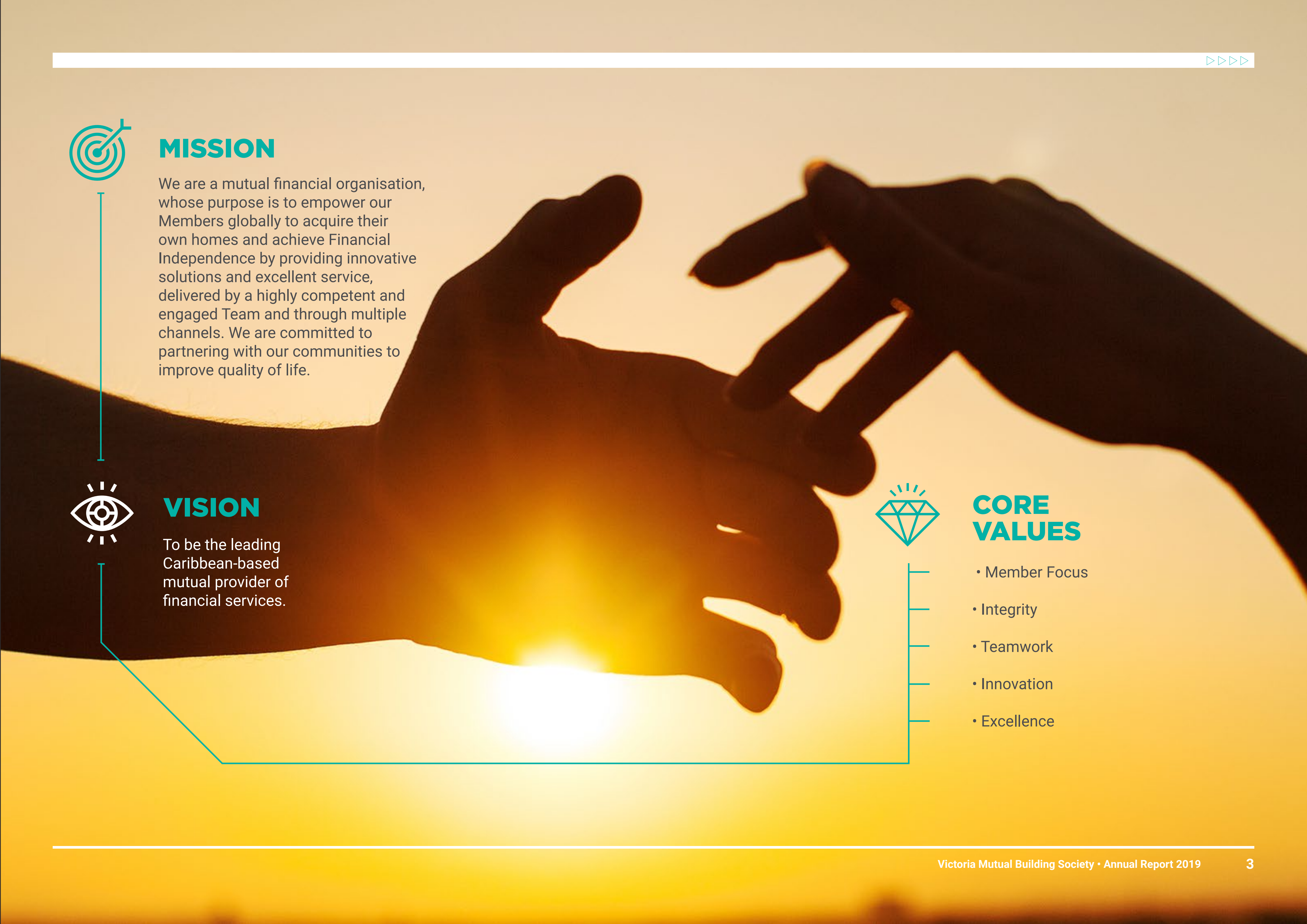
Annual **Report 2019**

# BOLD AMBITIONS
TRANSFORMING LIVES

# The NEW VM

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



## MISSION

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

## VISION

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

## CORE VALUES

- Member Focus
- Integrity
- Teamwork
- Innovation
- Excellence

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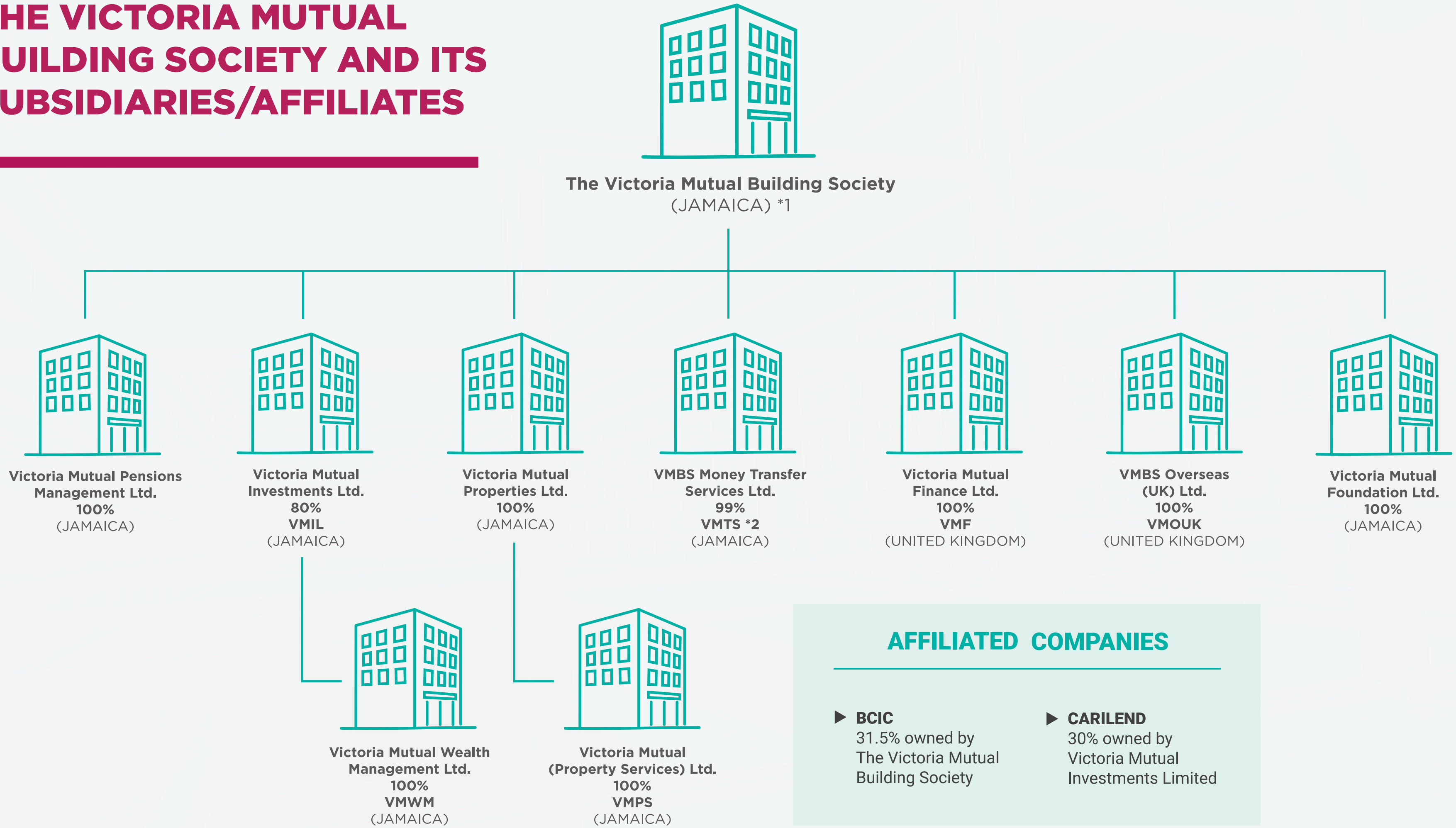
# THE VICTORIA MUTUAL BUILDING SOCIETY AND ITS SUBSIDIARIES/AFFILIATES




## AFFILIATED COMPANIES

- **BCIC**
  31.5% owned by The Victoria Mutual Building Society
- **CARILEND**
  30% owned by Victoria Mutual Investments Limited

# Group Strategy



## WHO WE ARE

The VM Group is a mutual organisation founded on the belief that all Jamaicans, regardless of socio-economic status, should have the opportunity to realise their dreams of homeownership and growing their net worth. Over the past two decades, we have enhanced this mission and broadened the range of products and services to ensure that our Members, wherever they are in the world and at whatever stage of life, can have access to financial solutions and achieve financial wellness.

What distinguishes the VM Group is our deep-rooted commitment to providing broad-based financial education to help guide persons who do business with us, as well as those in the wider community, to make better financial decisions that will improve their well-being.

Our love for community is also demonstrated through the VM Foundation, which provides opportunities for us to promote financial literacy and inclusion across all sectors of our society. We continue to impact our communities through the activities of the VM Foundation as well as other avenues of corporate social responsibility.

The VM Group is an enduring institution, etched into the fabric of Jamaica, that continues to transform the lives of our Members, Team Members and Communities.

## WHAT WE DO

### The VM Group Supports Financial Wellness at Every Stage of Life....

**YOUTH**

**Save 2 Grow**

We provide our young people with Savings options such as **Save 2 Grow** to start building a life-long saving habit.

**COLLEGE STUDENT**

**iSave**
**VM Money Transfer**

We help our college students meet their current needs by providing access to transfers via **VM Money Transfer**, and saving options such as **Save 2 Grow** for future goals.

**YOUNG PROFESSIONAL**

**iSave, Unit Trust, 1st Mortgage**

Young professionals can capitalise on loans such as **Drive Auto** and **Unsecured Loans** for current needs and Saving options such as **iSave, Unit Trusts, Bonds** and **Equities** to save towards future goals.

**STARTING A FAMILY**

**iSave, Unit Trust, 1st Mortgage**

Young Families can access their **1st Mortgage, Drive Auto** and **Unsecured Loans**, as well as **Real Estate Services** for current needs and savings options such as **iSave, Unit Trusts** and **Stocks** to save for future goals.

**PROFESSIONALS AND HI-NET**

**Cash Secured/Home Loans, iGain Edge , Unit Trust**

Professionals and high -net-worth Members can access loans such as **Cash Secured, Construction** and **Home Equity Loans** for current needs as well as saving and investments options such as **iGain Edge, Money Maker, Unit Trusts, Bonds** and **Stocks** to achieve future goals.

**RETIREMENT PLANNING**

**VM Pensions Solutions**

Retirees can benefit from **Cash Secured Loans** and **Pensions Solutions** for Retirement needs and savings options such as **iGain Edge, Money Maker, Unit Trusts** and **Bonds** to achieve future goals.

## GROUP STRATEGY (cont'd)

The VM Group remains committed to providing our Members with a comprehensive suite of financial products and services (including those listed in the figure on the previous page), thereby enabling them to become financially empowered and to achieve their financial goals at each stage of their lives.

We actively engage with our Members and Clients and initiate interactions through electronic and face-to-face channels such as seminars, conferences, one-on-one sessions and town hall meetings in service to our mission to share financial education. We do this because we are committed to transforming lives in the communities in which we serve.

## OUR STRATEGY

The strategy of the VM Group is consistent in its aim to help our Members and Clients create and maximise wealth, so they can transform their lives. The VM Group has identified four strategic goals that will help us to fulfil our purpose.
**They are:**

- **Strong, Integrated Financial Group**
- **Modern Mutual**
- **Employer of Choice**
- **Model Corporate Citizen**

## OUR PROGRESS IN 2019

**The following projects and initiatives were undertaken in 2019 to achieve the Group's strategic goals. Some were completed in 2019, while the others will be completed in 2020.**

| PROJECT/INITIATIVE | STRATEGIC GOAL IMPACTED | STATUS |
|---|---|---|
| Increased electronic access for our Members by expanding the ABM network and deploying intelligent ABMs (iABMs) at all Branch locations. Additionally, several branches were refurbished and upgraded. The aim of this project is to improve the level of service and convenience for our Members and Clients. | Modern Mutual | Completed 2019 |
| Expanded our suite of products and services to include a 100% financing mortgage solution (first of its kind on the market), Commercial Auto Loan, and USD Equity Unit Trust. | Modern Mutual | Completed 2019 |
| Commenced the rebranding initiative, which will refresh our brand image to align with our current and future offerings as well as strategic positioning. | Modern Mutual | To be completed in 2020 |
| Implemented VM Express Online - our new online banking platform. | Modern Mutual | Completed 2019 |
| Commenced organisational restructuring, which will position the VM Group to take advantage of more opportunities to establish strategic alliances. | Strong, Integrated Financial Group<br>Modern Mutual | To be completed in 2020 |
| Relaunched the Approved Retirement Scheme (ARS) at VM Pensions Management. | Strong, Integrated Financial Group | Completed 2019 |
| Successfully integrated the Centre of Excellence for Sales into the Group's organisational structure and operationalised the related processes and functions. | Strong, Integrated Financial Group | Completed 2019 |
| Expanded our strategic investments with the acquisition of a 30% stake in the Barbados Fintech, Carilend and a 44% controlling stake in the Kingston Properties REIT Issue. | Strong, Integrated Financial Group | Completed 2019 |

| | | |
|---|---|---|
| Managed and proactively enhanced IT systems, in particular IT Security, by introducing more robust systems and processes. Additionally, acquiring new hardware has allowed us to improve system availability to our Team Members, resulting in more efficient service to our Members and Clients. | Strong, Integrated Financial Group | Completed 2019 |
| Began implementing a Complaints Management System. | Strong, Integrated Financial Group | To be completed in 2020 |
| Expanded the Enterprise Risk Management Framework to include VMPM. | Strong, Integrated Financial Group | To be completed in 2020 |
| Expanded our Financial Literacy Programme to students at three Tertiary institutions through the VM IGKnight and Financial Education to Empower (FETE) Programmes. | Model Corporate Citizen | Completed 2019 |
| Continued the VM Foundation Scholarship Awards and expanded them to include Awards specific to programmes in the Science, Technology, Engineering and Mathematics (STEM) curriculum. | Model Corporate Citizen | Completed 2019 |
| Implemented several strategic training programmes for our Team Members including Sales & Credit, Language Training, Business Intelligence Tools, Agile Practices and Design-thinking. | Employer of Choice | Completed 2019 |
| Continued with our robust leadership training programmes, including the General Management Leadership and Executive Coaching for members of our senior leadership team. | Employer of Choice | Completed 2019 |
| Advanced The 'Great Place to Work' agenda, which includes the full roll-out of remote and flexi-work arrangements and revised industry-leading subsidised loan benefits for all Team Members. | Employer of Choice | Completed 2019 |
| Implemented Group-wide training so that all Team Members know and understand how to serve our Members and Clients better. | Employer of Choice<br>Modern Mutual<br>Strong, Integrated Financial Group | Completed 2019 |

# LOOKING AHEAD:
# OUR FOCUS FOR 2020

# G.R.O.W.T.H.

### G. — GREAT PLACE TO WORK

Introduce new initiatives such as our aftercare facility and revamp our Rewards and Recognition Programme, including the President's Circle.

### R. — REBRANDING

To align the "look and feel" of our brand with our improved processes, products and services.

### O. — OPERATIONAL PROCESS REENGINEERING

Comprehensive review to ensure robust processes are in place thereby allowing our Team members to serve our Members in a faster and simpler way.

### W. — WEALTH FOR OUR MEMBERS AND CLIENTS

**Accelerated Revenue Growth:** Driven by Increased sales and improved productivity. Introduction of new products and services as well as other activities.

**Strategic Alliances:** We will continue to explore these opportunities, both here and abroad.

### T. — TRANSFORMING OUR BUSINESS

**Digital Transformation:** launch agile project.

**Organisational Restructuring:** Reorganise the Group along all Business Lines to meet the needs of our Members and Clients.

### H. — HOPE FOR OUR COMMUNITIES (CSR)

We will continue to impact the members of our communities in a significant way in 2020 with our Foundation's focus on family.

As we look ahead, the VM Group will continue to focus on a series of bold ambitions designed to foster growth and to deliver on our commitment to our Members, Clients and Team Members. ■

# Notice of Annual General Meeting

**NOTICE is hereby given that the One Hundred and Forty-First Annual General Meeting of The Victoria Mutual Building Society will be held at Jamaica Pegasus Hotel, 81 Knutsford Boulevard, Kingston 5, Jamaica on Friday, June 19, 2020 at 10.00 a.m. for the following purposes: -**

**1. To receive the Audited Group Accounts for the year ended 31 December 2019 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 2019 and the Reports of the Directors and Auditors circulated with the Notice convening the meeting be and are hereby adopted."

**2. To elect Directors.**

(1) The Directors retiring from office by rotation pursuant to Rule Number 59(1) of the Society's Rules are Mrs. Sandra Shirley-Auxilly and Mr. Matthew Wright and being eligible, offer themselves for re-election.

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

**Resolution No. 2 (1) (a)**

"THAT Mrs. Mrs. Sandra Shirley-Auxilly be and is hereby re-elected a Director of the Society."

**Resolution No. 2 (1) (b)**

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

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

**Resolution No. 2 (2) (a)**

"That Mr. Michael McAnuff-Jones be and is hereby elected a Director of the Society".

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

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

**Resolution No. 3**

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

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

By Order of the Board

**Keri-Gaye Brown**
Secretary

Dated: 26th Day of March 2020

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 (6-8 Duke Street, Kingston) not less than ten (10) days before the time appointed for holding of the meeting.

