**
Assets	9,863,757	8,759,498
Liabilities	(6,605,129)	(5,781,952)
Net assets (100%)	3,258,628	2,977,546
Group's share of net assets	1,026,468	937,927
Fair value adjustments and elimination of differences in accounting policies and intra-group transactions	72,607	72,608
Carrying amount of interest in BCIC	1,099,075	1,010,535
Revenue	7,460,966	7,796,325
Profit for the year	516,271	385,110
Other comprehensive income, net of tax	44,008	286,534
Total comprehensive income	560,279	671,644
Group's share of total comprehensive income	176,488	211,568
Group's share of profit for year	162,625	121,310

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

17. INTANGIBLE ASSETS

	Group						
	Goodwill $'000	Computer software $'000	Computer software work in progress $'000	Total $'000	Computer software $'000	Computer software work in progress $'000	Total $'000
Cost:							
December 31, 2014	609,215	402,608	87,006	1,098,829	349,588	87,006	436,594
Additions	-	559	417,927	418,486	-	351,633	351,633
Transfers	-	66,927	(66,927)	-	66,927	(66,927)	-
December 31, 2015	609,215	470,094	438,006	1,517,315	416,515	371,712	788,227
Additions	-	32,751	491,343	524,094	-	491,343	491,343
Transfers	-	416,062	(416,062)	-	416,062	(416,062)	-
December 31, 2016	609,215	918,907	513,287	2,041,409	832,577	446,993	1,279,570
Amortisation:							
December 31, 2014	-	298,391	-	298,391	260,153	-	260,153
Charge for year	-	36,693	-	36,693	30,562	-	30,562
December 31, 2015	-	335,084	-	335,084	290,715	-	290,715
Charge for year	-	47,393	-	47,393	40,793	-	40,793
December 31, 2016	-	382,477	-	382,477	331,508	-	331,508
Carrying value							
December 31, 2016	609,215	536,430	513,287	1,658,932	501,069	446,993	948,062
December 31, 2015	609,215	135,010	438,006	1,182,231	125,800	371,712	497,512
December 31, 2014	609,215	104,217	87,006	800,438	89,435	87,006	176,441

Goodwill comprises the excess of cost over fair value of the net assets of the subsidiary acquired in 2013. In testing goodwill for impairment, the recoverable amount of the cash-generating unit is estimated based on value-in-use. Where the recoverable amount exceeds the carrying amount, no impairment allowance is made. The recoverable amount of the cash-generating unit is arrived at by estimating the future cash flows and discounting those cash flows using long-term discount rates applicable to Jamaica. Future sustainable cash flows are estimated based on the most recent projections, after taking account of past experience. The cash flow projections include specific estimates for each of the five years following the reporting date, and a terminal value thereafter. These annual estimates and the terminal value are calculated using an assumed growth rate.

No impairment loss was recognised during the year (2015: $Nil) because the recoverable amount of the cash-generating unit was determined to be higher than the carrying amount.

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

	2016	2015
Discount rate	26.5%	26%
Growth rate	18.5%	19%
Jamaica dollar devaluation rate	6.6%	4%

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

18. INVESTMENT AND FORECLOSED PROPERTIES

	Group			Society		
	Investment properties $'000	Foreclosed properties $'000	Total $'000	Investment properties $'000	Foreclosed properties $'000	Total $'000
Cost:						
December 31, 2014	435,221	259,059	694,280	435,221	378,358	813,579
Additions	8,957	-	8,957	8,957	-	8,957
Disposals	-	(62,272)	(62,272)	-	(62,272)	(62,272)
December 31, 2015	444,178	196,787	640,965	444,178	316,086	760,264
Disposals	-	(22,052)	(22,052)	-	(22,052)	(22,052)
December 31, 2016	444,178	174,735	618,913	444,178	294,034	738,212
Depreciation:						
December 31, 2014	74,561	19,704	94,265	74,561	21,683	96,244
Charge for the year	6,985	9,121	16,106	6,985	9,121	16,106
Eliminated on disposals	-	(4,832)	(4,832)	-	(4,832)	(4,832)
December 31, 2015	81,546	23,993	105,539	81,546	25,972	107,518
Charge for the year	7,053	7,593	14,646	7,053	7,593	14,646
Eliminated on disposals	-	(2,073)	(2,073)	-	(2,073)	(2,073)
December 31, 2016	88,599	29,513	118,112	88,599	31,492	120,091
Net book values:						
December 31,2016	355,579	145,222	500,801	355,579	262,542	618,121
December 31, 2015	362,632	172,794	535,426	362,632	290,114	652,746
December 31, 2014	360,660	239,355	600,015	360,660	356,675	717,335

The fair values of properties were determined, in the case of properties acquired by way of foreclosure, by several different VMBS-approved qualified independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued, and, in the case of investment properties, by Victoria Mutual (Property Services) Limited (note 1). This fair value measurement has been categorised as Level 3, based on the inputs to the valuation techniques used.

(a) Reconciliation of opening to closing fair value

	Group and Society						
	2014 $'000	Additions $'000	Disposals $'000	2015 $'000	Additions $'000	Disposals $'000	2016 $'000
Investment properties	1,897,300	97,400*	-	1,994,700	-	-	1,994,700
Foreclosed properties	803,223	-	(62,272)	740,951	-	(22,052)	718,899
	2,700,523	97,400	(62,272)	2,735,651	-	(22,052)	2,713,599

* Gain on revaluation

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

18. INVESTMENT AND FORECLOSED PROPERTIES (CONT'D)

(b) Valuation techniques and significant unobservable inputs

The fair value of investment properties was determined generally by the comparison method, taking account of what similar properties in similar locations have been sold for in the recent past (or near similar properties and locations, with appropriate adjustments made) and current market conditions.

19. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold and freehold land and buildings $'000	Office furniture and equipment $'000	Motor vehicles $'000	Work in progress $'000	Total $'000
Cost:					
December 31, 2014	366,866	1,427,000	26,844	35,715	1,856,425
Translation adjustments	3,509	-	-	-	3,509
Additions	-	20,904	125	265,585	286,614
Transfer from work in progress	17,605	123,823	-	(141,428)	-
Disposals	-	(1,449)	(3,430)	-	(4,879)
December 31, 2015	387,980	1,570,278	23,539	159,872	2,141,669
Translation adjustments	(5,657)	(6,712)	-	-	(12,369)
Additions	82	15,138	11,100	228,253	254,573
Transfer from work in progress	88,635	248,876	-	(337,511)	-
December 31, 2016	471,040	1,827,580	34,639	50,614	2,383,873
Depreciation:					
December 31, 2014	95,005	990,770	17,253	-	1,103,028
Translation adjustments	(3,663)	-	-	-	(3,663)
Charge for year	15,915	100,107	3,744	-	119,766
Eliminated on disposals	-	(1,201)	(3,430)	-	(4,631)
December 31, 2015	107,257	1,089,676	17,567	-	1,214,500
Translation adjustments	(4,007)	(6,317)	-	-	(10,324)
Charge for year	17,158	107,463	5,170	-	129,791
December 31, 2016	120,408	1,190,822	22,737	-	1,333,967
Net book values:					
December 31, 2016	350,632	636,758	11,902	50,614	1,049,906
December 31, 2015	280,723	480,602	5,972	159,872	927,169
December 31, 2014	271,861	436,230	9,591	35,715	753,397

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

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

	Society				
	Leasehold and freehold land and buildings $'000	Office furniture and equipment $'000	Motor vehicles $'000	Work in progress $'000	Total $'000
Cost:					
December 31, 2014	316,758	1,299,727	23,134	35,715	1,675,334
Additions	-	1,614	-	245,850	247,464
Transfer from work in progress	17,605	123,824	-	(141,429)	-
December 31, 2015	334,363	1,425,165	23,134	140,136	1,922,798
Additions	-	3,347	11,100	219,322	233,769
Transfer from work in progress	88,635	248,876	-	(337,511)	-
			-	-	
December 31, 2016	422,998	1,677,388	34,234	21,947	2,156,567
			-		-
Depreciation:					
December 31, 2014	77,371	899,901	13,795	-	991,067
Charge for year	7,365	91,923	3,679	-	102,967
December 31, 2015	84,736	991,824	17,474	-	1,094,034
Charge for year	8,299	97,202	5,089	-	110,590
December 31, 2016	93,035	1,089,026	22,563	-	1,204,624
Net book values:					
December 31, 2016	329,963	588,362	11,671	21,947	951,943
December 31, 2015	249,627	433,341	5,660	140,136	828,764
December 31, 2014	239,387	399,826	9,339	35,715	684,267

20. SHAREHOLDERS' SAVINGS

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
General investment ("B") shares	647,541	540,168	1,488,420	1,432,240
Paid up investment ("C") shares	67,704,745	62,342,298	67,704,745	62,342,298
	68,352,286	62,882,466	69,193,165	63,774,538
Deferred shares [notes 26(i) and 27]	2,491,069	2,506,186	2,491,069	2,506,186
	70,843,355	65,388,652	71,684,234	66,280,724

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

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

20. SHAREHOLDERS' SAVINGS (CONT'D)

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

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
On demand to 3 months	48,401,976	49,259,501	48,401,976	49,259,501
Three to 12 months	13,070,803	12,990,559	13,070,803	12,990,559
Over 12 months	9,370,576	3,138,592	10,211,455	4,030,664
	70,843,355	65,388,652	71,684,234	66,280,724