# Five-year Statistical Review

## GROUP

| Balance Sheet ($'000) | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Earning Assets | 94,512,402 | 101,082,872 | 110,138,310 | 115,241,749 | 129,654,547 |
| Loans | 32,902,398 | 34,531,088 | 44,069,750 | 48,973,660 | 62,035,211 |
| Total Assets | 103,638,266 | 112,207,742 | 123,174,146 | 133,117,216 | 151,932,096 |
| Savings Fund | 66,475,723 | 71,965,955 | 76,379,390 | 81,941,931 | 89,378,675 |
| Capital and Reserves | 12,515,457 | 14,134,017 | 15,468,478 | 15,853,409 | 20,109,700 |
| **Income Statement ($'000)** | | | | | |
| Net Interest Income | 3,716,033 | 3,816,620 | 4,016,521 | 4,220,444 | 4,334,241 |
| Operating Revenue | 5,330,528 | 5,547,502 | 6,532,968 | 7,594,686 | 8,998,777 |
| Operating Expenses, excl. impairment losses | 4,196,834 | 4,497,234 | 5,431,981 | 5,502,705 | 6,757,389 |
| Surplus before income tax | 1,246,983 | 1,198,979 | 1,291,440 | 1,702,849 | 2,952,798 |
| Surplus for the year after income tax | 961,665 | 856,598 | 1,032,774 | 1,060,517 | 2,131,551 |
| **Ratios** | | | | | |
| Net Interest Margin | 4.03% | 3.90% | 3.80% | 3.75% | 3.54% |
| Return on Capital | 8.06% | 6.43% | 6.98% | 6.77% | 11.85% |
| Return on Average Total Assets | 0.96% | 0.79% | 0.88% | 0.83% | 1.50% |
| Efficiency Ratio (Admin Expense:Mean Assets) | 4.18% | 4.17% | 4.62% | 4.29% | 4.74% |
| Efficiency Ratio (Cost:Income) | 76.98% | 78.76% | 80.55% | 71.63% | 73.38% |
| Capital & Reserves as a percentage of assets | 12.08% | 12.60% | 12.56% | 11.91% | 13.24% |

## DEFINITION OF TERMS USED

**Administrative Expenses:**
Administration + Personnel Cost

**Cost Income:**
Administration Expenses
/ Total Operating Revenue

**Operating Revenue:**
Net Interest Income
+ Other Operating Revenues

**Efficiency Ratio:**
Administration Expenses
/ Average Total Assets

**Net Interest Margin:**
Net Interest Income
/ Average Earning Assets

**Earning Assets:**
Cash & Cash Equivalents + Investments
+ Resale Agreements + Loans + Other
Assets

**Return on Capital:**
Surplus After Income Tax
/ Average Capital and Reserves

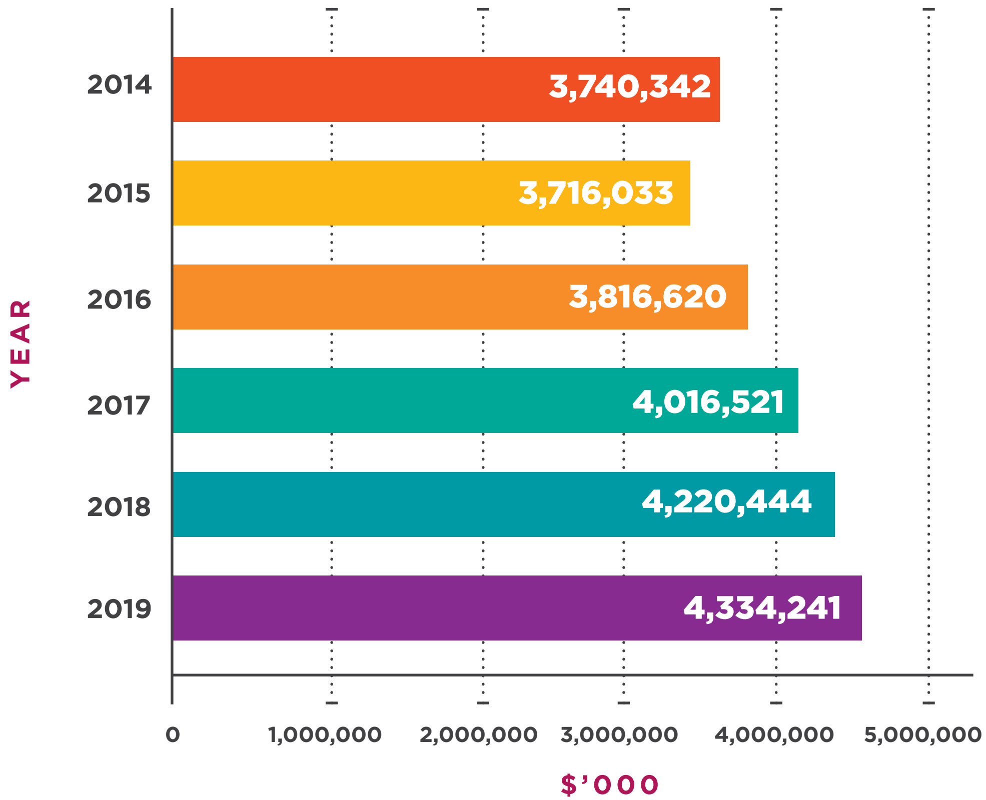
**SOURCES:**
**2015 - 2019 Audited Financial Statements**

**$20.1B**
**CAPITAL AND RESERVES**

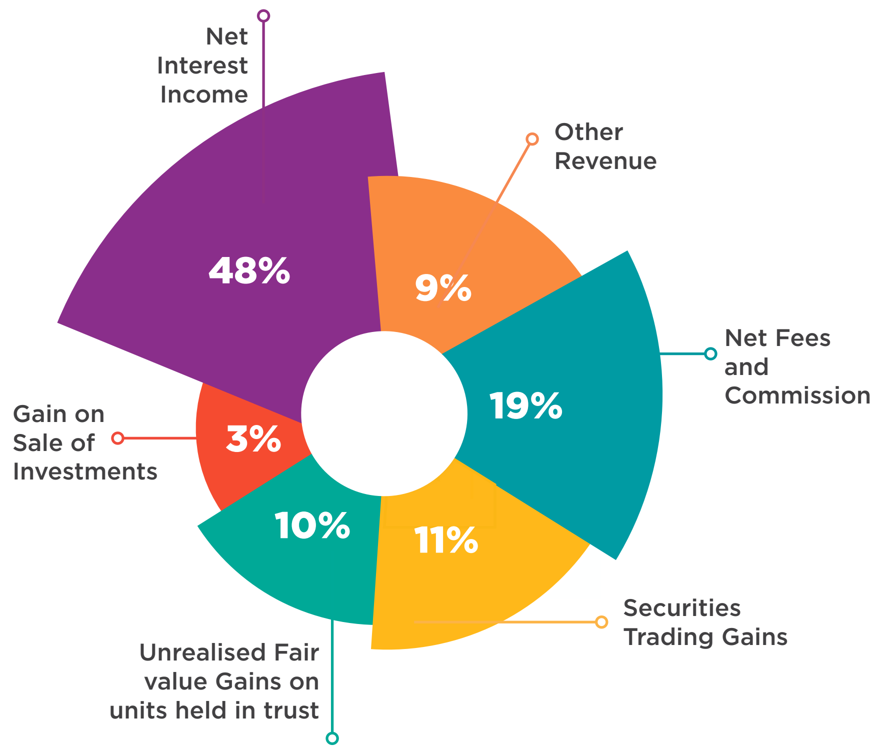
**$129.7B**
**EARNING ASSETS**

**$8.9B**
**OPERATING REVENUE**

## NET INTEREST INCOME 2014- 2019




## OPERATING REVENUE 2019




SOURCES: 2015 - 2019 Audited Financial Statements

# Directors' Report

The Directors take pleasure in presenting the One Hundred and Forty-Third Annual Report and Statements of Revenue and Expenditure of the Group and the Society, for the year ended 31 December 2019, 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 Revenue of $8.999 billion (2018: $7.595 billion) and Net Surplus of $2.132 billion (2018: $1.061 billion).

## DIRECTORS

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

Mr. Michael McMorris, Chairman
Mr. Matthew Wright, Deputy Chairman
Dr. Judith Robinson
Rear Admiral Peter Brady (retired February 29, 2020)
Mr. Noel daCosta
Mr. Courtney Campbell
Mrs. Jeanne Robinson-Foster
Mrs. Sandra Shirley-Auxilly
Mr. Brian Goldson
Dr. Maurice McNaughton
Mr. Phillip Silvera
Mr. Michael McAnuff-Jones (appointed November 15, 2019)

## ROTATION

In accordance with Rule 59 (1) of the Society's Rules, at the next Annual General Meeting, Mrs. Sandra Shirley-Auxilly, and Mr. Matthew Wright will retire by rotation and being eligible, will offer themselves for re-election.

## RETIREMENT

Rear Admiral Peter Brady retired from the Board effective February 29, 2020 having provided stellar service to the Society for over twenty years.

## APPOINTMENT

In accordance with Rule 60 of the Society's Rules Mr. Michael McAnuff-Jones, having been appointed to the Board since the last Annual General Meeting, will retire from office and being eligible offers himself for selection.

## AUDITORS

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

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

By Order of the Board
26th March, 2020

**Keri-Gaye Brown**
Secretary

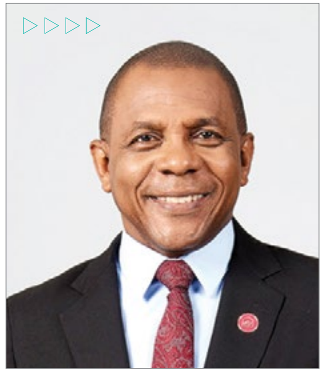
8-10 Duke Street, Kingston
Jamaica, West Indies

# Board of Directors

**The Board was effective in their oversight and governance of the Group. They gave their time, interest, wise judgement and strategic thinking.**

**Michael McMorris,** BA
Chairman

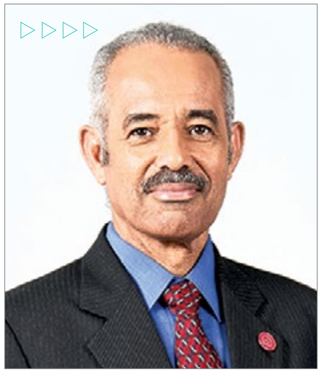
**Matthew Wright,**
MPhil, MA, BA



**Courtney Campbell,** MBA (Distinction), ACIB, BSc, JP

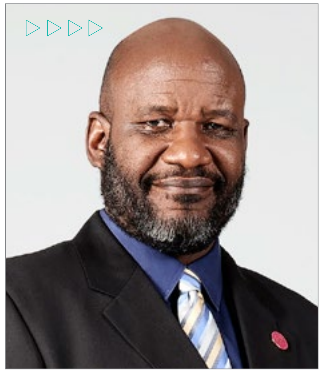
**Jeanne P. Robinson-Foster,**
CD, BA (Hons.), LLB (Hons.), CLE

**Brian Goldson,** MBA, BSc

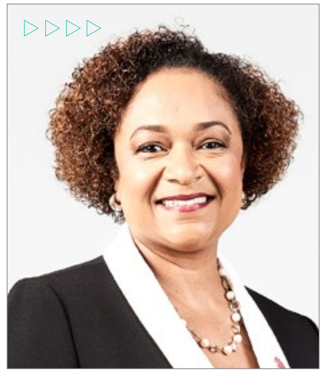


**Phillip G. Silvera,** FCCA, FCA

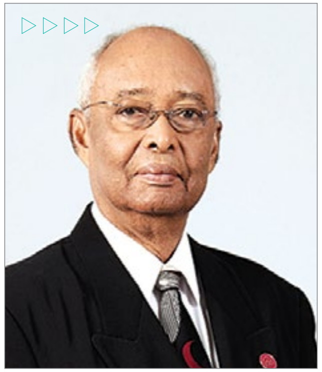
**Sandra M. Shirley-Auxilly,**
MBA, BSc (Hons)



**Maurice McNaughton,** PhD

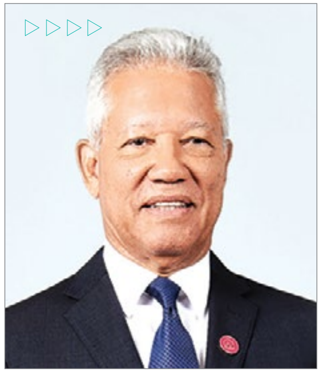


**Keri-Gaye Brown,** MBA (Distinction), LL.B (Hons)



**Noel daCosta,** CD

**Judith Robinson,** PhD, FCCA, FCA



**Rear Admiral Peter Brady**
CD, CVO, MMM, JP

**Michael McAnuff-Jones**
MSc, MBA(distn), ACIB, SPHRi

## Mr Michael McMorris, BA - Chairman

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

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

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

Currently, he 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.

## Mr Matthew 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. He has over 13 years' experience in corporate finance, credit risk management and real estate investment. He is a former Vice-President in the Infrastructure Finance Group of Citibank Global Capital Markets in New York, with responsibility for providing financial advisory and debt arrangement services to major infrastructure projects in North America, Latin America and the Caribbean. Mr Wight has also served as Assistant Vice-President for Capital Markets in the Emerging Market and Corporate Bank for Citibank Jamaica.

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

## Courtney Campbell, MBA (Distinction), ACIB, BSc, JP

Mr Courtney Campbell is President and Chief Executive Officer of Victoria Mutual (VM), a leading Jamaican Financial Group with operations that extend to major financial districts in North America and the United Kingdom.

Mr Campbell assumed this position in April 2016, and immediately went about igniting a transformation of the organisation, which includes an ambitious digital strategy that has led to new products and services being delivered in modern, convenient ways. Courtney has leveraged the organisation's cultural beliefs and core values to kindle the VM Team's passion for uplifting Jamaicans. He is a strident advocate for greater financial inclusion, which is the founding purpose of VM and a significant motivator behind the work that he does.

Before joining VM, Mr Campbell had already established an enviable record of success in several senior executive roles including that of CEO of GraceKennedy Financial Group. He also spent over 23 years with the National Commercial Bank, serving in various management positions, including Head of the Retail Banking Division and other roles instrumental to the bank's success.

He holds a BSc in Management Studies from The University of the West Indies, and an MBA in Finance (Distinction) jointly awarded by the University of Wales & Manchester Business School. He is also a member of the Chartered Institute of Bankers, London.

Mr Campbell is a director of Victoria Mutual Building Society and all its subsidiaries as well as associate company British Caribbean Insurance Company. He is also Chairman of the VM Foundation and the United Church Mission Enterprise.

Mr Campbell is a Corporate Champion for the UWI STAT, Mona Campus and serves on the Governor-General Jamaica Trust and the Investment Committee of the Council of World Missions. He is a former Chairman of the National Education Trust (NET).

A Justice of the Peace, Mr Campbell is an Advisory Board Member of the Governor-General's Programme for Excellence and an 'I Believe Initiative' Ambassador.

He is married to Pauline and they have two sons.

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

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

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

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

Presently, she is the chair of The Good Shepherd Foundation, an interdenominational charitable organisation in Montego Bay with specific commitment to the health and education of the poor, the disabled and the disadvantaged. She is actively involved in many other organisations and is a Deacon of the Calvary Baptist Church.

## Mr Noel daCosta, CD

Mr Noel daCosta has served on numerous boards in the private and public sectors, as well as on charitable organisations and government appointed national committees. He has been at the helm of several local and international organisations, including 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, the National Building Code committee, the Petroleum Trade Reform Committee and the Caribbean Council of United Way Worldwide.

A consultant with over fifteen years' experience in Corporate Relations, he also has over three decades of technical and engineering leadership in the Petroleum and Brewing Industries. He is a founding partner in the Jentech group of engineering companies.

He has postgraduate degrees in Engineering from the University of Waterloo, Business Administration from the University of Toronto, and Insurance from the Chartered Insurance Institute (UK), 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, and in 2019 he was conferred with an Honorary Doctor of Technology for his contribution to nation building by the University of Technology.

## Dr Judith Robinson, PhD, FCCA, FCA

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

Dr Robinson 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, she has held senior management 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 was employed to the United Nations as a member of the Audit and Management Consultancy Division of the Office of Internal Oversight where she completed assignments in New York and Geneva, Switzerland.

She has served as a director of companies in the private, public and not-for-profit sectors in Jamaica for more than 40 years, and is especially proud of her service in the 1970s as a director of the J.T.C. Employees Cooperative Credit Union Ltd. (now C&WJ Cooperative Credit Union Ltd.), first as Treasurer and then as President. Most recently she served, inter alia, as Chairman of the National Environment and Planning Agency's Advisory Board, as a director of I.G.L. Limited, and as the Chairman of the Audit Committees of Caribbean Cement Company Limited and the National Water Commission.

## Mr Brian Goldson, MBA, BSc

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

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

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

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

## Mr Phillip G. Silvera, FCCA, FCA

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

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

He currently serves on the boards of Victoria Mutual Investment and Victoria Mutual Wealth Management. He chairs the Audit, Risk and Compliance Committees of both companies.

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

He is married to Faye and they have three children. A former Head Boy of St. Mary High School, Mr Silvera enjoys woodworking and farming at home.

## Mrs Sandra M. Shirley-Auxilly, MBA, BSc (Hons)

Mrs Sandra Shirley-Auxilly, Business Facilitator/Consultant, has extensive experience spanning over 30 years in wealth management, trust banking, strategic planning and implementation in the United States and the Caribbean.

A former licensed securities dealer and President of First Global Financial Services Limited, Mrs Shirley-Auxilly is a 2006 Fellow of the Jamaican Institute of Management and a member of the Private Sector Organisation of Jamaica. She is a former Director and Vice President of The Jamaica Chamber of Commerce and has served on various other private and public sector boards, including as Deputy Chairman, The Jamaica Stock Exchange (2008), Secretary, Security Dealers Association (2006-2008), Commissioner, Anti-Dumping & Subsidies Commission and Jamaica Deposit Insurance Company.

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

Mrs Shirley-Auxilly attained a BSc. (Hons) Management Studies from The University of the West Indies, majoring in Financial Accounting & Finance and an MBA Finance and Banking from Pace University, New York, USA. She completed 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.

## Dr Maurice McNaughton, PhD

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

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

## Ms Keri-Gaye Brown, MBA (Distinction), LL.B (Hons)

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

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

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

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

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

Amendments. He also presided over the Diplomatic Conference in Manila, Philippines in June 2010, where the major amendments of the STCW Convention and Codes were adopted. In December 2003, he was elected as Chairman of Committee 1 of the 23rd IMO Assembly.

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

**His service in other areas includes:**

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

During his military career he was the recipient of the Legion of Merit (Cdr USA); Commander of the Royal Victorian Order (Commonwealth); Commander of Distinction (CD, Jamaica); and the Medal of Honour for Meritorious Service (Jamaica Military). In the international maritime arena, he was awarded the prestigious IMO Themed Award for World Maritime Day 2015, at the Seatrade Awards Ceremony in London for his contribution to the development of the global standards for maritime education and training.

## Michael McAnuff-Jones, MSc, MBA(distn), ACIB, SPHRi

Michael McAnuff-Jones has vast expertise in the fields of finance and human resources, having spent many years in their practical application in various corporate roles, as well as developing academic excellence in these areas.

Mr McAnuff-Jones held several key roles across the Scotiabank Group, including Accounting Manager; Assistant General Manager – Operations; Assistant General Manager - Human Resources; Senior Vice President - Human Resources- Jamaica, Belize and Haiti; and head of Human Resources for the Scotiabank English Caribbean operations. He retired from Scotiabank in January 2017 and is currently engaged in part-time Human Resource Management consultancy and pastoral ministry.

Mr McAnuff-Jones is Vice President of The Human Resource Management Association of Jamaica and formerly served as executive chair of the Jamaica Institute of Financial Services. Among other public sector service, he also serves as a Director on the board of the Nature Preservation Foundation/Hope Botanical Gardens, and is Deputy Chairman of the University of Technology (UTech) council.

Mr McAnuff-Jones completed undergraduate studies in Banking and Finance at CAST (now University of Technology) and also holds the MSc in Social Sciences/Human Resources from the University of Leicester and MBA (Distinction) from the University of Wales/Manchester Business School. He holds professional designations in Banking, Corporate Secretarial Practice, and Human Resources, with associateship in the Institute of Chartered Secretaries and Administrators, the Chartered Institute of Bankers, and designated as an international Senior Professional in Human Resources by the Human Resource Certification Institute.

# A letter to **Members** from the Chairman

Michael McMorris, BA

## Dear fellow Member,

It gives me great pleasure to present to you the 2019 Victoria Mutual Group Annual Report.

The Board of Directors is pleased to have supported the VM Team through another successful year, marked by a number of significant wins and milestones. The year 2019 has been our best yet and we congratulate the team and thank the Members for this very strong performance.

At the end of December 2019, the Group recorded net surplus of $2.132 Billion, a laudable increase of 101% when compared to the previous year. Total Assets were $244.81 Billion, representing an increase of 16.8% over the corresponding period and providing us with an unprecedented level of capital reserves for our depositor's and shareholder's protection.

This performance comes against the background of estimated global growth of 2.9% for 2019. Global growth was constrained by weakened international manufacturing, reduced investments and increased trade tensions, particularly between the United States and China. However, in both emerging markets and the developed economies where the Group operates, lower interest rates created an environment which encouraged economic growth. This accommodative environment was also reflected locally, where our Central Bank, the Bank of Jamaica, lowered its benchmark overnight interest rate four times over the year, from 1.75% at the beginning of the year to 0.50% by December. **Jamaica's growth rate for 2019 is estimated at 0.60%, primarily due to increased external demand which was bolstered by improved macroeconomic conditions:**

- Debt-to-GDP projected at 91.5%, representing an improvement when compared to the 94.4% at the end of FY2018/19

- A Historically low unemployment rate of 7.2%
- An Inflation rate of 6.2% for the calendar year and projected at 5.0% for the fiscal year

Notably, over $46.0 Billion was raised through the Jamaica Stock Exchange (JSE) which, for the second year, was declared the world's best performing stock exchange. The main index of the JSE advanced 34.12% over the year, while the Junior Market advanced by 3.15% over the similar period. There continues to be significant interest in our local markets, especially by small businesses, several of which have listed on the Junior Market.

Another significant milestone in 2019 was Jamaica's successful completion of the IMF's Economic Reform Programme. The Government demonstrated its commitment to strong fiscal discipline and improved macroeconomic stability, which contributed to the country's upgraded credit ratings by the ratings agencies Standard & Poor's and Fitch.

But what does all of this mean for you? Simply put, our local economy is doing better, and though at the time of my writing we are faced with global economic uncertainty and complexities, current indicators show that Jamaica's economy is stronger and more resilient than it has ever been.

The improved economic conditions in 2019 generated additional opportunities on which we were able to capitalise, resulting in several new products and services. These include the 100% Mortgage Financing Solution, our new commercial auto loan and US Equities Trading.

Creating opportunities so that you are able to take advantage of the attendant benefits associated with an increasingly improved economy is important to us. The successful execution of a more dynamic strategy, within our time-honoured framework of prudence and financial strength, has allowed us to do just this. We expanded the number of branches for our wealth management and money transfer subsidiaries, deepend our real estate lending in the United Kingdom and acquired a stake in the Barbados fintech Carilend. This acquisition is the first of many strategic partnerships that we expect to establish, as we seek to provide you with diverse and innovative product and service offerings. In keeping with our drive to harness more opportunities, we have also undertaken an organisational restructuring exercise to give your Group greater agility for the pursuit of prospects in any and all of our markets. Simultaneously, our strategy and culture of high-performance demands that we strive continuously to improve your experience with us as your financial service provider. We, therefore intend to undertake a comprehensive organisational process re-design in the coming year for a much more efficient and responsive interface with you both, in person and digitally.

The VM Group was established to help build Jamaica as a more inclusive society, and we remain steadfast in the belief that we can help anyone achieve their financial goals, regardless of social class or background.

The year 2020 promises to be exciting, and we stand ready to deliver the products and services that suit your lifestyle needs. We will continue to be responsive to your demands while demonstrating our desire to see all Jamaicans do well financially. Additionally, in all areas of our business and through our corporate philanthropy activities led by the VM Foundation, we will be champions for the promotion of financial literacy and financial inclusion as we work to fulfil our purpose.

Once again, thank you for being a part of this ongoing journey with us. We are grateful that you have trusted us to help make your financial dreams a reality. We are confident in the ability of the Leadership and Team Members of the VM Group to take us securely to the next level, as we help you to meet challenges and thrive in the ever-changing global village.

**Michael McMorris**, Chairman

# CORPORATE GOVERNANCE

**Victoria Mutual's high standards of governance are consistent with best practices in Corporate Governance, regulatory expectation and aligned with the VM Group strategy and risk appetite.**

We are committed to sound principles, practices and processes to ensure that the Group is effectively managed in the best interest of our valued Members and all stakeholders.
The Board of Directors' executed responsibilities with respect to:

- Overseeing the implementation and execution of the Strategic Plan and initiatives for VM Group,
- Approving an acceptable Risk Appetite Statement for the Group and overseeing the effective management of Enterprise Risk, and
- Approving Policies to guide the VM Group and ensure robust policies and procedures are adhered to in order to safeguard the VM Group.

## THE BOARD OF DIRECTORS' MAIN DUTIES FOR 2019

During the financial year 2019 the Board's main duties and responsibilities were:

**Strategic**
- Convening Strategic Planning Sessions with the Board and Management to develop and approve the Strategic Plan, key performance targets and supporting business plan
- Reviewing the Strategic Plans to account for changes in the environment and business operation to achieve the key targets for 2019
- Assessing the capital adequacy requirements to support the execution of the strategic plans
- Conducting a Board Self Evaluation to assess the performance of the Board and each Director's contribution.

**Talent Management and Investing in Our People**
- Reviewing the Compensation Philosophy, the talent management plans and initiatives for the VM Group
- Providing guidance and directive on the succession plans for executive positions across the VM Group.

**Financial Performance**
- Approving and overseeing the VM Group's annual budget and supporting financial and business plans
- Reviewing and assessing bi-monthly financial performance and applicability of the accounting standards

- Reviewing and assessing the capital adequacy requirements for the VM Group

**Risk Management, Compliance and Internal Controls**

- Assessing the effectiveness of the ERM Framework, monitoring the VM Groups's performance against the Key Risk Indicators with tolerance limits.
- Ensuring appropriate measures are applied and maintained in respect of risk identification, mitigation and controls
- Ensuring that the VM Group operates, at all times, in compliance with all applicable laws and regulations in respect of all jurisdictions where the VM Group has a presence and serves its Members
- Reviewing and assessing the effectiveness and adequacy of the internal control, systems of risk management, control environment and regulatory compliance.

## BOARD COMPOSITION

During 2019 the Board was composed of twelve members, with eleven members as non-executives. The Board is chaired by an independent Chairman, Mr. Michael McMorris.

The Board is composed of directors with diverse skill sets, experiences and backgrounds to provide sound strategic direction for VM Group.

- Mergers and Acquisitions
- Legal
- Human Resource Management
- Strategic Planning and Management/ Business Strategy Execution
- Banking/ Financial Industry
- Accounting/ Auditing
- International Markets
- Information Technology/ Digital
- Risk Management

The Board held ten board meetings during 2019 with two meetings focusing on strategic planning and execution. Directors' attendance and participation at board meetings is critical to the successful governance of the VM Group.

### Attendance by Independent Directors

| Director | # of Meetings (max. 10) |
|---|---|
| Mr Michael McMorris (Chairman) | 10 |
| Mr Matthew Wright (Deputy Chairman) | 9 |
| Dr Judith Robinson | 10 |
| Mrs Jeanne Robinson Foster | 9 |
| Rear Admiral Peter Brady | 5 |
| Mr Noel DaCosta | 6 |
| Mrs Sandra Shirley-Auxilly | 10 |
| Mr Brian Goldson | 10 |
| Mr Maurice McNaughton | 8 |
| Mr Phillip Silvera | 10 |
| Mr Michael McAnuff-Jones (Appointed November 15, 2019) | 2 |

## BOARD COMMITTEES

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

a) Group Audit
b) Group Finance and Risk Management; and
c) Group Corporate Governance, Nominations and Compensation.

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

### The Group Audit Committee

**The primary purpose of this Committee is to assist the Board of Directors in fulfilling its accountability for 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) Consultation with external auditors on the state of internal controls for VM Group
d) The performance of the Society's internal audit function, approval and management of the audit plan and reviewing the internal controls and the operational environment for the VM Group.

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. During 2019, the Group Audit Committee held joint meetings with the Audit Committees of Subsidiaries in order to assess the effectiveness of the Committee its oversight function and to implement more robust oversight in consultation with internal audit and KPMG the external auditors.

### COMMITTEE MEMBERS AND ATTENDANCE

During 2019 the Committee held ten meetings, with three meetings being held jointly with subsidiary Audit Committees.

| | |
|---|---|
| Dr. Judith Robinson – Chair | 9 |
| Ms. Sandra Shirley-Auxilly | 7 |
| Mr. Peter Brady | 4 |
| Mr Phillip Silvera | 9 |

### The Group Finance and Risk Management Committee

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

## FINANCIAL OVERSIGHT

**a.** The financial performance of all entities within the Group;
**b.** The allocation of the Group's capital
**c.** The assessment and conduct of due diligence for potential major transactions within the Group; approve changes to the Credit Policy and appropriate approval limits
**d.** The investment and loan portfolios of the Building Society and subsidiaries, 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 Management Committees -Group Asset/Liability and Credit Committees.

## ENTERPRISE RISK MANAGEMENT OVERSIGHT

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

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

**a.** Establishing the enterprise risk appetite statement and the implementation of the policy framework to guide the monitoring of a robust Risk Management System;
**b.** Reviewing and evaluating the Group's risk exposures;

c. Developing and maintenaning an effective risk management culture; and
d. Monitoring of the risk identification, measurement, monitoring and control processes through the ERM Reports.

## COMMITTEE MEMBERS AND ATTENDANCE

The Committee held nine meeting during 2019.

| | |
|---|---|
| Mr. Matthew Wright – Chairman | 9 |
| Mr. Michael McMorris | 9 |
| Dr. Judith Robinson | 9 |
| Mr. Brian Goldson | 9 |
| Mr Phillip Silvera | 9 |

### The Group Governance, Nomination and Compensation Committee

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

a. Designing an effective Corporate Governance Framework, undertaking periodic reviews and making recommendations for reform, if necessary, to ensure the practice of good corporate governance and amending the Framework accordingly;
b. Identifying qualified candidates for nomination to the Board and for service on committees of the Board;
c. Overseeing the Board Performance Evaluation Survey, assessing the finding and implementation of an action plan to address the areas of focus and improvement;
d. The formulation and oversight of performance incentive systems for all business units; and
e. The establishment of a policy framework to deal with related party transactions and conflicts of interest.

## COMMITTEE MEMBERS AND ATTENDANCE

The Committee held six meetings during 2019.

| | |
|---|---|
| Mr. Michael McMorris – Chairman | 6 |
| Mrs Jeanne Robinson – Foster | 3 |
| Dr. Maurice McNaugthon | 5 |
| Mr. Brian Goldson | 6 |

## GUIDELINES FOR BUSINESS CONDUCT

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

1. Compliance with applicable laws and regulations
2. Executing functions with integrity, accountability and honesty
3. Avoidance of conflicts of interest; obligation to declare any potential or actual conflict interest and obtain guidance
4. Corporate disclosures to be accurate and timely

Victoria Mutual's corporate governance policies and practices are designed to ensure that VM operates in a sustainable and responsible manner at all times.

## OVERALL GOVERNANCE PRACTICES

The Board continues to assess its performance through the self-assessment process in order to improve the Governance of the VM Group to ensure the soundness, stability and probity of the effectiveness of the guiding governance principles and policies of VM Group in the best interest of our Members and Stakeholders.
The Board considers its fiduciary responsibilities and independence as paramount in the discharge of its role and function under the guiding governance principles. ■

# Corporate Social Responsibility

FOUNDATION
Improving Your Quality of Life

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

# PILLARS & PROGRAMMES:

## 1. LEADERSHIP AND NATION BUILDING

- National Leadership Prayer Breakfast
- Governor-General Achievement Awards

## 2. YOUTH EMPOWERMENT

- Head Start Scholarship Programme
- Social Enterprise in Secondary Schools Programme, in partnership with the British Council
- IgKnight - Financial literacy for young people
- Under-13 Football Competition and Coaches Development Programme

## 3. HEALTH AND FAMILY

- Adopt-A-Clinic, in partnership with the Ministry of Health

## BUILDING A BETTER WORLD THROUGH PARTNERSHIP

- In 2019, the VM Foundation impacted the lives of over 110,000 individuals.
- We are delighted to have invested over JA$35 million in Jamaica, of which over JA$1.69 million was donated to support smaller grants.
- Over 91,800 lives were impacted through VM's initiatives, approximately 17, 800 through small grants and another 887 through our staff volunteer work.
- In 2019, 185 VM Team Members actively volunteered and contributed to the Foundation.
- We have been able to do this thanks to the amazing loyalty of our partners, members, Board and Team Members.

## EDUCATIONAL ADVANCEMENT

- The VM Foundation continues to transform lives through our commitment to supporting students on their journey towards gaining an education. Over 62 students received scholarships through the VM Foundation Head Start Scholarship Programme, at the primary, secondary and tertiary levels. Of the 62, 44 are females and 18 males.
- NEW: In 2019, VM Foundation awarded its first recipient for the STEM scholarship. This was introduced to support students pursuing studies in the Science, Technology, Engineering or Mathematics to facilitate the global growth agenda. The scholarship is valued at $300,000, per year for the course of their studies.

## SPORTS DEVELOPMENT

- In partnership with the St. James Football Association, the VM Foundation hosted the 29th staging of the St. James Under-13 Football Competition. The Foundation continued to demonstrate that VM is a partner on and off the field, The competition is an important investment in our nation's future and provides an opportunity for participants to develop and sharpen their football ability, while learning the life skills critical to their growth and development. 691 students from 32 schools participated.
- NEW: In 2019, the Coaches programme was launched, where approximately 20 coaches were trained to aid in the growth of the players. They were introduced to positive youth development as the foundation for how they approach coaching the players. The coaches were exposed to a curriculum and tools on effective communication, making good decisions, problem-solving, goal setting, leadership, time management, nutrition, injury and recovery, and handling loses.

## HEALTH CARE

The VM Foundation adopted the St Jago Park Health Centre in Spanish Town, St Catherine. The Ministry of Health's programme seeks to encourage Jamaicans to take responsibility for their health at a primary level before they have a need to get to the hospitals. The main thrust of the programme is to refurbish and upgrade clinics across the island to ensure that patients get quality care in a professional setting. However, in 2018 the VM Foundation wanted to provide more value, so we decided to give the the clinic a needed facelift as our Labour Day project. We have also supported their Health fair with VM Volunteers and delivered Financial Literacy training to the staff.

## VOLUNTEERISM HIGHLIGHTS

### International Coastal Clean-up Day

On September 21, 31 Team Members journeyed to the Palisadoes Go Kart Track in Kingston and Lilliput Beach in Montego Bay to help in the cause to keep our environment clean and rid our coastal areas of built-up of debris. ■

*We can all be proud of the fact that we are indeed "Improving the quality of life of Jamaicans". We look forward to amplifying our impact as we grow through partnerships.*

# Performance Highlights - BOLD AMBITIONS

**Specialised Lending in UK:** Total loans grew from **GBP1.476M** to

**GBP18.5M**

**106%**

**GROWTH in VMIL's** Net Profit (Sept 2018 vs. 2019)

**16%**

**increase** in **VMPS' Net Surplus** driven by **strong sales productivity**

**Loans Disbursed**

**$17.9**

vs

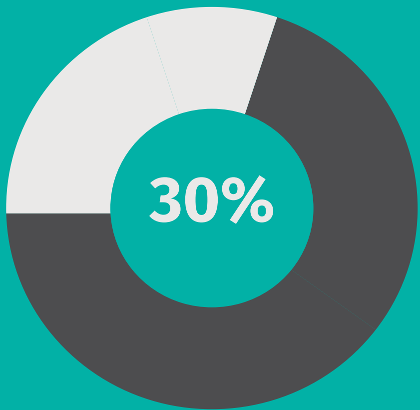
**$8.8B in 2018**

a

**103%**

INCREASE

**VMIL** acquired **30%** stake in Barbados fintech **Carilend**




**44%**

**INCREASE** in the number of **REMITTANCE TRANSACTIONS**

**21%**
increase in **VMPM's off-balance sheet assets**

**New Member touch points including our New York Office, Fairview Branch and 4 Money Express locations**

**Upgraded Online Banking:** Pilot stage with over **400 USERS**

Introduced **additional product options** for our Members

**NPS IMPROVED from 48** (2017) **to 51.5** (2019)

**16 new iABMs** rolled out across branches bringing total to **19**

# The President & CEO's Report

The year 2019 was a phenomenal one for the VM Group! We were able to successfully navigate the competitive headwinds and environmental uncertainty that characterised our operating landscape and made significant strides in furthering our mission to become a Modern Mutual driven by purpose and bold ambitions.

Our purpose is conceived with you, our Members in mind, and bold ambitions designed and delivered to transform the lives of our Members, Clients, Team Members, and Communities.

Against this background, I am pleased to report that for the 12 months to December 31, 2019, the VM Group delivered exceptional financial results. This strong performance is significant because it demonstrates the enduring strength and stability of the Victoria Mutual Group; it provides the financial flexibility to deliver on our commitments to our Members and Team Members; and it communicates, in tangible terms, that our efforts to build a Strong Integrated Financial Group are yielding positive results.

In 2019, VM Group recorded Net Surplus of $2.13 billion, more than twice that of the previous year and the highest in the organisation's history. This significant improvement was driven by strong growth in revenue from core business, improved efficiency, and gains from our treasury and investment portfolio. The Group's revenue grew by 16.04% to $11.34 billion while our total assets increased by $35.14 billion (16.8%) to $244.81 billion. This year also, our Members benefitted from an additional $118 million by way of discounted fees and lower mortgage rates.

## Transforming the Lives of our Members

We recognise that your decision to make the VM Group your financial partner demonstrates the trust and confidence you have in us and each day we work tirelessly to assure you that you made the right choice. Your VM Team is committed to continuous improvement and is singularly focused on ensuring that we address your financial needs in a manner that works for you through tailored products and services, convenient and accessible touchpoints and multiple avenues for you to tell us how we are doing.

Accordingly, in 2019, we increased the number of Members who became first-time homeowners by 22.6% to 423 by issuing over $10.85 billion in mortgages, 39.5% higher than the previous year. This is an important achievement given our purpose to empower our Members to acquire their own homes and achieve financial wellness. We also advanced $18 billion in total loans, 123.16% higher than last year and this represents another first for the VM Group. We ramped up our efforts to provide competitive financing solutions to our corporate clients in the United Kingdom by increasing specialised property lending from GBP 17.3M to GBP 18.5M. This provided the VM Group the opportunity to help our corporate clients achieve their growth objectives for real estate business. During the financial year, we expanded the range of products and services by launching the 100% mortgage product and the US Equity Unit Trust, and relaunched the Annual Retirement Scheme (ARS) pension product with distribution through our branch network. Expanding our range of products and services afforded our Members greater flexibility to address today's needs and solidify plans for each stage of their lifecycle.

In 2019 we also created groundbreaking financial opportunities and options for our Members by expanding our footprint in the Caribbean with the acquisition of a 30% stake in Carilend, a FinTech company domiciled in Barbados. We hope to capitalise on this relationship to expand lending options to our local Members in the coming year. With the aim of providing our Members with simple, convenient and increased access at multiple touchpoints, we introduced, during the year a new online trading platform; expanded the suite of banking options with 16 new intelligent ABMs; as well as launched an upgraded Internet platform and mobile banking application. We also supported these new or expanded electronic touchpoints by investing in additional IT hardware and human capital resources to improve availability and increase system uptime.

Our face-to-face interaction with our Members through our network of branches remained an important avenue to solicit feedback and provide excellent service. Accordingly, in 2019 we expanded our physical presence by opening an office in New York, our new ultra-modern location in Fairview, Montego Bay and three new VM Money Express locations in Old Harbour, Mandeville and Savanna-la-Mar. We also renovated our Brixton Representative Office to create a more customer friendly, modern environment for our Members and Team Members in England.

Engaging and listening to our Members is a big part of our mantra to provide ***financial education because we care*** and as such, during the year we hosted seminars, conferences, and town hall meetings including a series of Home Buyers tours in Canada, the United States of America and the United Kingdom. Members of the Jamaican diaspora showed their appreciation by turning out in record numbers. The attendees were updated with business development information as well as product offerings and opportunities available through the VM Group.

## Transforming the Lives of our Team Members ▷▷▷▷

Recruiting and retaining a competent and engaged Team is critical to delivering excellent service to our Members. During 2019 we advanced the ***Great Place To Work*** agenda by expanding our talent management and succession planning programmes as well as implementing improved loan and mortgage benefits for Team Members as we also support their efforts to become homeowners. Additionally, a number of Team Members were exposed to training in various areas including sales, credit, customer service, languages as well as junior and general leadership programmes. We are committed to building a culture in which every voice is not only heard but also valued and as such avenues for feedback were enhanced in 2019 with more frequent road shows with the executives, ***"Mek wi talk more"*** sessions and surveys. We believe that these contributed to the improved engagement score of 73%, almost 10 points higher than the global average.

## Transforming our Communities ▷▷▷▷

At the VM Group, we believe that we are not just a building society, but rather that we are building society. Throughout our 141-year history, the posture of the VM Group has always been to build the communities in which it serves and during the year, this commitment was advanced with the investment of over $35 million and the active volunteering of our Team Members and loyal partners. The VM Group, through its VM Foundation executed a number of corporate social responsibility initiatives, projects and programmes and in the process impacted over 110,000 lives. We will continue to see this approach as part of our mission to transform our communities.

## Outlook ▷▷▷▷

As we look ahead, we anticipate that the competitive landscape will remain intense with non-traditional players, no longer defined by geography, continuing to offer our customers simpler and more flexible options. Customers will become more discerning and demanding and the regulatory framework will continue to reflect the challenges of the day. Additionally, while we cannot yet quantify the impact of the coronavirus (COVID-19) on the economies in which we operate, we do acknowledge that there will be some level of impact. Despite these factors, the strong foundation that has been laid, our intimate knowledge of our operating environment, the strength of our risk mitigation strategies and our growing capacity to effect preemptive as well as responsive actions for and on behalf of our Members and Team Members, have positioned the VM Group to continue to do well.