21. DEPOSITORS' SAVINGS

	Group and Society	
	2016 %	2015 %
Due to depositors	1,122,600	1,087,071
Percentage of the Society's mortgage loan balances *	3.37%	3.44%

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

22. OTHER LIABILITIES

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Deposits – private treaty sales	29,573	70,601	29,573	70,601
Customers' and clients' funds	428,354	459,667	200,220	123,872
Accrued expenses and other payables	824,691	645,853	451,859	347,593
	1,282,618	1,176,121	681,652	542,066

23. REPURCHASE AGREEMENTS

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

	Group	
	2016 $'000	2015 $'000
Denominated in Jamaica dollars	4,137,253	4,937,813
Denominated in United States dollars	8,427,783	7,101,627
	12,565,035	12,039,440

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

23. REPURCHASE AGREEMENTS (CONT'D)

At December 31, 2016, securities obtained under resale agreements and certain investments (see notes 8 and 10) and interest accrued thereon are pledged as collateral for repurchase agreements. These financial instruments have a carrying value of $13,698,978,884 (2015: $12,969,880,000) for the Group.

24. LOAN PAYABLE

This Jamaica dollar loan, payable to a subsidiary, is unsecured and interest-free, with no fixed repayment date. However, in the event of a default, the loan shall bear interest at 4% per annum.

25. PERMANENT CAPITAL FUND

The Regulations (see note 2) require that every building society maintains a minimum subscribed capital of $25,000,000. At least four-fifths of such subscribed capital is to be paid up in cash. In view of the non-applicability of "subscribed capital" to a mutual society, and in accordance with an agreement with Bank of Jamaica, pending passage of appropriate legislation, a "Permanent Capital Fund" has been established in lieu of subscribed capital [see note 26(i)].

26. RESERVES

(i) Reserve fund

The Banking Services Act and Regulations (Regulations) require the Society to transfer at least 10% of its net surplus after income tax each year to the reserve fund until the amount of the reserve fund is equal to the amount paid up on its Permanent Capital Fund [which, though not formally recognised, is the fund substituted for the capital shares referred to in the regulations (see notes 25 and 27)] and its deferred shares (note 20).

(ii) Retained earnings reserve

The Regulations permit the Society to transfer a portion of its profits to a retained earnings reserve, which constitutes a part of the capital base (see note 27). Transfers of profits to the retained earnings reserve are made at the discretion of the Directors, but must be notified to Bank of Jamaica to be effective.

(iii) Capital reserve on consolidation

Capital reserve on consolidation represents primarily subsidiaries' post acquisition retained earnings capitalised by the issue of bonus shares.

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

26. RESERVES (CONT'D)

(iv) Credit facility reserve

Credit facility reserve represents provisions for loan losses required under the Building Societies Act in excess of the requirements of IFRS [see notes 4(m)(i) and 11(c)].

(v) Investment revaluation reserve

Investment revaluation reserve represents cumulative unrealised gains, net of losses, arising from the changes in fair value of available-for-sale investments until the investment is derecognised or impaired.

(vi) Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Society's net investment in foreign operations.

27. CAPITAL BASE

	Group and Society	
	2016	2015
	$'000	$'000
Permanent capital fund (note 25)	7,866,415	6,980,852
Reserve fund [note 26(i)]	949,763	851,367
Retained earnings reserve [note 26(ii)]	908,857	459,943
Deferred shares (note 20)	2,491,069	2,506,186
Total capital base [note 6(b)]	12,216,104	10,798,348

Capital base has the meaning ascribed in the regulations.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Definition and measurement of fair values

The Group's accounting policies on measurement and disclosure require the measurement of fair values for financial assets and financial liabilities. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT´D)

DECEMBER 31, 2016

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

(a) Definition and measurement of fair values (cont'd)

In measuring fair value of an asset or liability, where a quoted market price is available, fair value is computed by the Group using the quoted bid price at the reporting date, without any deduction for transaction costs or other adjustments. Where a quoted market price is not available, fair value is computed using alternative techniques making use of observable data as far as possible. Fair values are categorised into different levels in a three-level fair value hierarchy, based on the degree to which the inputs used in the valuation techniques are observable. The different levels in the hierarchy have been defined as follows:

Level 1 refers to financial assets and financial liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 refers to financial assets and financial liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, and for which pricing is obtained via pricing services, but where prices have not been determined in anactive market. This includes financial assets with fair values based on broker quotes, investments in funds with fair values obtained via fund managers, and assets that are valued using a model whereby the majority of assumptions are market observable.

Level 3 refers to financial assets and financial liabilities that are measured using non-market observable inputs. This means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

(b) Valuation techniques for investment securities classified as Level 2

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

Type	Valuation techniques
US$ denominated GOJ securities	• Obtain bid price provided by a recognised broker/dealer, namely, Oppenheimer • Apply price to estimate fair value
J$ denominated securities issued or guaranteed by GOJ	• Obtain bid price provided by a recognised pricing source (which uses Jamaica-market-supplied indicative bids) • Apply price to estimate fair value
Units in unit trusts	• Obtain prices quoted by unit trust managers • Apply price to estimate fair value

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

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

(c) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

		Group					
		2016					
		Carrying amount			Fair value		
	Notes	Available-for-sale $'000	Fair value through profit or loss $'000	Total $'000	Level 1 $'000	Level 2 $'000	Total $'000
Financial assets measured at fair value:							
Government of Jamaica	8	16,103,454	-	16,103,454	-	16,103,454	16,103,454
Certificates of deposit	8	5,050,746	-	5,050,746	-	5,050,746	5,050,746
Derivative	8	-	192,707	192,707	-	192,707	192,707
Ordinary shares - quoted	9	1,482,056	-	1,482,056	1,482,056		1,482,056
Treasury bills	8	876,612	-	876,612	-	876,612	876,612
Ordinary shares - unquoted	9	3,453	-	3,453	-	3,453	3,453
Investments - other	9	7,020,527	-	7,020,527	-	7,020,527	7,020,527
Units in unit trust	9	11,476	-	11,476	-	11,476	11,476
		30,548,324	192,707	30,741,031	1,482,056	29,258,975	30,741,031

		2015					
		Carrying amount			Fair value		
	Notes	Available-for-sale $'000	Fair value through profit or loss $'000	Total $'000	Level 1 $'000	Level 2 $'000	Total $'000
Financial assets measured at fair value:							
Government of Jamaica	8	16,325,250	-	16,325,250	-	16,325,250	16,325,250
Certificates of deposit	8	4,793,662	-	4,793,662	-	4,793,662	4,793,662
Derivative	8	-	203,954	203,954	-	203,954	203,954
Ordinary shares - quoted	9	916,135	49,043	965,178	965,178	-	965,178
Treasury bills	8	275,044	-	275,044	-	275,044	275,044
Ordinary shares - unquoted	9	3,040	-	3,040	-	3,040	3,040
Investments - other	9	7,108,587	-	7,108,587	-	7,108,587	7,108,587
Units in unit trust	9	9,477	-	9,477	-	9,477	9,477
		29,431,195	252,997	29,684,192	965,178	28,719,014	29,684,192

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

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

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

		Society					
		2016					
		Carrying amount			Fair value		
	Notes	Available-for-sale $'000	Fair value through profit or loss $'000	Total $'000	Level 1 $'000	Level 2 $'000	Total $'000
Financial assets measured at fair value:							
Government of Jamaica securities	8	12,434,843	-	12,434,843	-	12,434,843	12,434,843
Derivative	8	192,707	-	192,707	-	192,707	192,707
Ordinary shares quoted	9	1,049,211	-	1,049,211	1,049,211	-	1,049,211
Treasury bills	8	876,612	-	876,612	-	876,612	876,612
Ordinary shares unquoted	9	39	-	39	-	39	39
Investments - other	9	3,155,542	-	3,155,542	-	3,155,542	3,155,542
Units in unit trust	9	11,476	-	1,476	-	11,476	11,476
		17,720,430	-	17,720,430	1,049,211	16,671,219	17,720,430

		2015					
		Carrying amount			Fair value		
	Notes	Available-for-sale $'000	Fair value through profit or loss $'000	Total $'000	Level 1 $'000	Level 2 $'000	Total $'000
Financial assets measured at fair value:							
Government of Jamaica securities	8	11,895,864	-	11,895,864	-	11,895,864	11,895,864
Derivative	8	-	203,954	203,954	-	203,954	203,954
Ordinary shares quoted	9	715,905	-	715,905	715,905	-	715,905
Treasury bills	8	273,921	-	273,921	-	273,921	273,921
Ordinary shares unquoted	9	39	-	39	-	39	39
Investments - other	9	3,925,579	-	3,925,579	-	3,925,579	3,925,579
Units in unit trust	9	9,477	-	9,477	-	9,477	9,477
		16,820,785	203,954	17,024,739	715,905	16,308,834	17,024,739

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

29. NET INTEREST INCOME

	Group		Society	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Interest income				
Investment securities	3,076,625	3,097,502	2,402,626	2,309,917
Loans to customers	2,826,498	2,822,432	2,824,277	2,819,988
	5,903,123	5,919,934	5,226,903	5,129,905
Interest expense				
On borrowings	(406,560)	(509,135)	(18)	(26,083)
To shareholders	(1,419,850)	(1,319,347)	(1,419,850)	(1,367,076)
To depositors	(260,093)	(375,419)	(260,093)	(327,690)
	(2,086,503)	(2,203,901)	(1,679,961)	(1,720,849)
Net interest income	3,818,620	3,716,033	3,546,942	3,409,056