In 2020 therefore, we will continue to deliberately execute our mission to become a purpose-driven Modern Mutual accomplishing bold ambitions with excellence and urgency. We also see this mission as being inextricably linked to our passion of driving Financial Inclusion in Jamaica and as such we will, in 2020 seek to fulfill our leadership role in this area by accelerating the rate of growth in the number of Members and clients we serve.

Additionally, we continue to listen to our Members, to invest heavily in the retention and engagement of our people, the improvement and robustness of our systems and processes including providing more digital solutions and the building of our communities. Each action we take in this regard, each programme we execute and each project we implement is designed to ensure that you achieve financial wellness.

## Thank You ▷▷▷▷

I would like to express sincere appreciation to our Board of Directors and the VM Team for their belief in, dedication to and demonstrated commitment to transforming lives.

You, our Members are the reason we exist, and on behalf of the VM Team we thank you for your continued loyalty and commitment. We look forward to delighting you even more in 2020 and beyond.

**Courtney Campbell,** President & CEO

# Transforming Lives

**423**
FIRST-TIME HOMEOWNERS

**191**
MILLENNIAL FIRST-TIME HOMEOWNERS

**7,958**
LIVES MANAGED UNDER A PENSION PLAN

**110,000**
LIVES IMPACTED THROUGH VOLUNTEERISM

**1,282**
FIRST-TIME INVESTORS

**4,428**
MILLENNIALS WITH A VM INVESTMENT ACCOUNT

Total Amount raised through capital-raising initiatives to help corporations and SMEs:
**$16,235,892,107.51**

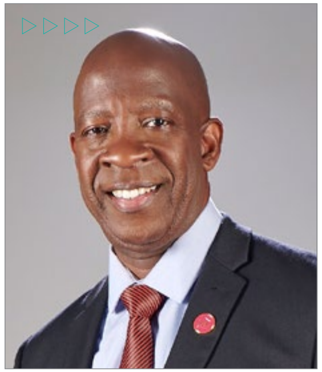

“Our organisation was formed 141 years ago to ‘meet the needs of the deserving thrifty’. Today, our Team, led by our Executive Leaders, is more committed than ever to this purpose.”

# Executive Leadership

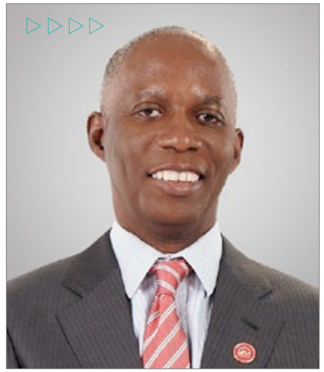
**The leaders of the VM Group work together towards a common goal of creating Member and Client value, committing to building superior customer experiences and raising the bar for the financial services industry.**

**Courtney Campbell,** MBA (Distinction), ACIB, BSc, JP
**Group President & CEO**

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



**Devon Barrett,** MBA
**Group Chief Investment Officer**



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

**Laraine Harrison**, MBA, BA
**Group Chief Human Resources Officer**

**Rezworth Burchenson**, MBA, BSc
**Chief Executive Officer, VMWM**

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

**Rickardo Ebanks,** BSc (Hons.)
**Group Chief Technology Officer**

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

**Michael Neita**, MBA, BEng, BSc
**Chief Executive Officer, Victoria Mutual Property Services Ltd.**

**Michael Howard,** MBA, BSc
Chief Executive Officer
VM Transfer Services Limited

**Conroy Rose**, CSC, MBA, BSc
Chief Executive Officer, VMPM

**Carla McIntosh Gordon**
MSc, BA, PMP, BSP
Group Chief Strategy Officer

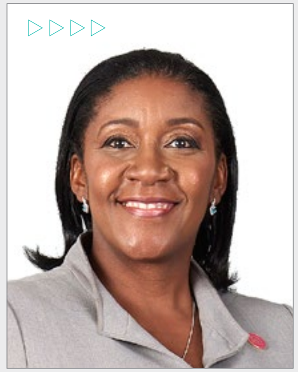
**René Allen-Casey,** FCCA, FCA, CIA, CIRM, Dip, BA
Group Chief Internal Auditor

# Senior Leaders
## with Group Functions

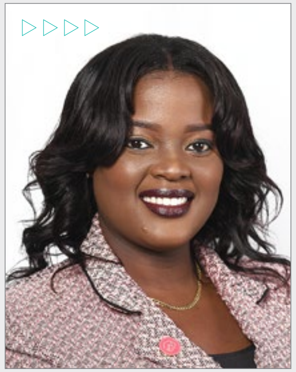
**Chevonne Ashman**, MBA, BSc, PMP
Assistant Vice President
Group ICT

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

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



**Karlene Waugh**
Assistant Vice President
Business Operations



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

**Dayton Robinson**, PhD
Assistant Vice President
Group Human Resources

**Adam Harris**
Assistant Vice President
Strategic Investments

# Leadership Team

## Victoria Mutual Building Society

**SEATED** (l-r)

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

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

**STANDING** (l-r)

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

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

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

**Latoya Williams**
Senior Manager
Lending Solutions

**Clive Newman,** MBA, FICB
Assistant Vice President
Credit

## Victoria Mutual Wealth Management

**SEATED** (l-r)

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

**Colando Hutchinson**, MBA, FCA, CFA
Head
Capital Markets

**STANDING** (l-r)

**Davie Martin**
Manager
Asset Management

**Evette Bryan,** MBA
Manager
Treasury and Trading

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

## Leadership Team

SEATED (l-r)

**Rezworth Burchenson**
MBA, BSc
Chief Executive Officer

**Denise Marshall-Miller**, MBA
Manager
Bond Trading

STANDING (l-r)

**Tamara Waul Douglas**, MBA
Manager
Sales

**Hakima K Reece**, ACCA
Manager
Business Operations

**Sharon Sterling**, MBA
Manager
Marketing

**Nordialee Stewart,** MBA
Manager
Client Services

## Victoria Mutual Pensions Management

SEATED (l-r)

**Conroy Rose,** CSC, MBA, BSc
Chief Executive Officer

**Ann Simmonds-Bourne**
Manager
Client Portfolio and Financial Reporting

STANDING (l-r)

**Natalie K Bennett**, MBA
Manager
Risk and Compliance (Acting)

**Judi-Anne Marzouca**, BBa
Manager
Pensions Administration

**Tamieka Reece**, FCCA, MSc
BSc
Manager
Risk and Compliance

**Davie Martin**
Manager
Asset Management

## Leadership Team

## Victoria Mutual Property Services

**SEATED** (l-r)

**Micheal Neita,** MBA
BEng. BSc, Chief Executive Officer

**STANDING** (l-r)

**Marcia Sterling,**
Assistant Manager
Sales/Valuation & Office Administration

**Wheina Nelson**
Commercial Facilities Officer

**Jermaine Williamson,** BSc
Senior Valuer

ABSENT:
**Chadd Chambers**
Manager
Safety, Security & Office Services

## Victoria Mutual Money Transfer Services

**SEATED** (l-r)

**Michael Howard,** MBA, BSc
Chief Executive Officer

**STANDING** (l-r)

**Rennata Blake**
Senior Business Support Officer

**Owen Bruce**
Manager
Distribution

**Kayon Morrison-Scott**
Assistant Manager
Compliance

# Branch Leadership

## Western Team

**SEATED (l-r)**

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

**Erica Robinson**
Branch Manager
Santa Cruz

**Andrea Ascott-Allen**
Branch Manager
Fairview

**Robert Foster**
Branch Manager
Mandeville

**STANDING (l-r)**

**Allison Shields**
Branch Manager
Savanna-La-Mar

**Sean Taylor**
Branch Manager
Falmouth

**Marsden Dennis**
Branch Manager
May Pen

**Faithline Campbell**
Branch Manager
Montego Bay

**Charmaine McConnell-Taylor**
Branch Manager
Ocho Rios

## Eastern Team

**SEATED (l-r)**

**Allison Morgan**
Branch Manager
Half Way Tree

**Mendel Thompson**
Branch Manager
Liguanea

**STANDING (l-r)**

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

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

**Shelliann Afflick**
Branch Manager
New Kingston

**Cherese Stewart**
Branch Manager
Linstead

**Ruth Oliver**
Branch Manager
Spanish Town

**Joy Bunting-Pusey**
Branch Manager
Portmore

# Management Discussion & Analysis

The Victoria Mutual Group is a leading mutual institution, led by bold ambitions and an intractable commitment to transforming lives through the provision of excellent financial products and services to our Members and Clients in Jamaica and overseas.

## INTRODUCTION

Founded in 1878, Victoria Mutual is headquartered in Kingston, Jamaica and has for 141 years, proudly played a meaningful role in building the nation. Our network of locations, and our reach, span the island and major financial capitals in The United Kingdom and The United States.

The Victoria Mutual Group is purposefully engaged in the business of helping those we serve to achieve financial wellness, in part, by providing them with financial education to suit their life goals. We believe that all people, regardless of social circumstances should be empowered to make wise financial decisions for the benefit of themselves and their loved ones. Our suite of products and services is designed with this in mind. In addition to a range of savings and loans products, we also offer investment banking, pension fund management services, real estate services, money transfer services and general insurance. We serve a diverse client base of individuals, governments, corporations and financial institutions through five Strategic Business Units (SBUs) and and affiliate companies.

Contained in this Management Discussion and Analysis (MD&A) are insights into Victoria Mutual's 2019 operations and the performance of our SBUs during the year. Our leadership team also discusses the upcoming year, outlining VM's bold future goals and approaches to new initiatives.

## OPERATING ENVIRONMENT

### Local Economy

Jamaica's economy continued to grow, albeit at a slower pace of 0.9% for 2019. Growth was facilitated by increased external demand, especially benefiting the tourism sector. This was supported by stronger economic growth by Jamaica's main trading partners, increased domestic demand from higher levels of employment and improved macroeconomic stability underpinned by strong fiscal discipline. The services industries grew by an estimated 1.6% but the goods-producing industries contracted by 0.6%, primarily on the back of weakness in 'mining and quarrying' and 'construction,' which suffered from the Alpart refinery closure and reduced civil engineering activities respectively.

Despite real economic growth falling short of potential, many economic metrics pointed to an improving economy. The year 2019 saw the successful conclusion of Jamaica's Economic Reform Programme with the International Monetary Fund (IMF). The country has seen a 50-percentage-point drop in debt-to-GDP, to 94% currently, since the start of the Extended Fund Facility in 2013. This is expected to reach the target of 60% of GDP by the 2025/26 fiscal year. The unemployment rate fell to an all-time low of 7.19%. Jamaica's credit rating was upgraded by Standard & Poor's (S&P) to B+ from B with a stable outlook in September. Moody's followed suit in December by upgrading its credit rating on Jamaica to B2 from B3. Both external credit rating agencies cited the government's strong fiscal discipline and improved macroeconomic stability as key factors influencing the upgrades.

The Bank of Jamaica (BOJ) saw a change in its leadership, with Richard Byles, former head of Sagicor Group Jamaica, assuming the role of Central Bank Governor, in August. The BOJ lowered its benchmark overnight interest rate four (4) times in 2019 from 1.75% at the start of the year to 0.50% in an effort to induce further growth in private sector credit and support inflation within the 4%-6% target. This compared to a target of 1.50%-1.75% for the US Fed Funds Rate. Following suit, local Treasury Bill yields on the 91-day, 182-day and 273-day maturities all fell below 2% and were either at or just above their historic lows.

The Foreign Exchange (FX) market was fairly volatile, with a roughly 16% range between the high and low for the USD/JMD exchange rate. While the trend for the year has been towards depreciation, the Jamaican dollar experienced meaningful appreciation in the first quarter, reaching as low as J$121.49:US$1.00. The pair worked their way up to end the year at J$132.57:US1.00.

Businesses were less optimistic about their prospects towards the latter part of the year, citing the high volatility in the FX market and the high level of crime and violence in the society. This dip in optimism was evident in the slowing of the stock market. Although overall for the year, the Main Jamaica Stock Exchange (JSE) Index was up 34.21%, the index declined 1.19% during the fourth (4th) quarter and the Junior Market increased only 3.15% for the year, declining 5.22% in Q4. Despite the dip, the appeal for investors and companies to become involved in the stock market is high, demonstrated by a surge in funds raised this year, with over J$46 billion in funds raised via the JSE.

### Overseas

Overseas markets were mixed with our Caribbean neighbors facing diverse economic constraints and developments. On October 11, the Government of Barbados and global bondholders announced that an agreement was reached to restructure the notes which went into default in May 2018. The previous bonds with maturities in 2019, 2020, 2021 and 2035 were exchanged for new bonds maturing in 2021 and 2029, with a 6.5% coupon and an average haircut of 26.3% on the original principal and accrued interest payments.

In Guyana, ExxonMobil announced another discovery of oil in the Stabroek block. As Guyana's oil and gas prospects boomed, the country continued to seek ways to enhance partnerships with experienced players within the industry. The President of Guyana accepted a Letter of Credence from the Qatari Ambassador to Guyana and expressed confidence in the fact that the Ambassador will be providing positive discussions around the oil and gas industries of both countries. As international interests continued to increase in Guyana, many airlines targeted the country, including Qatar Airways, which should increase tourist arrivals to the country and contribute positively to the country's economic growth.

During much of 2019, the US and China sparred over trade terms and this had a dampening effect on US economic growth. With 12-month point-to-point inflation ending the year at 2.29% and the most recent release of GDP showing the economy grew 2.1% in the 4th quarter, the Federal Reserve lowered its target for the Federal Funds Rate three times in 2019 to 1.50% -1.75%. Global growth slowed to 3.3% in 2019 from 3.6% in 2018. Despite this slowing, the US economy demonstrated resilience with the unemployment rate remaining at historic lows.

The original deadline of March 2019 for Brexit was delayed. Since the original deadline, Theresa May resigned as prime minister, having failed to gain support for her withdrawal agreement. The UK elected a new prime minister, Boris Johnson, and finally passed a Brexit Withdrawal Agreement Bill in December 2019.

## OUR OPERATIONS

### Member Focused

The strategies implemented by the VM Group during 2019 underpinned our commitment to ensuring that our Members locally and globally are empowered to achieve financial wellness. The products and services offered through an expanded suite of electronic and physical touchpoints, are undergirded by a strong emphasis on Relationship Building.

## PRODUCT AND SERVICES ▷

### Asset Growth Initiatives ▷▷▷▷

In 2019, we continued our focus on developing products and services that are aligned to the needs of our Members and Clients and that demonstrate our commitment to providing life-improving financial education. We are always working to improve our product offerings, both in terms of relevance and range to facilitate greater financial wellness and financial inclusion. Accordingly, during 2019, the Group launched our 100% Mortgage Financing for Specialised Groups to assist self-employed persons who form a critical part of our economy but remain largely underserved. This was a bold and innovative move by VM. We also launched the Commercial Auto Loan to help Small and Medium-size Enterprises (SME) to access capital at competitive rates to fund their commercial auto needs. In addition to these loan products, Members and Clients of the VM Group also have access to motor vehicle, cash-secured and unsecured loans. The roll-out of the BCIC Auto Insurance facility complemented the auto loan suite of products for our Members.

The increase in the number of products and the provision of greater access contributed to a $13.07 Billion increase in the Group's Loan portfolio, with mortgages increasing by 16.25%, Auto loans by 454.3%, and Unsecured loans by 71.7%. Members in the diaspora also benefitted from this expanded suite of products to include Specialised Lending in the UK. For the 12 months to December 2019, our offices in the UK disbursed loans totalling GBP 17.03 Million in Specialised Lending and GBP 2.38 Million for property purchases in Jamaica. Our US offices recorded US$4.03 Million in mortgage disbursements.

### Savings & Investments ▷▷▷▷

As we encourage our Members to develop and maintain healthy financial habits, we continue to offer multiple savings and investment options through our Building Society, Wealth and Pension business segments to help them do just that. These include a variety of savings products such as iSave, Save2Grow and Money Maker; multi-currency certificates of deposit including iGain Edge; Money Market instruments; Deferred Shares; Unit Trusts such as the US Equity Portfolio that was launched in 2019; and Approved Retirement Schemes (ARS). We also facilitated a number of our Members who participated in Initial Public Offerings (IPOs) and other stock market investments.

Our Members' positive response to this range of savings and investment options contributed to a 9.5%% growth in the deposits portfolio, Deferred Shares overshooting its target of $3 billion and a 25.79% and 15% growth in Unit Trust and ARS respectively. The VM Wealth Classic Property Portfolio was the strongest performer in the market and during the year, achieved a return of 14.3%. Additionally, over 1,600 accounts were opened through our overseas operations in the UK and USA.

Additionally, we continue to support the various needs of our Members by providing property-related services such as real estate valuations, sales, purchases and leasing through VM Property Services. We also provide a range of money transfer services in partnerships with various remittance hosts and by way of an expanded reach of money transfer locations and sub-agents across Jamaica. This is facilitated via our VMBS Money Transfer Services Limited.

Through our VMIL subsidiary, we executed an important investment in our overseas expansion and digital transformation drive by acquiring a 30% stake in Carilend, a Barbados-based peer-to-peer lending company. We anticipate that this platform will accelerate our growth by presenting additional opportunities to provide our Members with innovative financial solutions.

In 2019, VMIL, executed its first underwriting transaction which raised close to $2 Billion. This effort was part of our commitment to help Jamaican companies grow locally and regionally.

### Engaging Our Members ▷▷▷▷

The VM Group places tremendous value on opportunities to engage our Members directly. In 2019 we leveraged many of these opportunities, including our annual Post-Budget Forum and Wealth Talks series to not only engage those we serve but also to provide financial education. Themes in these sessions included, saving for tertiary education, readiness for listing on the Jamaica Stock Exchange and the role of equity investments in wealth creation. We also hosted an event targeted specifically to small business Clients to highlight options for debt and equity financing appropriate for their businesses. Making Moves was another financial education series launched in 2019, designed to guide individuals to the next level in their financial wellness journey. Additionally, VM Wealth executed two online investor briefings in 2019, which allowed select Clients to participate in exciting first rate analysis of the global economy and the impact on the investment markets from the comfort of their homes. More of these briefings are planned for the near future. Through our Pension Management arm, in November we staged in association with the Private Sector Organisation of Jamaica (PSOJ), the 12th Annual Retirement Seminar under the theme: 'Financial Inclusion: The Solution to Jamaica's Retirement Problem?'. This annual Seminar was created to raise awareness of the importance of retirement planning for all Jamaicans, and to establish VMPM as thought leaders in the Pensions Industry.

### Customer Obsessed ▷▷▷▷

The goal of the VM Group is always to ensure that our Members enjoy the highest quality of Customer Experience. A significant part of meeting this objective is hearing from those we serve. As such, we continued to collate and analyse their feedback from across all our service channels and worked to provide solutions to issues which were irritants to our Members.

Work started in earnest during 2019 on the acquisition and implementation of a Complaints Management System for the VM Group. This system will allow automation of recording, monitoring, reporting and analysis of all complaints received from Members and Clients across the Group. This capability will help us to better understand where our major service gaps and customer pain points are, and inform strategies and initiatives required to address them.

Additionally, we provided our customers with guidelines of the minimum standard of service they can expect in conducting business with us through the launch of our VM Group Service Charter.

## Increased Access for our Members

During 2019, we continued to execute on our commitment to provide our Members with more options to communicate with us and increased channels through which they can transact their business with the VM Group. We commissioned our new ultra-modern location in Fairview, Montego Bay, designed with convenience, comfort and efficiency in mind. The location also houses a dedicated space for our Wealth Clients. We also renovated our UK Representative Office in Brixton as well as our Corporate Offices at the Half-Way Tree location and commenced renovation work at our Duke Street Branch. These developments continue in earnest with plans to renovate more Branches in 2020.

VMBS Money Transfer Services expanded its footprint across Jamaica with the launch of four Money Express locations and established new alliances with nine sub-agent locations, bringing the total to 92 such locations. The business also embarked on marketing efforts aimed at introducing our Money Express locations islandwide as well as providing our Members with the convenience of direct deposits to their operating accounts, enhancing our digital agenda as well as providing greater safety and convenience to customers.