30. NET FEE AND COMMISSION INCOME

	Group		Society	
	2016	2015	2016	2015
	$'000	$'000	$'000	$'000
Fee and commission income				
Customers	523,794	369,226	90,961	82,068
Associated company	109,385	100,879	109,385	100,879
Other	44,274	8,426	44,274	8,426
	677,453	478,531	244,620	191,373
Fee and commission expenses				
Inter-bank transaction fees	(77,843)	(43,527)	(39,269)	(43,527)
Other	(24,261)	(25,193)	(24,261)	(25,193)
	(102,104)	(68,720)	(63,530)	(68,720)
Net fee and commission income	575,349	409,811	181,090	122,653

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

31. OTHER OPERATING REVENUE

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Securities trading gains	508,077	513,247	269,427	238,169
Fines for late payments	53,730	60,326	53,730	60,326
Unrealised foreign exchange gains	122,805	95,823	75,625	37,939
Rent	21,186	23,338	48,893	47,835
Dividends - from subsidiaries and associates	-	-	305,470	277,937
- other	67,771	39,720	67,430	39,197
Gain on sale of investments	227,239	213,053	227,239	213,053
Gain on disposal of property, plant and equipment	8,491	15,674	8,491	15,674
Management fees	-	194,426	-	-
Other income	269,039	49,077	65,372	72,102
	1,278,338	1,204,684	1,121,677	1,002,232

32. PERSONNEL COSTS

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Salaries	1,439,103	1,354,319	1,104,822	999,186
Statutory payroll contributions	176,879	149,794	145,368	132,367
Pension and medical benefits (note 14)	59,481	41,956	64,881	33,356
Termination payments	16,631	56,138	16,631	40,725
Other staff benefits	811,923	717,514	590,372	568,507
	2,504,017	2,319,721	1,922,074	1,774,141

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

33. OTHER OPERATING EXPENSES

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Asset taxes	239,258	229,265	202,043	193,231
Overseas business development	64,998	57,089	234,552	230,504
Irrecoverable GCT	212,485	231,274	204,216	219,544
Marketing	205,161	203,973	168,585	170,493
Computer maintenance	147,959	160,089	125,599	126,901
Maintenance – buildings, furniture and fixtures	135,885	131,482	171,272	170,356
Insurance	122,218	111,070	121,124	110,456
Administration	257,003	200,950	176,042	155,469
Postage, courier and stationery	87,319	80,135	74,908	68,433
Electricity, water and telephone	82,188	83,396	77,771	78,182
Consultancy and other professional fees	74,014	29,555	32,507	26,570
Audit fees	36,200	35,143	21,100	19,100
Directors' fees [note 35(e)]	34,947	33,804	17,911	20,482
Security	34,628	31,937	34,541	31,844
Service contracts	28,054	21,554	28,054	21,554
Direct operating expenses for investment property that generated rental income	24,880	38,502	24,880	38,502
Specific provision for loan loss	13,914	8,021	13,914	8,021
Unrealised foreign exchange loss	3,265	25,330	-	-
	1,804,376	1,712,569	1,729,019	1,689,642

34. INCOME TAX EXPENSE

(a) Income tax expense is based on the surplus for the year, as adjusted for tax purposes, and is computed at statutory rates of 30% for the Society, 33⅓% for regulated local subsidiaries and 25% for certain foreign and local non-regulated subsidiaries [note 34(c)]. In computing taxable income of the Society, transfers to general reserves (as defined in the Income Tax Act) are exempt from income tax if the general reserves after such transfers do not exceed 5% of assets. The charge is made up as follows:

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
(i) Current tax expense:				
Current tax at 30%	187,760	182,690	187,760	182,690
Current tax at 25% and 33⅓%				
- provision for current year	104,063	133,774	-	-
- adjustment for prior year's over provision	(1,182)	(10,312)	-	(9,968)
	290,641	306,152	187,760	172,722
(ii) Deferred tax expense:				
Origination and reversal of temporary differences [notes 13(a) and (b)]	51,740	(20,834)	59,162	(35,432)
Actual tax expense recognised	342,381	285,318	246,922	137,290

THE VICTORIA MUTUAL BUILDING SOCIETY
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
DECEMBER 31, 2016

34. INCOME TAX EXPENSE (CONT'D)

(b) At the reporting date, taxation losses of certain subsidiaries, subject to agreement by the tax authorities in the relevant jurisdictions, amounted to approximately $22,274,000 (2015: $24,409,000). These losses may be carried forward indefinitely, but in any one year, prior year losses can be used to offset only 50% of chargeable income (before the deduction of any prior year losses).

(c) Reconciliation of actual tax charge

The effective tax rate, that is, the income tax expense as a percentage of the reported surplus, is different from the statutory rates [note 34(a)] and is 25.69% (2015: 22.88%) for the Group and 23.91% (2015: 14.91%) for the Society. The actual income tax expense differs from the expected income tax expense for the year, as follows:

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Surplus before income tax	1,332,709	1,246,983	1,032,587	920,526
Computed "expected" income tax using statutory tax rates	509,658	409,836	309,776	276,158
Tax effect of treating the following items differently for income tax than for financial statement purposes:				
Depreciation charge and capital allowances	(51,043)	(20,488)	(51,993)	(21,169)
Disallowed expenses	35,870	67,316	61,098	50,310
Other	(150,922)	(161,034)	(71,959)	(158,041)
	343,563	295,630	246,922	147,258
Adjustment for prior year under-provision	(1,182)	(10,312)	-	(9,968)
Actual tax expense recognised	342,381	285,318	246,922	137,290

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

35. RELATED PARTY TRANSACTIONS

(a) Definition of related party

A related party is a person or entity that is related to the Group.

(i) A person or a close member of that person's family is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled, or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is part, provides key management personnel services to the group.

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

(b) Identity of related parties

The Society has related party relationships with its subsidiaries, with its Directors, executives and senior officers, as well as those of its subsidiaries, and with its associated company [note 1(c)]. The Directors, senior officers and executives are collectively referred to as "key management personnel".

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

35. RELATED PARTY TRANSACTIONS (CONT'D)

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

	2016 $'000	2015 $'000
Subsidiaries:		
Resale agreements	1,375,150	1,253,527
Loan receivable	18,452	20,706
Shareholders' savings	(774,688)	(890,706)
Loan payable	(525,481)	(525,481)
Key management personnel:		
Mortgage loans	88,663	119,948
Other loans	26,489	16,560
Shareholders' savings	(67,710)	(49,478)
Non-executive directors - mortgage loans	34,821	37,115
Associate:		
Shareholders' savings	170,410	127,603

Average interest rates charged on loans are lower than the rates that would be charged in an arm's length transaction.

The mortgages and secured loans granted are secured on property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

In relation to balances owing by key management personnel, or their immediate relatives, there has not been any specific allowance for impairment or general provision for losses.

(d) The Society's income statement includes income earned/(expenses incurred) from transactions with related parties, as follows:

	2016 $'000	2015 $'000
Directors:		
Interest from loans	3,529	2,874
Key management personnel:		
Interest from loans	6,960	9,697
Interest expense	(84)	(767)
Subsidiaries:		
Interest and dividends from investments	275,701	234,648
Interest on loans	1,567	1,671
Other operating revenue	27,912	29,631
Interest expense	(23,361)	(15,907)
Other operating expenses	(260,508)	(280,138)
Associate:		
Dividends	87,947	99,804
Other operating activities	-	950
Interest expense	(6,664)	(7,154)
Other operating income	109,385	100,879
Operating expense	-	(13,141)

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

35. RELATED PARTY TRANSACTIONS (CONT'D)

(e) Key management personnel compensation

In addition to directors' fees paid to non-executive directors (note 33), compensation of key management personnel, included in personnel costs (note 32), is as follows:

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Short-term employee benefits	187,454	272,882	121,200	186,695
Post employment benefits	19	94	19	94
	187,473	272,976	121,219	186,789

In addition to their salaries, key management personnel are provided with non-cash benefits, as well as post-employment benefits under a defined-benefit pension plan (note 14). In accordance with the rules of the plan, key management personnel retire at age 62 (or 65 if joining after January 1, 2006) and may continue to receive medical benefits, at the discretion and approval of the Board of Directors. In the case of preferential staff rates on loans, this benefit continues to age 65 when the rate is adjusted with reference to market.

Under the Society's rules, retired non-executive directors who have served the Board continuously for at least five years and have attained the age of 65 receive a pension at a specified percentage of the gross annual average director's fee received during the five years immediately preceding retirement, or alternatively, a gratuity in lieu of pension, based on a percentage of the annual pensions.

36. COMMITMENTS

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

	Group		Society	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000
Within one year after that date	29,156	28,708	25,028	27,028
Subsequent years	22,330	24,247	22,330	20,170

(b) Commitments for capital expenditure for the Group and the Society amount to approximately $194,316,000 (2015: $111,132,000) at the reporting date.

The Group leases a number of branch and office premises under operating leases. A lease typically runs for a period of 3 years, with an option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals.