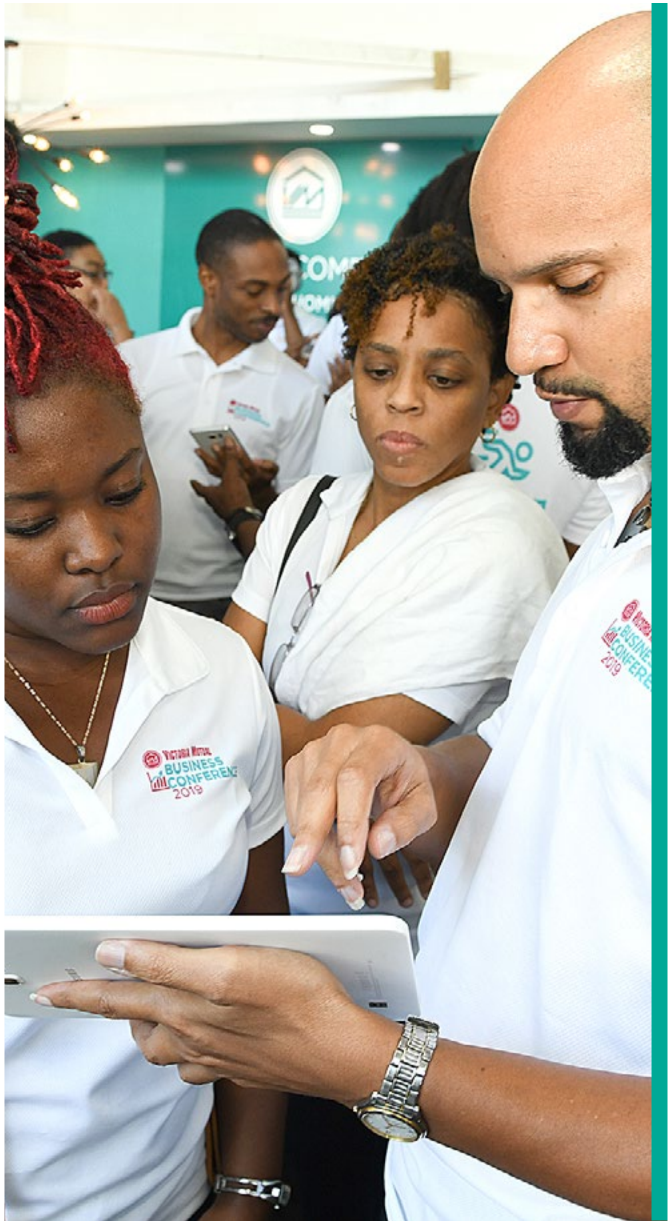
## Electronic Channels

In the area of innovation and digital transformation, we upgraded our user-friendly online Mortgage Portal which provides Members the convenience of tracking the progress of their application at any time. We also continued to deploy new Intelligent Banking Machines (iABMs) to expand our coverage across the island. In 2019 we replaced 13 ABMs with 13 iABMs, with an end-of-year total of 27 ABM machines, 19 of these being iABMs and 8 cash dispensers.

This expanded electronic coverage, in addition to the enhanced capabilities of our iABMs, contributed to Branch-wide increased usage of our electronic channels by our Members. The result was that 73.74% of all transactions were done via electronic channels. Members can deposit cash to their accounts, conduct their own account transfers, make payments from savings accounts to loan accounts and loan payments from cash via the iABM, using their VM Express 24 debit cards. VMBS was able to achieve a 35% growth in transactions for VM Express 24 debit cards. Resulting in the fastest rate of increase in MultiLink income for 2019 and a 26% growth, relative to our 2018 performance.

Our efforts to expand electronic coverage and access will continue in 2020 with the upgrade of our newly installed iABMs, to allow for the acceptance of third-party transactions as well as USD deposits and withdrawals. We will also ramp up the issuance of debit cards, which increased by 39% to an average of 2,490 cards monthly in 2019. We continue to promote multiple channels for Members and Clients to conduct their financial transactions and encourage them to capitalise on the improved convenience afforded by this expanded coverage.

Many of our Members and Clients, particularly the Millennials, were pleased when we launched our online equity trading platform. This initiative accelerates our transaction migration goal, as more persons are requesting self-service portals. We also executed a soft launch of our international equity trading platform and received positive feedback. This will culminate with a public launch in the second quarter of 2020, allowing trading of a wide range of assets in numerous markets. The years ahead will certainly be exciting and rewarding as many more digital features are already in the development phase.




## OUR PEOPLE ▷

In line with our belief that our people are our most valuable asset, in 2019 we continued to advance our Great Place to Work agenda in alignment with our Strategic Goal of being Employer of Choice. Accordingly, we continue to execute our strategy of attracting, developing, engaging and retaining highly competent Team Members who demonstrate our core values, cultural beliefs and exhibit the Desired Behaviours that deliver the targeted results for the VM Group.

**The strategy focuses primarily on three areas:**

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

## Culture and Employee Engagement

### Engagement Activities ▷▷▷▷

During 2019, the Social and Engagement Committee executed several engagement activities that were well received by Team Members. These included Lunch Hour Pop Up Lymes, staff trips, sport competitions and Comedy Nights. The year culminated in the much-anticipated year-end party which was held at Grizzly's Plantation Cove in St Ann and attended by approximately 350 Team Members. The event was sponsored by all five SBUs.

### Business Conference ▷▷▷▷

The 2019 Business Conference was held on Saturday, January 4 at the Jamaica Conference Centre under the theme 'Igniting Purpose with Excellence'. The event was attended by approximately 450 Team Members and provided our leaders with an opportunity to share the strategic direction and plans for the upcoming year. The conference also gave Team Members a forum to share feedback and receive clarification on the strategic objectives and direction.

### HREI Survey and Results ▷▷▷▷

The Human Resource Engagement Index or HREI survey, which is administered in three waves, represents a temperature check of the level of Team Member engagement across the VM Group. Administered thrice yearly, the results provide the leaders of the organisation with valuable insights on how best to execute the organisation's strategy through the development of systemic action plans to improve engagement levels across the Group.

For 2019, the VM Group targeted an Engagement score and participation rate of 75% and 80% respectively and though the organisation is on average 2 % points below the targeted engagement score, the VM Group met the participation target of 80%. Additionally, in the final wave of the survey for 2019 the VM Group achieved an Engagement score of 74%, the highest engagement score since the implementation of the survey and considerably well when measured against the 2017 global average of 65% and 64% for the North American region. The gradual increase in the level of engagement among Team Members is evidence of the success of many of the initiatives being implemented such as the Staff Subsidised Mortgage and Other Loan Facilities.

The Group Human Resources Department will continue to support department/branch/SBU managers in the implementation of systemic action plans targeted at improving engagement scores in their Units and across the Group.

### Culture of Accountability Programme ▷▷▷▷

Our Culture of Accountability represents the foundation and driver of the Group's strategy and as such, the culture tools of focused storytelling, feedback and recognition built around our cultural beliefs were heavily used in 2019 to drive desired results.

In October 2019, Partners In Leadership  Culture of Accountability Integration Workshop was held to facilitate senior leadership sharing of their experiences through the use of culture tools and to reinforce the cultural beliefs of Customer Obsessed, Results Focused, VM Excel, VM Edge, Accountability Starts with Me, Together 'Wi A Winna' and Mek Wi Talk More.

## Talent Management

All the initiatives and projects that have been executed in 2019, aimed at helping to serve you, our Members better, would not be possible without a competent team. Therefore, we are constantly working to ensure that our Team Members have the tools and knowledge required to undertake the tasks necessary to support our Group-wide transformation. A big part of this effort focused on talent management.

Our 2019 Talent Management initiatives focused on the building of Individual Development Plans for Team Members, Career Plans for Critical Positions and High Potential Talent, and Succession Plans for Senior Leader Positions. The Group Human Resources Team also led the completion of Talent Plans for non-management Team Members which started in October 2018 and commenced the Accelerated Development Programme for High Potential Team Members. This programme used experience-based learning through acting assignments, promotions and job rotation, coaching, mentoring and formal learning activities to prepare selected Members to assume additional responsibilities. The Talent Review Sessions continued to inform the Talent Pools and support the preparation of Team Members for transition to various roles across the organisation through our Career Development and Succession Planning Programme.

Additional training programmes were also undertaken across the Group during the review year to support the development of our people. These included General Management, Credit, Sales, and language training to prepare team members to support the VM Group in achieving its continued plans for global expansion, as well as professional training specific to our individual business lines such as Chartered Financial Analysts Certification for our Wealth Management Team. Among the series of Group-wide training which started in 2019 was the Feelings for Professionals Programme which was introduced to support our key differentiator of providing financial education "...because we care", by ensuring that all Team Members are equipped to provide the level of excellent service and pertinent needs-based financial information that will support our Members in achieving financial well-being.

Team Members' digital capabilities were increased throughout the year with a digital tool adoption rate higher than the industry average for organisations using the same platform. The importance of these digital tools in driving data-based decision-making across the Group was further reinforced with training and certification in core digital competencies such as Design Thinking, Agile and Business Intelligence.

All the Talent Management programmes initiated or executed during the year contributed to 36% of vacancies filled internally in 2019.

## Performance Management

We continue to use the Victoria Mutual Group's Performance Management and Appraisal System (PMAS) to assess performance of our Team Members across two dimensions, performance objectives (what we do) and desired behaviours (how we do it) in order to support our performance excellence pillar required to build the New VM.

### Recognition and Rewards

The VM Group's Recognition Programme is designed to drive a high level of Team Member engagement and to build a high-performance culture. This programme utilises the culture tools of focused recognition, instant recognition as well as the "I AM VM" Awards to recognise Team Members who demonstrate the VM Group's core values and desired behaviours of 'VM Excel' and 'Results Focused'. The 'I AM VM' Awards is an annual event that recognises and rewards outstanding Team Members for excellent performance across various categories in the Group.

### Variable Incentive Schemes

A Variable Pay Incentive Scheme was introduced in 2019 for Team Members in sales and other revenue-generating areas of the organisation to support the VM Group's efforts to build a sales culture that is driven by performance excellence. The incentive schemes were designed for our Team Members to play a greater role in determining their earnings while achieving the organisation's sales and revenue targets. Preliminary results indicate that these objectives are being met.


### Talent Management and Change Management

In 2020 we will continue to drive our Employer of Choice strategic goal by focusing on our Talent Management Programme (TMP) and Employee Engagement Initiatives. Our TMP is aimed at attracting and retaining top talent for the future whilst implementing talent retention strategies through our Total Rewards Programme; and formal learning and development programmes to develop stronger leadership capability as well as expertise in sales, service, credit, operations and innovative digital capability.

## ENTERPRISE RISK MANAGEMENT AND CONTROL ▷

**Risk management is part of the VM Group culture. We accept the risks we can manage and where this gives us a competitive advantage. We seek to mitigate or avoid other risks. Ensuring we have an efficient risk management system in place is key to developing our business and achieving our objectives.**

### Trusted to manage our risks ▷▷▷▷

The VM Group understands that a robust risk management system is critical to the achievement of its strategic objectives. Our customers, employees and other stakeholders trusts us to make it an integral part of our service and culture.

We review our critical risks regularly, given that the risk environment is constantly evolving, where new risks may arise, or previously identified risks may have a different impact.

The Board needs reasonable assurance that our risk management and reporting systems remain sound. We have a range of policies and processes involving both internal and independent controls: Internal Audit, external certification bodies and external auditors. These are designed to strike the right balance between cost and effectiveness. Together, they aim to help us achieve our business objectives while cutting to an acceptable minimum the risk of operational failures, misstatements, inaccuracies and errors, fraud and non-compliance with laws and regulations.

### RISK MANAGEMENT PILLAR

**1 DETERMINED BY**
Our overall strategy and objectives reflecting our risk appetite.

**2 SHAPED BY**
Our culture and values, guiding our approach to risk management.

**3 GOVERNED BY**
Policies defining risk management and control standards for all our operations published on our intranet and regularly updated.

**4 SUPPORTED BY**
Training on topics such as internal control ethics, anti-fraud, authority limits, crisis and business continuity management and compliance.

### What we focused on during the year ▷▷▷▷

We strive for a practical approach while constantly improving our risk management process and the quality of information it produces. Based on our key focus areas, during the year we:

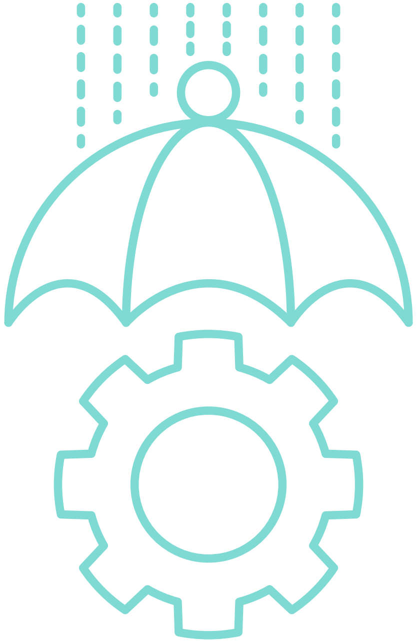
- Assessed and strengthened the enterprise risk management framework for further standardisation of risk identification, assessment and governance of risks across the organisation.
- Expanded risk assessment on key activities with focus on investments and pensions management,
- Strengthened and enhanced monitoring and reporting of top 15 risk profile, and
- Implemented a process for detecting emerging risks.

### What we plan to do in the future ▷▷▷▷

- Further improve the organisation level of preparation for crisis management
- Continue to enhance our business continuity planning with a focus on our IT recovery
- Review operational risk areas including client service delivery, information security (cyber-attacks and threat intelligence), employee's safety, physical security, succession planning, capital expenditures on infrastructure and business continuity management
- Ongoing development of our holistic control view through synergies, exchanges and reviews between Risk management, Internal control, Internal Audit, Quality and Corporate Strategy teams

## How we share our risk management responsibilities

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



**Executive Management / Board of Directors Perform Oversight**

**1st Line of Defense - Integrated Risk Governance and Oversight:**

- Establishes risk appetite and strategy
- Approves the risk management framework, methodologies, policies, roles & responsibilities
- Set "tone from the top"
- Leverages risk information into decision making process for identification and mitigation
- Evaluates SBU activities on a risk-adjust basis

**Internal Audit**
Test & Verify
Provide Assurance

**3rd Line of Defense - "Independent Assurance and Validation"**

- Provides independent testing and verification of efficacy of corporate standard and business line risk management and compliance
- Validates the overall risk framework
- Provides assurance that the risk management process is functioning as designed and identifies improvement opportunities

**Group Legal & Compliance**

Interpret & Develop

Monitor & Report

**2nd Line of Defense - "Risk Control and Monitoring"**

- Interprets regulations and communicates to SBUs
- Monitors compliance with regulations
- Performs risk assessment based compliance testing
- Advises on regulatory issues
- Compliance monitoring of policies and procedures

**Group Risk Unit**

Design & Facilitate

Monitor & Report

**2nd Line of Defense - "Risk Control and Monitoring"**

- Designs and deploys the overall risk management framework across all SBU's
- Monitors adherence to framework and strategy
- Escalates risk and control issues to Senior Management and the Board
- Mantains risk management policies

| | | | |
|---|---|---|---|
| VMWM Process & Control Owners | VMPM Process & Control Owners | VMTS Process & Control Owners | VMPS Process & Control Owners |

## RISK APPETITE

The VM Group defines risk appetite as the amount and type of risks considered reasonable to assume for implementing its business strategy, so that the Group can maintain its ordinary activity in the event of unexpected circumstances. Risk limits are set out in various policy documents, which define the specific limits and tolerances of the various operational activities.

| | | |
|---|---|---|
| **Strategic** | Moderate | The Group has a moderate appetite for Strategic Risk. The VM Group understands the need to balance risk and reward and will ensure that strategic decisions align with the Group's three-year Strategic Plan and overall risk appetite. We are committed to creating value for our Members and will proactively monitor and respond to changes in the business, economic and social environment. |
| **Operational** | Low | The Group has a low overall appetite for operational risk. We will seek to minimise exposure to key operational risk areas, including new products and marketing initiatives, continuity of critical services and processes, talent retention and development, information security and internal and external fraud. |
| **Financial** | Low | The Group has a moderate appetite for financial risk. We will continue to implement robust credit management practices, adequate assessment of financial strategies to (a) maximise cash availability, (b) reduce uncertainty of currency, interest rate, credit and other financial risks, or (c) move cash funds quickly and without loss of value to wherever they are needed most. |
| **Compliance** | Very Low | The Group has a low appetite for legal and regulatory risk. We will comply with all legal and regulatory requirements applicable to us and will apply sensible and reasonable. |

## MATERIAL RISK

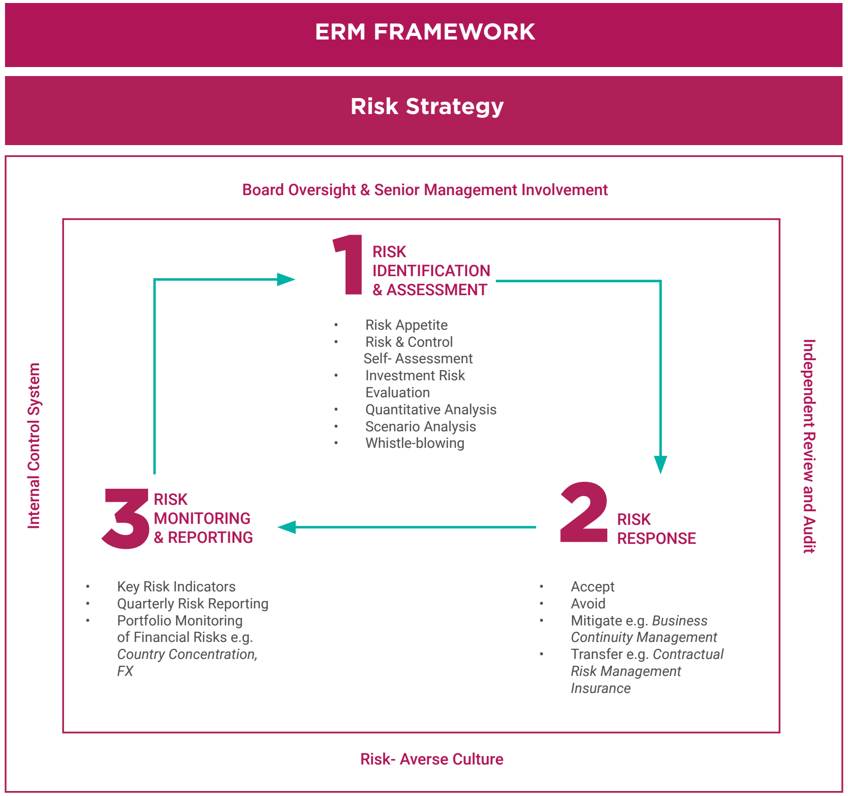
Victoria Mutual takes a comprehensive, iterative approach to identifying, managing, monitoring and reporting material risks across the Group. Material risks and their associated controls are consolidated and reviewed at the senior management level before they are presented to the Finance and Risk Committee. These material risks include:

| | |
|---|---|
| • Credit risk | Risk of financial losses as a result of the inability to implement sound credit administration procedures, inclusive of defining effective lending policies, underwriting standards, concentration limits, documentation requirements and loan collection/ monitoring procedures to mitigate possible losses. |
| • Market risk | Risk that the value of, or income arising from, the Group's assets and liabilities changes adversely due to movements in interest rates; exchange rates and equity prices. |
| • Liquidity risk | Risk that the Group, although solvent, either does not have sufficient available resources to enable it to meet its obligations as they fall due or can secure them only at excessive cost resulting in financial losses, loss of customer confidence and regulatory penalties. |
| • Operational Risk | Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. |
| • Reputational risk | Risk that negative stakeholder impressions, whether true or not, regarding the VM Group's business practices, actions or inactions, will or may cause deterioration in the Group's value, brand, liquidity or Member base. |
| • Legal and regulatory risk | Failures arising out of internal, regulatory, statutory or legal non-compliance and associated risks from engagement with third parties. |
| • Strategic risk | Risk of current or prospective adverse impacts to the VM Group's earnings, capital, reputation or standing arising from ineffective strategic decisions, or lack of responsiveness to industry, economic or technological change. |

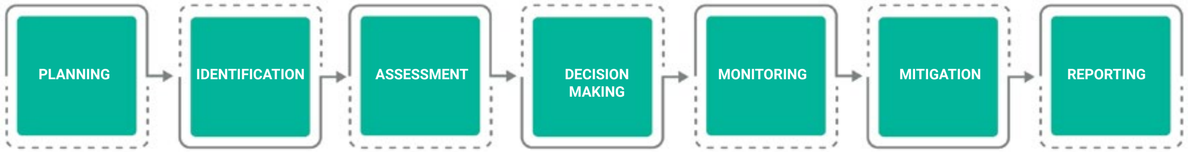
## RISK MANAGEMENT PROCESS ▷

The Group's risk assessment process is a coordinated bottom-up and top-down Groupwide approach that facilitates the identification and evaluation of risks, as well as assessing how the risks are monitored, managed and mitigated.