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

DECEMBER 31, 2016

37. MANAGEMENT FUNDS AND CUSTODIAL ARRANGEMENTS

Victoria Mutual Wealth Management Limited acts as agent and earns fees for managing clients' funds on a non-recourse basis under management agreements. The Group has no legal or equitable right or interest in these funds and, accordingly, they have been excluded from the financial statements. At December 31, 2016, these funds amounted to $15,339,937,000 (2015: $9,745,433,000).

Additionally, at December 31, 2016, there were custodial arrangements for assets totalling $23,170,354,000 (2015: $19,914,725,000).

CORPORATE DATA

Group Executives:

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

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

Devon Barrett, MBA, BSc
Group Chief Investment Officer

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

Keri-Gaye Brown, LL.B
Group Chief Legal & Compliance Officer & Corporate Secretary

Laraine Harrison, MBA, BA
Group Chief Human Resources Officer

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

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

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

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

Chief Executive Officers of Subsidiaries:

- **Prime Asset Management Limited** (changed to Victoria Mutual Pensions Management on May 2, 2017)
  Rezworth Burchenson, MBA, BSc
  Chief Executive Officer
- **Victoria Mutual Wealth Management Limited**
  Devon Barrett, MBA, BSc
  Chief Executive Officer
- **VMBS Money Transfer Services Limited**
  Michael Howard, MBA, BA
  Chief Executive Officer
- **Victoria Mutual Property Services Limited**
  Michael Neita, MBA, BEng, BSc
  Chief Executive Officer

External Auditors

Nyssa Johnson, F.C.A
Nigel Chambers, F.C.A.
Chartered Accountants, KPMG

Arbitrators:

Honourable Justice Ian Forte,
President of the Court of Appeal (retired)

Honourable Justice Clarence Walker, C.D.
Justice of the Court of Appeal (retired)

Mr. Karl P. Wright, C.D., MBA, BSc (Hons.)

Miss Megan Dean, MBA, BSc (Hons.)

Bankers:

- CIBC First Caribbean International Bank of Jamaica Ltd.
- Citibank N.A. (Jamaica Branch)
- National Commercial Bank Jamaica Ltd.
- Sagicor Bank Jamaica Ltd.
- Bank of Jamaica

Panel of Attorneys-at-Law:

- Delroy Chuck & Company
- DunnCox
- Phillips, Malcolm, Morgan & Matthies
- O.G. Harding & Company
- Livingston, Alexander & Levy
- Murray & Tucker
- Myers, Fletcher & Gordon
- Nunes, Scholefield, DeLeon & Company
- Rattray, Patterson, Rattray
- Clarke, Robb & Company
- Robertson, Smith, Ledgister & Company
- Robinson, Phillips & Whitehorne
- Grant, Stewart, Phillips & Malcolm
- Nicholson Phillips
- Samuda & Johnson
- Wilmot Hogarth & Co.
- Harrison & Harrison
- Lex Caribbean
- L. Howard Facey & Co.
- Scott, Bhoorasingh & Bonnick
- Russell & Russell

Building Society Operations:

Christopher Denny, MBA, BSc
Vice President, Service and Sales Support

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

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

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

Karlene Waugh, BSc, CiAPM
Assistant Vice President - Business Operations

Clive Newman, MBA, FICB
Assistant Vice President, Credit

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

BRANCHES

Local Branches:

Chief Office
Simone George-Davey
Branch Manager
8-10 Duke Street, Kingston
Tel: (876) 922-8627/
922-9410
Fax: (876) 922-6602

Falmouth
Faithline Campbell
Branch Manager
15 Market Street, Falmouth
Tel: (876) 954-4040/
954-3207/ 954-3538/
954-4639
Fax: (876) 954-3728

Half Way Tree
Allison Morgan
Branch Manager
73-75 Half Way Tree Road,
Kingston 10
Tel: (876) 754-8627
Fax: (876) 926-4604

Liguanea
Mendel Thompson
Branch Manager
Unit 1 Liguanea Post Mall,
115 Hope Road, Kingston 6
Tel: (876) 927-7228/
927-7294/ 927-7272
Fax: (876) 927-7319

Linstead
Cherese Stewart
Branch Manager
110 King Street, Linstead,
St. Catherine
Tel: (876) 985-2177/ 985-7444
Fax: (876) 985-2173

Mandeville
Robert Foster
Branch Manager
Shop # 3 Manchester
Shopping Centre, Mandeville,
Manchester
Tel: (876) 962-1030-3
Fax: (876) 962-1088

May Pen
Marsden Dennis
Branch Manager
40 Main Street, May Pen,
Clarendon
Tel: (876) 986-2245-50
Fax: (876) 986-2119