We manage the identification, assessment and mitigation of top and emerging risks through an internal governance process and the use of risk management tools and processes. Our approach to identification and impact assessment aims to ensure that we mitigate the impact of these risks on our financial results, long-term strategic goals and reputation.




**The VM Group has defined a series of key risk management and control processes, as shown below.**




- **Planning.** The process of setting business objectives, which include the articulation of the types and levels of risk that the business is willing and able to accept in pursuit of these objectives.
- **Identification.** Risk identification is a key component of effective risk management and control. Every employee is responsible for identifying external and internal risks to the business in a timely manner, ensuring they are categorised according to the aforementioned risk map.
- **Assessment.** Once identified, risks must be assessed to determine their likelihood, impact and materiality under different scenarios.
- **Decision-making and Execution.** Decisions are required to manage the business' risk profile within the limits agreed in the planning phase, and to achieve business objectives. Strategy decisions are also needed to manage material and emerging risks within the functions bestowed to committees or individuals and in accordance with the powers delegated by the board of directors.
- **Monitoring** performance versus plan. Risk management and control include monitoring business performance on a regular basis and comparing performance against agreed plans. All plans and risk metrics have clear alert thresholds (triggers) with defined escalation paths.
- **Mitigation** (actions to address Plan deviations). If monitoring highlights that performance has deviated, or is likely to deviate, beyond the approved ranges or thresholds, mitigating action should be considered to bring performance back to acceptable levels.
- **Reporting.** The risk reporting process includes the elaboration and submission of accurate and relevant management information, ensuring regular reporting on the business progress, and the urgent escalation of unexpected situations if required. It should also provide sufficient support to ensure the effectiveness of the aforementioned processes.

> Risk management supports the achievement of the VM Group's business objectives and corporate strategy, hence creating and preserving value.

## OUR DIGITAL TRANSFORMATION PATH

The execution of our Digital Transformation strategy continued in 2019, with the primary focus being enhancing our Members' experience, improving process efficiency, strengthening digital capabilities of Team Members, and undertaking the feasibility of new business models.

### Digitally Enhancing Members' Experience ▷▷▷▷

Delivering exceptional customer experience is the core of our Digital Transformation strategy and during 2019 major steps were taken with this in mind. We launched the Customer Experience Transformation Programme (CETP), which is a comprehensive three-year design of projects and initiatives across the VM Group with the mandate of " ...delivering a consistently excellent & convenient experience to our Members that empowers them and communicates our care for them".

Projects and initiatives under the programme have been mapped to deliver value digitally to our Members across their life-cycle and include, the launch of iABMs, as well as the upgraded Online Mortgage Portal, which allows Members to submit information and documentation securely and conveniently.

**We invite our Members worldwide to start their journey to home ownership by visiting the most comprehensive mortgage loan portal in Jamaica provided by your Building Society at:**

**mortgagecentre.vmbs.com**

**Other initiatives executed during the year included:**

- the establishment of a cross-functional product development team to expedite the launch of products. Great strides were also made in the use of data analytics to better identify, align and address Members and Clients' needs.
- 100% completion rate for key internal processes targeted for digitisation and which directly impact on our Members' experience.
- Email updates to our VM Wealth Clients advising the completion of transactions they initiated as well as providing them an opportunity to provide feedback on their experience.
- Ability to digitally register our 2019 AGM Members which allowed for seamless entry and afforded our CEO the opportunity to provide relevant Member-based statistics live.

### Digital Capabilities of our People ▷▷▷▷

The suite of digital tools available to our Team Members has allowed for greater productivity and efficiency, enhancing the overall performance of the Group. Our Team Members are able to seamlessly and efficiently engage each other through the use of these digital tools resulting in the emergence of a more collaborative culture which is transforming the way we work. Training and certification of Team Members in the core digital capabilities such as Design Thinking, Agile and Business Intelligence continued in 2019 and significant advancements were also made with respect to data-driven decision-making.

We have also made significant progress in the development of a Business Intelligence portfolio and in 2020 this will be further expanded to include the use of analytics to assess data quality across the Group, and advanced development of customer needs-based analytics to assist in providing a targeted approach to product delivery.

Proofs of Concept already delivered from this Portfolio include performance management dashboards which provide visibility on key organisational metrics, sentiment analysis on customer complaints to improve how we respond to Members, analysis on the loan origination process to expedite the identification and elimination of bottlenecks and analytics on Teller and Customer Service Representative branch-wide deployment for greater effectiveness and efficiency.

For 2020, we anticipate continued achievements in targets set for our digital implementation rate, our digital quotient and specifically with respect to the roll-out of new innovative business models. We also greatly anticipate the launch of our agile labs and changes in our internal operations and will be working collaboratively to develop new business solutions. An exciting, organisation-wide digital capabilities development programme will also be launched that is primed to train Team Members on the digital skills necessary to build and sustain a digital organisation. ☐

## OUR PROCESS

During 2019, we continued to build on the work started in the previous year, to enhance processes geared at improving the experience of our Members. We acted expeditiously on several issues based on feedback. **Some of the complaints that were actioned include:**

- Delays in the processing of pension payments- at the end of December 2019, approximately 92% of all pension payments were processed within 8 hours of receipt.
- Documents required to activate dormant accounts- we have reduced the number of documents requested by improving our Know-Your-Customer (KYC) processes and adopting local and international best practices. We continue to review and work on those lengthy processes due to regulatory obligations to allow for a more positive experience.
- Long clearing periods for cheques- we have worked with our local banking partners to reduce the hold for local cheques to one day. We recognise that access to funds is important and will continue this work to further reduce the hold time.
- Obtaining mortgage statements- The time required to obtain mortgage statements was reduced to a minimum of 15 minutes. Statements are also available on demand via e-mail or print in branch. Our Member Engagement team is also able to provide statements on demand. We have also added another layer of communication, where an SMS is received for every payment made. There is no longer a need to wait in line to make your payment as you may now send your payment via RTGS and receive a text confirmation that your payment has been processed. We believe in assuring our Members, as they journey towards financial independence.
- Signing too many forms- We have consolidated and removed forms to improve your experience. We are also planning on rolling out our e-signing solution at all our branches during 2020. We have also heard your concerns on our transaction vouchers. During 2020, the use of these forms will be reviewed, and changes made to serve you better.

In 2020, the VM Group will undergo a comprehensive organisation-wide business process review in order to serve our Members with greater effectiveness and improved efficiency.

### ICT Operations

During 2019, ICT Operations focused on implementing and maintaining the systems and services required to address the key strategic imperatives of System Availability, Service Delivery, Enterprise Risk Management and Talent Management in order to provide our Members with quality service, reliable and convenient access and needs-based products and services. To this end we support all major initiatives implemented by the Group in 2019 including the expansion of the fleet of iABMs, the preparation for the launch of the new Mobile Application and Online Banking Platform and launch of the Mortgage Portal.

**Additionally, we:**

- improved the self-service capabilities of the branches by providing access to mortgage and closed savings accounts statements via the Communications Manager platform.
- significantly increased the availability of relevant content and rates to our Members and Clients when they visit our branches.
- increased the security posture of our systems with the introduction of a new security service provider, improved cyber security monitoring, as well as new tools and improved procedures for applying upgrades to our systems.
- implemented a new digital platform that processes all SWIFT & RTGS payments. As at the end of 2019, over 200 companies are currently registered to our Salary Express Platform allowing for the processing of payroll files from Members' employers as well as payment files from remittance companies. The new Payment System (APS) will be leveraged to automate the processing of salary files in 2020 and to facilitate our integration into ACH.

In 2020, with 'Renewed Focus' our underlying theme to 'Achieve The ImPossible', our efforts will be placed on modernising the data centre, improving our communication links, relocating our Disaster Recovery (DR) environment and introducing high availability for our infrastructure. Additionally, a major push will be made to migrate our critical services to the cloud. We will also introduce the value streams model to manage operations; another major plan to improve the experience of our Team Members. Our Team Members will continue to be trained in the technologies and all our leaders will have succession plans in place. □

# GROUP FINANCIAL PERFORMANCE

## Group Financial Position

The Group's total on-balance sheet assets have increased by $18.815 billion or 14.13% year on year to total $151.932 billion at December 31, 2019. This increase was primarily as a result of growth in non-Government of Jamaica investment securities and the loans portfolio by $2.649 billion (12.56%) and $13.062 billion (26.67%), respectively.

Loans, investments and other interest earning assets totalled $129.655 billion, which was an increase of $14.413 billion or 12.51% over that reported for 2018.

The loan portfolio at the end of the year totalled $62.04 billion, up from $48.97 billion reported as at December 31, 2018. Net of repayments and redemptions, the loan book grew by $13.07 billion, of which disbursements totalled $17.94 billion, offset by repayments of $4.88 billion.

The Group's off-balance sheet assets amounted to $92.878 billion as at December 2019, which was $16.323 billion or 21.32% over that reported for 2018.

### ON & OFF BALANCE SHEETS ASSETS FOR THE VM GROUP

| Figures in '000s | 2019 | 2018 |
|---|---|---|
| Group On-balance sheet assets | 151,932,096 | 133,117,216 |
| VMWM Off-balance sheet assets | 29,477,536 | 24,313,239 |
| VMPM Off-balance sheet assets | 63,400,442 | 52,241,259 |
| **Total** | **244,810,074** | **209,671,714** |
| **Growth in On & Off balance sheet assets (%)** | **16.8%** | **12.6%** |

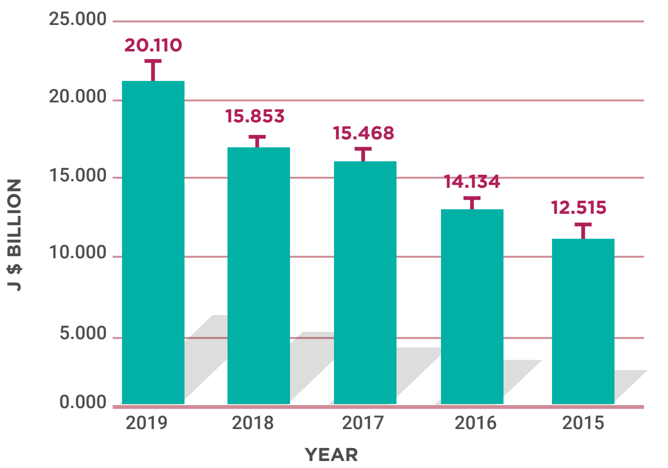
## Funding

The depositors and customers of the Group continued to recognise the value of our services, which resulted in the $7.437 billion or 9.08% increase in the funding portfolio. The Group continued to develop and implement strategies to retain and increase funding obtained from Members and customers by way of savings and repurchase agreements.

## Capital & Reserves

The Group's total Capital & Reserves grew from $15.853 billion to $20.11 billion in 2019. The Society continues to transfer 100% of Net Surplus to capital after allocation is made to the Credit Facility Reserve, and in 2019, transferred $934.452 million to the Retained Earnings Reserve, and $164.903 million to the Reserve Fund.

### GROUP TOTAL CAPITAL & RESERVES




## Operating Results

The Group recorded a Net Surplus of $2.132 billion for the year ended December 31, 2019, compared to $1.061 billion for 2018. The surplus is inclusive of the Society's 31.5% share of profits in BCIC totalling $210.498 million.

### GROUP SUMMARY OF RESULTS

| Figures in '000s | 2019 | 2018 |
|---|---|---|
| Net Interest Income | 4,334,241 | 4,220,444 |
| Net Fee & Commission income | 1,697,030 | 1,248,932 |
| Other Operating Revenue | 2,967,506 | 2,125,310 |
| **Total Operating Revenue** | **8,998,777** | **7,594,686** |
| Operating Expenses | 6,256,477 | 5,979,677 |
| **Operating Surplus** | **2,742,300** | **1,615,009** |
| Share of Profits of Associates | 210,498 | 87,840 |
| **Surplus before Income Tax** | **2,952,798** | **1,702,849** |
| Income Tax | 821,247 | 642,332 |
| **Surplus after Income Tax** | **2,131,551** | **1,060,517** |

Operating Surplus, which excludes share of profits in the associate, was $2.742 billion for the year, which reflected an increase of $1.127 billion. The 69.8% growth year on year is attributable to increases in Other Operating Revenue (39.63%); Net Fee and Commission Income (35.88%); and Net Interest Income (2.7%), partially offset by a 4.63% increase in non-interest expenses (administrative costs).

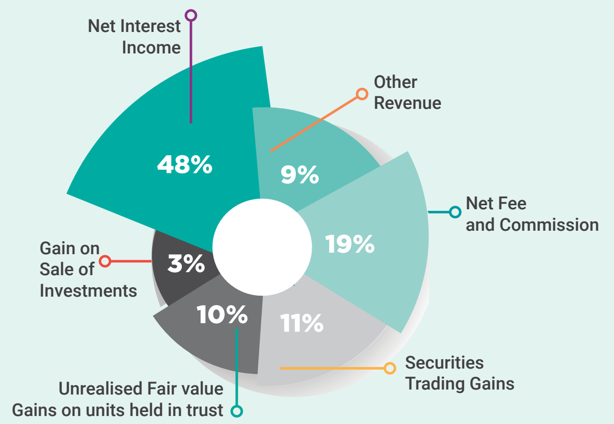
Provision for income taxes was $821.25 million for 2019, compared to $642.33 million in 2018, resulting in an effective tax rate of 27.8% compared to 37.7% in the prior year, due mainly to increases in Other Operating Revenue.

## Operating Revenue

Operating Revenue includes net interest income, net fees and commission income, gain on the sale of investments and trading gains. Operating revenue totalled $8.999 billion representing an increase of 18.49% or $1.404 billion over the prior financial year. Total gross income, which consists of operating revenue plus interest and fee and commission income, was $11.341 billion, an increase of $1.567 billion or 16.04%.

Net interest income accounted for 48.2% of total operating revenue, down from 55.6% in 2018. Net fee and commission income accounted for 18.9%, up from 16.4% in the previous year, while gain on the sale of investments and unrealised fair value gains on unit trust investments accounted for 3.06% and 10.3%, respectively. These combined income items accounted for 80.37% of the revenues earned by the Group in 2019.

### OPERATING REVENUE 2019




## Net Interest Income

We continue to focus on our strategic objectives to expand our core business through improved sales. With our efforts to grow our balance sheet, consideration is also given to managing our net interest income while mitigating risks. The Group's Net Interest Income for the financial year ended December 31, 2019 totalled $4.33 billion, which exceeded that reported for 2018 by $113.8 million or 2.7%.

Loan interest income of $4.13 billion reflected a 13.2% or $481.14 million increase over that reported in 2018. This was due primarily to year over year growth in loan volumes, driven by our mortgage and consumer loan products as well our UK subsidiary, Victoria Mutual Finance enjoying a larger market share.

Interest income from investments declined by $255.68 million or 9.6%, resulting mainly from a reduction in interest bearing assets by the Society.

Total Interest expense increased by $111.66 million or 5.37% over that reported for the previous year.

## Other Operating Revenue

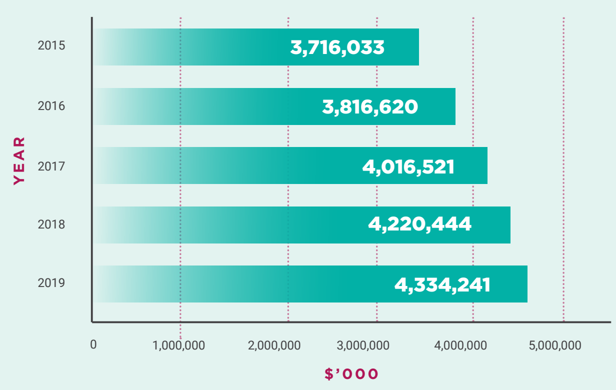
Other Operating Revenue for the year totalled $2.968 billion, reflecting an increase of $842.2 million or 39.6% above that reported for 2018. The increase was primarily attributable to net foreign exchange trading gains and fair value gains on quoted equities and units held in unit trust.

## Operating Expenses

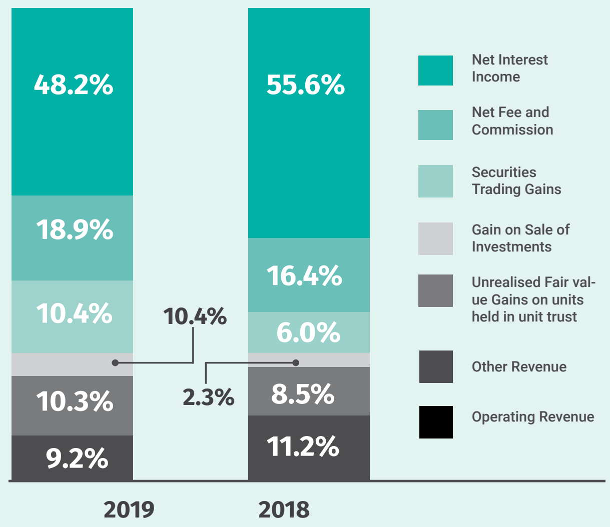
Operating Expenses, comprised of personnel costs, depreciation and amortisation, and other operating expenses, increased by $1.254 billion or 22.8% to $6.757 billion, driven by continued investment in the business to drive operational efficiency and enhance customer service.

- Personnel costs increased by $535.75 million or 18.1%, which includes an increase in salaries of $150.32 million or 8.6%, an increase in other staff benefits of $309.72 million or 34%, an actuarial increase to the pensions and post-retirement medical benefits of $174.85 million or 145.8%, and a decrease in termination expenses of $101.2 million or 70.1% in comparison with the prior year.
- Depreciation and amortisation expense increased by $167.69 million or 48.6% over 2018, due mainly to the Group's continued innovation and enhancements of its information technology platforms.

### NET INTEREST 2015 - 2019




### OTHER OPERATING REVENUE



- Other operating expenses totaled $2.25 billion, reflecting an increase of $426.64 million or 15.9% over that reported for 2018. This includes increases in marketing expenses of $247 million, administration expenses of $172.33 million and repairs to building and fixtures of $98.84 million

## Impairment Losses on Financial Assets

In January 2018 the Group adopted IFRS 9 requiring the recognition of expected credit losses ("ECL") for certain financial assets as well as for off-balance sheet loan commitments and financial guarantees. Included in these securities were Government of Barbados Bonds on which the country defaulted in June 2018.

Further to the agreement between bondholders and the Government of Barbados in the 4th quarter of 2019, these bonds were exchanged for new bonds and the Impairment provision reversed. This contributed to the Impairment credit of $500.91 million compared with an Impairment loss of $476.97 million in 2018.

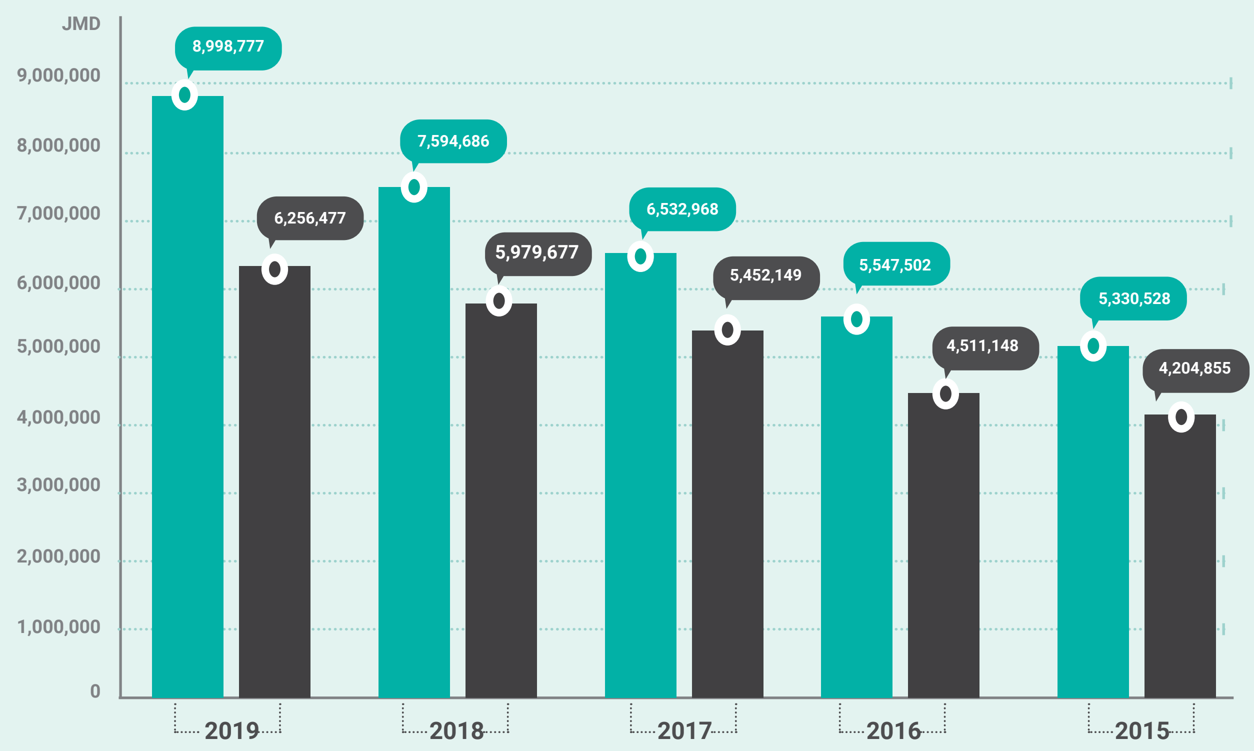
## Key Performance Indicators

The return on average total assets was 1.5%, up from 0.83% for 2018. At the end of the 2019 financial year, the ratio of capital and reserves to total assets was 13.24%, compared to 11.91% in the prior year.

Net Interest Margin, which measures net interest income as a percentage of mean assets, declined from 3.75% in 2018 to 3.54% in 2019.

The Cost to Income ratio increased from 71.63% in 2018 to 73.38% in 2019.

## OPERATING REVENUE & ADMINISTRATIVE EXPENSES



## OVERVIEW OF BUSINESS LINES

### VICTORIA MUTUAL BUILDING SOCIETY

Victoria Mutual Building Society's strategies in 2019 underpin our mission of empowering our Members globally to achieve financial independence, including owning their homes, by providing innovative financial solutions and excellent service delivery. This is in keeping with the vision of our founders, a group of civic-minded individuals, including clergymen, who, in 1878, formed a mutual organisation and established a process of pooling their savings to facilitate home financing for its Members.

#### Financial Performance

The Society's 2019 financial performance reflected an increase of 55.4% in pre-tax surplus when compared to the previous year. The 2019 performance reflects a 2.2% increase in net interest income.

Surplus after tax of $1.393 billion reflected an increase of $609.597 million or 77.8% year over year. The effective rate of corporation tax charged for 2019 was 26.6%, compared to 35.9% in the previous year.

The $88.4 million increase in net interest income was the combined result of a $97.02 million or 1.7% increase in interest income, offset by an increase of $8.604 million or 0.5% increase in interest expense.

### THE SOCIETY

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Pre-tax Surplus ($M) | 1,898.3 | 1,221.7 | 1,812.7 |
| After-tax Surplus ($M) | 1,392.7 | 783.1 | 1,739.4 |
| Total Assets ($B) | 129.3 | 114.3 | 104.8 |
| Total Loans ($B) | 58.9 | 48.9 | 44.1 |
| Deposit Liabilities ($B) | 104.8 | 96.0 | 89.1 |
| Net Interest Margin (Net Interest Income as % of Mean Interest Earning) | 3.89% | 4.08% | 4.15% |
| Operating Expenses as % of Mean Assets | 4.51% | 4.23% | 4.68% |
| Cost to Income Ratio | 78.64% | 74.51% | 72.06% |
| Capital Adequacy Ratio | 18.5% | 21.82% | 21.64% |

Interest rates have continued to fall across the industry, and this is reflected in the decline in the net interest margin falling from 4.08 % in 2018 to 3.89% in 2019.

Interest income earned from the loans book of $4.008 billion was 10.3% higher than the $3.635 billion reported for 2018. However, interest income earned from investments was $1.715 billion or 13.9% less than prior year.

The overall cost of administration increased by $95.88 million or 1.9% moving from $$4.999 billion in 2018 to $5.094 billion in 2019. The personnel cost component increased by $305.253 million or 13.4%, moving from $2.273 billion in 2018 to $2.578 billion in 2019. Other operating expenses of $2.106 billion, inclusive of asset tax and impairment losses, decreased by $329.196 million or 13.5% in 2019, compared to $2.435 billion in 2018. Depreciation and amortisation charges increased by $119.82 million, resulting from increased capital expenditure used to support the business in 2019. The cost to income ratio was 78.64% in 2019 compared to 74.51% in 2018.

We are pleased to report the continued growth in Total Assets of 13.1% during the year, moving from $114.3 billion in 2018 to $129.3 billion at the end of 2019. The financial health of the Society was also assured, as the Capital Adequacy ratio was 18.59%, which exceeded the minimum of 10.0% required by the regulators.

#### Savings

The savings fund (excluding funds due to specialised institutions) at the end of 2019 stood at $90.05 billion, up from $82.83 billion reported at December 2018, representing a year over year increase of $7.22 billion or 8.71%.

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

The market in 2019 remained fairly liquid, with evidence of interest rate sensitivity. Against this fact, we continue to measure and monitor Member satisfaction through periodic NPS surveys which has enabled us to better understand our Members and their needs.

### Loan Portfolio

The loan portfolio at the end of 2019 stood at $58.9 billion, up from $48.88 billion reported at December 2018, representing a year over year increase of $10.02 billion or 20.5%. Total loans disbursed totalled $15.06 billion.

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

### Loan Portfolio Quality

The loan quality ratio (a measure of non-performing loans expressed as a percentage of total loan portfolio) was 5.61% at year end.

We are pleased with the overall quality of the loan portfolio. We attribute this to prudent credit risk management built into our adjudication and arrears management processes. We also remain committed to providing assistance to Members who face challenges from time to time.

### Operational Highlights from 2019

During 2019 we continued our focus on providing our Members with innovative products and services, excellent service, improved access via expanded electronic and renovated physical channels as well as financial education in order to help them achieve their financial goals. Accordingly, during the year:

- We launched our 100% Mortgage Financing for Specialized Groups which was aimed at assisting creditworthy self-employed individuals as well as the Commercial Auto Loan to allow our non-personal members to access funding at competitive terms.
- We continued to introduce our Members to the existing range of recently launched products, including our auto loans and unsecured loans which were launched in late 2018.
- We upgraded our online Mortgage Portal, a first of its kind in Jamaica, allowing our Members with the convenience of tracking the progress of their applications at any time.
- We expanded the fleet of iABMs by 16 to end the year with 19 iABMs thus allowing our Members to conduct a wider range of transactions at our iABMs across Jamaica. This was supported by providing our Members with an average of 2,490 new debit cards per month.

### 2020 Focus

**For the ensuing year, we are aiming to increase our focus on:**

- Financial Education and assisting our Members to save towards their goals,
- The execution of our deposit strategy aimed at growing core deposits,
- The ongoing migration of Members to other electronic channels and the expansion of the team of relationship officers and Financial Services Specialists to provide fast and convenient service,
- The redesign and refurbishing of branch layouts to maximise potential for the efficient execution of transactions, and
- Relocation of our Falmouth Branch to a more convenient location, employing the Branch of the Future concept.
- Additionally, we will continue to listen to our Members and include your feedback in planned improvements at all our touchpoints.

## VICTORIA MUTUAL INVESTMENTS LIMITED

Victoria Mutual Investments Limited (VMIL) continued to execute well on the key strategic initiatives highlighted in 2018 along the themes of Revenue, Total Assets, Client Experience, Our People and Community Involvement.

### Financial Performance

Net Interest Income and Other Operating Revenue increased by 29% from $1.3 billion in 2018 to $1.7 billion in 2019, which contributed to an after-tax Net Income of $598 million, an increase of 50.4% over 2018. The major revenue drivers of this performance are listed below:

- Equity trading income grew by 169%, attributable to a strong stock market.
- Our Asset Management Unit, a key element of our strategic thrust, recorded strong growth in fees of 70%.
- The diversification of our revenue base was enhanced with our Capital Markets Unit contributing close to 33% of total revenues, a noteworthy performance considering its launch in 2013.
- Our Bond Trading Unit continued its robust participation in the local and international securities trading market.

- Our Unit Trust Portfolios continued to generate market leading returns in 2019, with the VM Wealth Property Portfolio earning the distinction as the top performing real estate portfolio in Jamaica with a whopping return of 14.3%. This is the second year that our Property Portfolio was ranked as the top portfolio in its asset class.
- Our Total Assets increased by 17.2% from $21.6 billion to $25.3 billion in relation to 2018. This increase was, for the most part, attributable to our outright purchases of assets in stocks, bonds and unit trusts.

### Community Development

Our commitment to support the communities in which we serve continued unabated in 2019 with an increased number of our Team Members contributing to the VM Foundation, and volunteering for community projects. Some of these projects impacted during the year were the Jamaica National Children's Home, Sunbeam Boys Home and Salvation Army.

### 2020 Focus

**VMIL's 2020 focus will be centered on executing on its strategic objectives as follows:**

1. Accelerating our employee engagement initiative in line with our Great Place to Work Agenda
2. Continued enhancement of our service infrastructure
3. Expanding our distribution coupled with an expansion of our sales team
4. Focus on growth, primarily our regional expansion initiative
5. Further digitisation initiatives towards improving client experience and operational efficiencies

## VICTORIA MUTUAL PENSIONS MANAGEMENT

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

VMPM offers the full range of pension services, namely Pension Investment Management, Pension Administration, Member Education, Pensions Consultancy and an Approved Retirement Scheme. We strive to be the preferred pension services provider in Jamaica by delivering value to our clients through a holistic approach to pensions, whilst maximising your investment returns. This is achieved through our commitment to high quality service, maintaining our timeline commitments to our Clients, commitment to always meeting our regulatory obligations; and commitment to providing our Clients with financial education.

We currently offer Pension Administration Services for 24 Superannuation Funds and one Approved Retirement Scheme, as well as Investment Management for 32 Superannuation Funds and one Approved Retirement Scheme. In July 2019 our VMPM Approved Retirement Scheme (ARS) products were relaunched by capitalising on the reach of the VM Group specifically through VMWM and the VMBS network.

### Financial Performance

The year ended 31 December 2019 yielded an increase in assets under management of $11.16 billion to end the year at $63.4 billion. This was achieved mainly by the stellar performance of the investments of the segregated funds as well as the Pooled Pension Portfolios (with returns ranging from 3.5% to 29.8%). The number of lives being administered by VMPM increased by 853 to close the year at 7,958 Members.

We earned profit before and after tax of $136.8 million and $64.76 million respectively. Administrative expenses as a percentage of revenue closed the year at 66.57% with a ROE of 34.05%.

### 2020 Focus

**In the year ahead, we are anticipating continued growth in assets and membership, which will be accelerated by the distribution of VMPM Approved Retirement Scheme products through VMWM, the VMBS network and the newly developed VMPM sales team. We intend to onboard 2,040 new lives in 2020. Additionally, we will be focusing on the following initiatives in 2020:**

- Online access for all Members,
- Targeted training and development programmes for each group of Team Members, and
- Improvement of our website.

## VMBS MONEY TRANSFER SERVICES LIMITED

VMBS Money Transfer Services Limited (VMTS) has been a subsidiary of The Victoria Mutual Group since 2004. The subsidiary has progressively cemented itself as a key player within the remittance industry. Through its extensive and increasing distribution network of more than 92 locations across Jamaica, and in collaboration with our nine international partners, VMTS provides remittances to customers with unmatched convenience and flexibility to send and receive their funds at any of our VMBS branches, VM Money Express locations or our Sub-Agents.

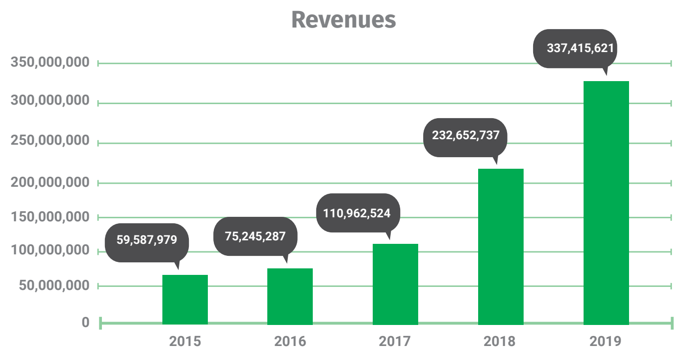
- **Cash Pick-Ups**
- **Direct to account deposit to any financial institution in Jamaica**
- **Bill Payments**
- **SMS notification when the funds have arrived**

We are also working to provide convenience to our customers by reducing the processing time for repeated remittance transactions by facilitating direct credits to customers' accounts. For customers who have to conduct business at one of our locations, in 2019 we also made this easier by increasing the number of VM Money Express locations to six: Heritage Mall (Spanish Town) Meadowbrook Plaza (Meadowbrook), Market Street (Montego Bay), Glendon Court Plaza (Old Harbour), Manchester Road (Mandeville) and Hendon Mall (Savanna-la-Mar). VMTS has set up six Money Express locations: Heritage Mall (Spanish Town) Meadowbrook Plaza (Meadowbrook), Market Street (Montego Bay), Glendon Court Plaza (Old Harbour), Manchester Road (Mandeville) and Hendon Mall (Savanna-la-Mar). At the end of 2019 the business took the decision to close the Meadowbrook location. **VM Money Express locations provide the following services to customers:**

- **Cash pick-Ups**
- **Bill Payments**
- **JUTC Smarter Card Top-Up**
- **DHL packages**

## Financial Performance

Driven by strong growth in transaction volume and improved foreign currency income, revenues increased by 45% relative to 2018. VMTS exceeded budgeted net profit by 45% as well as improved its efficiency ratio and ROE to 65% and 41% respectively.




## Community Activities

In 2019, VMBS Money Transfer Services participated in community enrichment activities. Through our VM Money Express Old Harbour location, we gave support to the Yadel Home for Girls in St. Catherine. Throughout the year, VMTS Team Members participated in community outreach activities organised by the VM Foundation.

## 2020 Focus

In the year ahead, VMTS plans to continue the expansion of its sub-agent network across the island. Our vision 2020 includes seeking new partnerships within Jamaica and other territories. We intend to upgrade and strengthen our IT infrastructure and systems in order to increase our transactions. The company will be employing aggressive marketing strategies in order to increase our visibility and the awareness of brand VMTS. Based on our 2020 plans, we should continue to be profitable while improving our efficiency ratio.

VICTORIA MUTUAL PROPERTY SERVICES

# VICTORIA MUTUAL PROPERTY SERVICES

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, islandwide property appraisals and valuations, as well as commercial property management services. These services complement the Society's core business of providing mortgages to finance properties in Jamaica. The Company also provides the business units within the Victoria Mutual Group with project management services.

## Financial Performance

The Company recorded revenue growth of 18.7% year over year to $148.7 million from $125.2 million, with - Property and Project Management revenues surpassing budget by 24% and 53% respectively. Revenues from Property Appraisals exceeded those of 2018 by 7%. Over the course of the year, 123 properties valued at $1.564 billion were sold and completed 792 valuations at a combined value of $16.35 billion.

## 2020 Focus

For 2020, VMPS will focus on continuing to increase our market share in the real estate brokerage and appraisal businesses, implementing the slate of projects prioritised for 2020-2021 and increasing the number of buildings under management.

# Business Initiatives
Highlights


Our Annual Diaspora Listening Tour attracted scores of our Members in the United Kingdom and New York.

Our Team at the opening of our New York Office in November.

Our Labour Day project, led by the VM Foundation, was to give a facelift to the St Jago Park Health Centre. Our Team turned out in numbers to support the worthy cause.


We opened our ultra-convenient Fairview location, welcoming a new era for Victoria Mutual.


As part of our Home and Auto loan promotion activities, we took over Half-Way Tree with a flash mob and other exciting activities.


Jody Brown's Cheque Handover: The VM Team travelled to the hillsof St Ann to help Jody Brown donate her VMBS Y.O.U.T.H. Award prize money to her former school Lime Hall Primary and Infant School as well as the St Ann Football Association.


We partnered with fitness trainer Patrice White for the Dynamic Mental Health School Tour series, tackling the important issue of mental health among our young people.

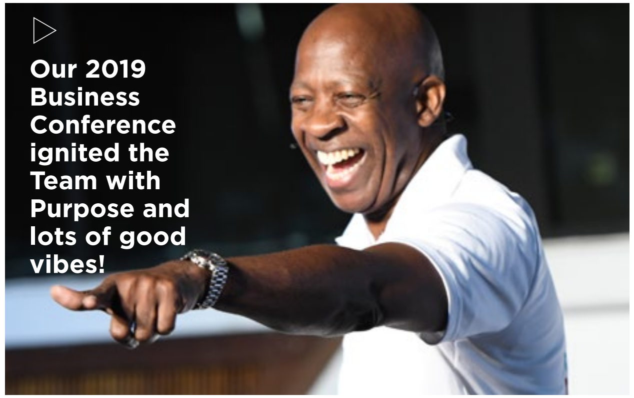
Our Wealth Talks events helped us reach many people with useful financial education.

The annual National Leadership Prayer Breakfast starts the year off in thanksgiving and helps the nation seek God's guidance for our leaders.

Our Group Chief Customer & Brand Officer Judith Forth Blake presents VMBS Y.O.U.T.H. Awardee Jody Brown with her award at the RJRGLEANER National Sportsman & Sportswoman of the Year Awards.

Our end-of-year party dubbed 'Toast' was a hit!

VMIL acquired a 30 percent stake in Carilend. Exciting days are ahead!



Our 2019 Business Conference ignited the Team with Purpose and lots of good vibes!

# Financial Statements

December 31, 2019

INDEPENDENT AUDITORS' REPORT

# Independent auditors' report to the Members of 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 65 to 168, which comprise the Group's and Society's statements of financial position as at December 31, 2019, 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, 2019, 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.

**Other Information**

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

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

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

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

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

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

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

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

**Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level

# Report on the audit of the financial statements (cont'd)

## Report on the audit of the financial statements

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.

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

**Report on additional matters as required by the Building Societies Act**

We have examined the mortgage deeds and other securities belonging to the Society. Title deeds numbering 8,101 were produced to us and actually inspected by us, and we are satisfied that the remaining 174 deeds not inspected by us were in the hands of attorneys or elsewhere in the ordinary course of business of the Society.