Montego Bay
Suzette Ramdanie-Linton
Branch Manager
7 Market Street, Montego Bay,
St. James
Tel: (876) 952-3772- 6/
952-5573-4
Fax: (876) 952-7515

Fairview Sub-Branch
Suzette Ramdanie-Linton
Branch Manager
Unit 8, Summit Business
Centre, 3 Straddle Drive,
Bogue Estate, Montego Bay,
St. James
Tel: (876) 684-9517
Fax: (876) 953-6864

New Kingston
Ainsley Whyte
Branch Manager
53 Knutsford Boulevard,
Kingston 5
Tel: (876) 929-5412
Fax: (876) 929-5489

Ocho Rios
Charmaine McConnell-Taylor
Branch Manager
7 Newlin Street, Ocho Rios,
St. Ann
Tel: (876) 974-5412/ 974-1272
Fax: (876) 974-7862

Papine
Shelliann Afflick
Branch Manager
University of Technology (UTech)
237 Old Hope Road, Kingston 6
Tel: (876) 927-0792/ 970-1166
Fax: (876) 702-4638

Portmore
Joy Bunting-Pusey
Branch Manager
Lot 1, Sea Grape Close,
Portmore, St. Catherine
Tel: (876) 939-7955/ 939-7972
Fax: (876) 939-7946

Santa Cruz
Erica Robinson
Branch Manager
56 Main Street, Santa Cruz,
St. Elizabeth
Tel: (876) 966-9948/ 966-9958
Fax: (876) 966-9952

Savanna-la-Mar
Tindale Haye
Acting Branch Manager
123 Great George Street,
Savanna-la-Mar,
Westmoreland
Tel: (876) 955-4940/
955-4941/ 955-4964
Fax: (876) 955-4924

Spanish Town
Ruth Oliver
Branch Manager
22 Oxford Road, Spanish Town,
St. Catherine
Tel: (876) 984-2629/ 984-2633
Fax: (876) 984-2634

Overseas Offices:

UNITED KINGDOM

Leighton Smith
Chief Representative Officer
VMBS Overseas (UK) Limited
380 Brixton Road Brixton, London SW9 7AW
Tel: (207) 738-6799
Fax: (207) 733-2356

BRANCH OFFICES:

- **Main Office-Brixton**
  380 Brixton Road Brixton, London SW9 7AW
  United Kingdom
  Tel: (207) 738-6799
  Fax: (207) 733-2356
- **Tottenham**
  Jane Kerpens-Lee
  Manager
  520 High Road, Tottenham,
  London N17 9SX
  Tel: (0208) 801-6777
- **Birmingham**
  174 Dudley Road, Edgbaston,
  Birmingham B18 7QX
  Tel: (0121) 454- 2020

UNITED STATES OF AMERICA (USA)

- **Victoria Mutual Building Society Florida Representative Office**
  Suzette Rochester-Lloyd
  Chief Representative Officer
  2600 S University Drive, Suite # 109
  Miramar, Florida 33025 U.S.A.
  Tel: (305) 770-2643 / 2654/ Toll Free: 1-877-770-8627
  Fax: (305) 770-2622

CANADA

- **Victoria Mutual Building Society Canadian Representative Office** (closed August 8, 2016)
  Denise Sinclair
  Chief Representative Officer
  3117A Dufferin Street, Toronto, Ontario M6A 2S9 Canada
  Tel: (416) 652-8652/Toll Free: 1-800-465-6500
  Fax: (416) 652-5266

Member Engagement Centre:

Marion Lewis
Manager
73-75 Half Way Tree Road, Kingston 10
Tel: 754- VMBS

CONTACT DETAILS

Jamaica
Tel: (876) 754-VMBS (8627)
Fax: (876) 929-5224
Toll Free: 1-888-YES-VMBS (937-8627)
Toll Free from United States of America and Canada:
1-866-967-VMBS (8627)
Free Phone (from UK): 0-800-068-VMBS (8627)

Opening Hours:
Mondays - Fridays: 7:00 a.m. - 8:00 p.m.
Saturdays: 10:00 a.m. - 6:00 p.m.
Sundays: 10:00 a.m. - 3:00 p.m.

Dear Valued Member,

The proposed **New Rules** of the Society are set out in the **Rule Book** Insert located here and also available on our website **www.vmbs.com/agm138/**

The Victoria Mutual Building Society

MEMBER ENGAGEMENT CENTRE:
(876) 754-8627

TOLL FREE
1-888-YES-VMBS (937-8627),
1-866-967-8627 (USA and CANADA)

FREE PHONE (UK):
0-800-068-8627

EMAIL:
manager@vmbs.com

WEBSITE:
www.victoriamutualgroup.com

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The Victoria Mutual
Building Society

Building Your Financial Independence