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

KPMG

Chartered Accountants
Kingston, Jamaica

March 31, 2020

# Statement of financial position

## December 31, 2019

| | Notes | Group 2019 $'000 | Group 2018 $'000 (Restated*) | Society 2019 $'000 | Society 2018 $'000 (Restated*) |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | 8 | 8,266,729 | 7,702,936 | 6,636,792 | 7,562,954 |
| Investments - Jamaica Government securities | 9 | 20,486,898 | 25,868,004 | 8,903,578 | 15,895,208 |
| - Other | 10 | 33,138,225 | 26,633,893 | 27,904,082 | 23,209,864 |
| Resale agreements | 11 | 13,253,859 | 10,296,069 | 12,326,777 | 8,578,312 |
| Loans | 12 | 62,035,211 | 48,973,660 | 58,901,250 | 48,879,060 |
| Other assets | 13 | 4,884,209 | 5,339,371 | 2,459,948 | 2,335,906 |
| Income tax recoverable | | 228,658 | 178,430 | 209,003 | 175,494 |
| Deferred tax assets | 14(a) | 7,684 | 212,695 | - | - |
| Employee benefits asset | 15 | 2,688,511 | 2,327,900 | 2,688,511 | 2,327,900 |
| Interest in subsidiaries | 16 | - | - | 4,331,312 | 1,270,420 |
| Interest in associates | 17 | 1,439,868 | 1,134,445 | 659,200 | 659,200 |
| Intangible assets | 18 | 3,175,720 | 2,794,237 | 2,198,406 | 1,756,019 |
| Investment and foreclosed properties | 19 | 265,745 | 168,459 | 383,065 | 285,778 |
| Property, plant and equipment | 20 | 2,060,779 | 1,487,117 | 1,739,709 | 1,383,675 |
| **Total assets** | | **151,932,096** | **133,117,216** | **129,341,633** | **114,319,790** |
| LIABILITIES | | | | | |
| Savings fund: | | | | | |
| Shareholders' savings | 21 | 87,902,413 | 80,719,470 | 88,574,277 | 81,609,676 |
| Depositors' savings | 22 | 1,476,262 | 1,222,461 | 1,476,262 | 1,222,461 |
| | | 89,378,675 | 81,941,931 | 90,050,539 | 82,832,137 |
| Due to specialised institution | 25 | 14,769,377 | 13,175,738 | 14,769,377 | 13,175,738 |
| | | 104,148,052 | 95,117,669 | 104,819,916 | 96,007,875 |
| Income tax payable | | 32,746 | 108,745 | - | - |
| Other liabilities | 23 | 3,763,008 | 2,576,826 | 2,208,453 | 655,093 |
| Lease liabilities | 27 | 278,986 | - | 171,765 | - |
| Repurchase agreements | 24 | 14,918,643 | 13,957,109 | 1,001,348 | 1,001,512 |
| Other borrowings | 26 | 6,592,214 | 3,876,594 | 4,181,589 | 2,476,269 |
| Deferred tax liabilities | 14(b) | 987,347 | 676,464 | 976,158 | 673,409 |
| Employee benefits obligation | 15 | 1,101,400 | 950,400 | 1,047,800 | 897,300 |
| **Total liabilities** | | **131,822,396** | **117,263,807** | **114,407,029** | **101,711,458** |

| | Notes | Group 2019 $'000 | Group 2018 $'000 (Restated*) | Society 2019 $'000 | Society 2018 $'000 (Restated*) |
|---|---|---|---|---|---|
| CAPITAL AND RESERVES | | | | | |
| Permanent capital fund | 28, 30 | 7,746,058 | 7,746,058 | 7,746,058 | 7,746,058 |
| Reserve fund | 29(i), 30 | 1,409,308 | 1,244,405 | 1,409,308 | 1,244,405 |
| Retained earnings reserve | 29(ii), 30 | 3,365,687 | 2,431,236 | 3,365,687 | 2,431,236 |
| Non-distributable reserve | 29(iii) | 380,989 | 216,559 | 380,989 | 216,559 |
| Capital reserve on consolidation | 29(iv) | 82 | 82 | - | - |
| Credit facility reserve | 12(c), 29(v) | 1,314,739 | 1,021,384 | 1,314,739 | 1,021,384 |
| Investment revaluation reserve | 29(vi) | 2,041,507 | 242,632 | 707,823 | ( 61,310) |
| General reserve | | 10,000 | 10,000 | 10,000 | 10,000 |
| Currency translation reserve | 29(vii) | 287,834 | 291,323 | - | - |
| Retained earnings | | 2,688,130 | 1,927,366 | - | - |
| | | 19,244,334 | 15,131,045 | 14,934,604 | 12,608,332 |
| Non-controlling interest | 31 | 865,366 | 722,364 | - | - |
| **Total capital and reserves** | | **20,109, 700** | **15,853,409** | **14,934,604** | **12,608,332** |
| **Total liabilities and capital and reserves** | | **151,932,096** | **133,117,216** | **129,341,633** | **114,319,790** |

The financial statements on pages 65 to 168 were approved for issue by the Board of Directors onMarch 31, 2020 and signed on its behalf by:

Director
Michael A. McMorris

Countersigned:

Director
Courtney Campbell

Corporate Secretary
Keri-Gaye Brown

* See note 42

The accompanying notes are an integral part of the financial statements

# Income statements

## Year ended December 31, 2019

| | Notes | Group 2019 | Group 2018 | Society 2019 | Society 2018 |
|---|---|---|---|---|---|
| | | $'000 | $'000 | $'000 | $'000 |
| | | | *(Restated)** | | *(Restated)** |
| Interest income, calculated using the effective interest method | 33 | 6,525,827 | 6,300,370 | 5,723,088 | 5,626,071 |
| Interest expense | 33 | (2,191,586) | (2,079,926) | (1,695,190) | (1,686,586) |
| **Net interest income** | | 4,334,241 | 4,220,444 | 4,027,898 | 3,939,485 |
| Fee and commission income | 34 | 1,847,866 | 1,348,197 | 494,448 | 355,908 |
| Fee and commission expenses | 34 | ( 150,836) | ( 99,265) | ( 80,313) | ( 38,678) |
| Net fee and commission income | | 1,697,030 | 1,248,932 | 414,135 | 317,230 |
| Other operating revenue | 35 | 2,967,506 | 2,125,310 | 2,550,665 | 1,963,474 |
| **Net interest income and other revenue** | | 8,998,777 | 7,594,686 | 6,992,698 | 6,220,189 |
| Personnel costs | 36 | ( 3,489,057) | ( 2,953,311) | (2,578,159) | ( 2,272,906) |
| Impairment credit/(charge) on financial assets | | 500,912 | ( 476,972) | 404,870 | ( 364,053) |
| Depreciation and amortisation | 18, 19, 20 | ( 512,590) | ( 344,896) | ( 410,132) | ( 290,312) |
| Other operating expenses | 37 | ( 2,755,742) | ( 2,204,498) | ( 2,510,964) | ( 2,071,237) |
| | | ( 6,256,477) | ( 5,979,677) | ( 5,094,385) | ( 4,998,508) |
| Share of profits of associates | 17 | 210,498 | 87,840 | - | - |
| Surplus before income tax | | 2,952,798 | 1,702,849 | 1,898,313 | 1,221,681 |
| Income tax charge | 38 | ( 821,247) | ( 642,332) | ( 505,604) | ( 438,569) |
| **Surplus for the year** | | 2,131,551 | 1,060,517 | 1,392,709 | 783,112 |
| Attributable to: | | | | | |
| Equity holders' of the Society | | 2,011,941 | 980,997 | 1,392,709 | 783,112 |
| Non-controlling interest | | 119,610 | 79,520 | - | - |
| | | 2,131,551 | 1,060,517 | 1,392,709 | 783,112 |

* See note 42

The accompanying notes are an integral part of the financial statements

# Statement of comprehensive income

## Year ended December 31, 2019

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| | | *(Restated*)* | | *(Restated*)* |
| **Surplus for the year** | 2,131,551 | 1,060,517 | 1,392,709 | 783,112 |
| **Other comprehensive income** | | | | |
| Items that will never be reclassified to profit or loss: | | | | |
| Net gains on investments in equity securities designated at FVOCI [note 5(b)(iii)] | 869,963 | 163,200 | - | - |
| Net gains on remeasurement of employee benefits asset and obligation | 237,500 | 314,200 | 234,900 | 290,900 |
| Deferred income tax on net gains on remeasurement of employee benefits asset and obligation | ( 72,975) | ( 95,408) | ( 70,470) | (87,270) |
| Foreign currency translation difference on foreign exchange operations and other adjustments | ( 3,489) | 18,226 | - | - |
| | 1,030,999 | 400,218 | 164,430 | 203,630 |
| Items that may be reclassified to profit or loss: | | | | |
| Unrealised gains/(losses) on debt securities at FVOCI | 1,235,684 | ( 302,577) | 707,549 | (95,404) |
| Deferred income tax on unrealised (gains)/losses on investment securities measured at FVOCI | ( 176,045) | 56,514 | - | - |
| Realised losses/(gains) on fair value of debt securities at FVOCI | 61,584 | ( 27,846) | 61,584 | (27,049) |
| | 1,121,223 | ( 273,909) | 769,133 | (122,453) |
| Total other comprehensive income for the year, net of tax | 2,152,222 | 126,309 | 933,563 | 81,177 |
| Total comprehensive income for the year | 4,283,773 | 1,186,826 | 2,326,272 | 864,289 |

* See note 42

The accompanying notes are an integral part of the financial statements

# Group statement of changes in capital and reserve

## Year ended December 31, 2019

| | Permanent Capital Fund | Reserve Fund | Retained earnings reserve | Non - distributable reserve | Capital reserve on consolidation | Credit facility reserve | Investment revaluation reserve | General reserve | Currency translation reserve | Retained earnings | Total capital and reserves | Non controlling interest attributable to parent | Total capital and reserve |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balances at December 31, 2017** | 7,746,058 | 1,189,174 | 2,118,255 | 12,929 | 82 | 1,236,781 | 416,181 | 10,000 | 273,097 | 1,781,237 | 14,783,794 | 684,684 | 15,468,478 |
| Impact on initial application of IFRS 9 | - | - | - | - | - | ( 356,158) | ( 74,807) | - | - | ( 338,604) | ( 769,569) | ( 4,549) | ( 774,118) |
| Restated balances at January 1, 2018 | 7,746,058 | 1,189,174 | 2,118,255 | 12,929 | 82 | 880,623 | 341,374 | 10,000 | 273,097 | 1,442,633 | 14,014,225 | 680,135 | 14,694,360 |
| **Total comprehensive income for 2018** | | | | | | | | | | | | | |
| Surplus for the year | | | | | | | | | | | | | |
| As previously reported | - | - | - | - | - | - | - | - | - | 1,138,612 | 1,138,612 | 79,520 | 1,218,132 |
| Prior year adjustment (note 42) | - | - | - | - | - | - | - | - | - | ( 157,615) | ( 157,615) | - | ( 157,615) |
| As restated | - | - | - | - | - | - | - | - | - | 980,997 | 980,997 | 79,520 | 1,060,517 |
| Other comprehensive income: | | | | - | | | | | | | | | |
| Unrealised gains on debt securities at FVOCI, net of tax | - | - | - | - | - | - | ( 215,839) | - | - | - | ( 215,839) | ( 30,224) | ( 246,063) |
| Foreign currency translation difference on foreign subsidiaries' balances and other adjustments | - | - | - | - | - | - | - | - | 18,226 | - | 18,226 | - | 18,226 |
| Realised gains on debt securities at FVOCI | - | - | - | - | - | - | ( 27,687) | - | - | - | ( 27,687) | ( 159) | ( 27,846) |
| Unrealised gains on equity securities at FVOCI | - | - | - | - | - | - | 130,560 | - | - | - | 130,560 | 32,640 | 163,200 |
| Net gain on remeasurement of employee benefits asset and obligation, net of tax | - | - | - | 203,630 | - | - | - | - | - | 12,709 | 216,339 | 2,453 | 218,792 |
| Total other comprehensive income | - | - | - | 203,630 | - | - | ( 112,966) | - | 18,226 | 12,709 | 121,599 | 4,710 | 126,309 |
| Total comprehensive income for the year, as restated | - | - | - | 203,630 | - | - | ( 112,966) | - | 18,226 | 993,706 | 1,102,596 | 84,230 | 1,186,826 |
| **Movements between reserves** | | | | | | | | | | | | | |
| Credit facility reserve transfer | - | - | - | - | - | 140,761 | - | - | - | ( 140,761) | - | - | - |
| Other transfers [notes 28 and 29(i)] | - | 78,874 | 446,953 | - | - | - | - | - | - | ( 525,827) | - | - | - |
| Prior period restatement | - | ( 23,643) | ( 133,972) | - | - | - | - | - | - | 157,615 | - | - | - |
| Total movement between reserves | - | 55,231 | 312,981 | - | - | 140,761 | - | - | - | ( 508,973) | - | - | - |
| Dividend paid to non-controlling interest | - | - | - | - | - | - | - | - | - | - | - | ( 42,001) | ( 42,001) |
| Share of investment revaluation of associate | - | - | - | - | - | - | 14,224 | - | - | - | 14,224 | - | 14,224 |

The accompanying notes are an integral part of the financial statements

# Group statement of changes in capital and reserve (cont'd)

## Year ended December 31, 2019

| | Permanent capital Fund | Reserve Fund | Retained earnings reserve | Non - distributable reserve | Capital reserve on consolidation | Credit facility reserve | Investment revaluation reserve | General reserve | Currency translation reserve | Retained earnings | Total capital and reserves | Non controlling interest attributable to parent | Total capital and reserve |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balances at December 31, 2018 as restated | 7,746,058 | 1,244,405 | 2,431,236 | 216,559 | 82 | 1,021,384 | 242,632 | 10,000 | 291,323 | 1,927,366 | 15,131,045 | 722,364 | 15,853,409 |
| Total comprehensive income for 2019 | | | | | | | | | | | | | |
| Surplus for the year | - | - | - | - | - | - | - | - | - | 2,011,941 | 2,011,941 | 119,610 | 2,131,551 |
| Other comprehensive income: | | | | | | | | | | | | | |
| Unrealised gains on debt securities at FVOCI, net of tax | - | - | - | - | - | - | 707,550 | - | - | - | 707,550 | 352,089 | 1,059,639 |
| Foreign currency translation difference on foreign subsidiaries' balances and other adjustments | - | - | - | - | - | - | - | - | ( 3,489) | - | ( 3,489) | - | ( 3,489) |
| Realised gains on debt securities at FVOCI | - | - | - | - | - | - | 175,936 | - | - | ( 26,681) | 149,255 | ( 87,671) | 61,584 |
| Unrealised gains on equity securities at FVOCI | - | - | - | - | - | - | 885,870 | - | - | - | 885,870 | ( 15,907) | 869,963 |
| Net gain on remeasurement of employee benefits asset and obligation, net of tax | - | - | - | 164,430 | - | - | - | - | - | 333 | 164,763 | ( 238) | 164,525 |
| Total other comprehensive income | - | - | - | 164,430 | - | - | 1,769,356 | - | ( 3,489) | ( 26,348) | 1,903,949 | 248,273 | 2,152,222 |
| Total comprehensive income for the year | - | - | - | 164,430 | - | - | 1,769,356 | - | ( 3,489) | 1,985,593 | 3,915,890 | 367,883 | 4,283,773 |
| **Movements between reserves** | | | | | | | | | | | | | |
| Credit facility reserve transfer | - | - | - | - | - | 293,355 | - | - | - | ( 293,355) | - | - | - |
| Other transfers [notes 28 and 29(i)] | - | 164,903 | 934,451 | - | - | - | - | - | - | (1,099,354) | - | - | - |
| Total movement between reserves | - | 164,903 | 934,451 | - | - | 293,355 | - | - | - | (1,392,709) | - | - | - |
| Reclassification | - | - | - | - | - | - | - | - | - | 167,880 | 167,880 | ( 167,880) | - |
| Dividend paid to non-controlling interest | - | - | - | - | - | - | - | - | - | - | - | ( 57,001) | ( 57,001) |
| Share of investment revaluation of associate | - | - | - | - | - | - | 29,519 | - | - | - | 29,519 | - | 29,519 |
| **Balances at December 31, 2019** | 7,746,058 | 1,409,308 | 3,365,687 | 380,989 | 82 | 1,314,739 | 2,041,507 | 10,000 | 287,834 | 2,688,130 | 19,244,334 | 865,366 | 20,109,700 |

The accompanying notes are an integral part of the financial statements

# Society statement of changes in capital and reserve

## Year ended December 31, 2019

| | Permanent capital fund | Reserve fund | Retained earnings reserve | Non-distributable reserve | Credi facility reserve | Investment revaluation reserve | General reserve | Retained earnings | Total capital and reserve |
|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $000 | $000 |
| **Balances at December 31, 2017** | 7,746,058 | 1,189,174 | 2,118,255 | 12,929 | 1,236,781 | 167,060 | 10,000 | - | 12,480,257 |
| Impact on initial application of IFRS 9 | - | - | - | - | ( 356,158) | (105,917) | - | (274,139) | ( 736,214) |
| **Adjusted balances at January 1, 2018** | 7,746,058 | 1,189,174 | 2,118,255 | 12,929 | 880,623 | 61,143 | 10,000 | (274,139) | 11,744,043 |
| **Total comprehensive income for 2018** | | | | | | | | | |
| Surplus for the year, as previously reported | - | - | - | - | - | - | - | 940,727 | 940,727 |
| Prior year adjustment (note 42) | - | - | - | - | - | - | - | (157,615) | ( 157,615) |
| As restated | - | - | - | - | - | - | - | 783,112 | 783,11 |
| Other comprehensive income: | | | | | | | | | |
| Unrealised gains on debt securities at FVOCI | - | - | - | - | - | ( 95,404) | - | - | ( 95,404) |
| Realised gains on debt securities at FVOCI | | - | - | - | - | ( 27,049) | - | - | ( 27,049) |
| Gain on remeasurement of employee benefits asset and obligation, net of tax | - | - | - | 203,630 | - | - | - | - | 203,630 |
| Total other comprehensive income | - | - | - | 203,630 | - | (122,453) | - | - | 81,177 |
| Total comprehensive income for the year, as restated | - | - | - | 203,630 | - | (122,453) | - | 783,112 | 864,289 |
| **Movements between reserves** | | | | | | | | | |
| Credit facility reserve transfer | - | - | - | - | 140,761 | - | - | (140,761) | - |
| Other reserves [notes 28 and 29(i)] | - | 78,874 | 446,953 | - | - | - | - | (525,827) | - |
| Prior period restatement | - | ( 23,643) | ( 133,972) | - | - | - | - | 157,615 | - |
| Total movement between reserves | - | 55,231 | 312,981 | - | 140,761 | - | - | (508,973) | - |
| **Balances at December 31, 2018, as restated** | 7,746,058 | 1,244,405 | 2,431,236 | 216,559 | 1,021,384 | ( 61,310) | 10,000 | - | 12,608,332 |

The accompanying notes are an integral part of the financial statements

# Society statement of changes in capital and reserve (cont'd)

## Year ended December 31, 2019

| | Permanent capital fund | Reserve fund | Retained earnings reserve | Non-distributable reserve | Credit facility reserve | Investment revaluation reserve | General reserve | Retained earnings | Total capital and reserve |
|---|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $000 | $000 |
| **Balances at December 31, 2018 as restated** | 7,746,058 | 1,244,405 | 2,431,236 | 216,559 | 1,021,384 | ( 61,310) | 10,000 | - | 12,608,332 |
| **Total comprehensive income for 2019** | | | | | | | | | |
| Surplus for the year | - | - | - | - | - | - | - | 1,392,709 | 1,392,709 |
| Other comprehensive income: | | | | | | | | | |
| Unrealised gains on debt securities at FVOCI, net | - | - | - | - | - | 707,549 | - | - | 707,549 |
| Realised losses on debt securities at FVOCI | - | - | - | - | - | 61,584 | - | - | 61,584 |
| Gain on remeasurement of employee benefits asset and obligation, net of tax | - | - | - | 164,430 | - | - | - | - | 164,430 |
| Total other comprehensive income | - | - | - | 164,430 | - | 769,133 | - | - | 933,563 |
| Total comprehensive income for the year | - | - | - | 164,430 | - | 769,133 | - | 1,392,709 | 2,326,272 |
| **Movements between reserves** | | | | | | | | | |
| Credit facility reserve transfer | - | - | - | - | 293,355 | - | - | ( 293,355) | - |
| Other reserves [notes 28 and 29(i)] | - | 164,903 | 934,451 | - | - | - | - | (1,099,354) | - |
| Total movement between reserves | - | 164,903 | 934,451 | - | 293,355 | - | - | (1,392,709) | - |
| **Balances at December 31, 2019** | 7,746,058 | 1,409,308 | 3,365,687 | 380,989 | 1,314,739 | 707,823 | 10,000 | - | 14,934,604 |

The accompanying notes are an integral part of the financial statements

# Group statement of cash flows

## Year ended December 31, 2019

| | Notes | 2019 | 2018 |
|---|---|---|---|
| | | $'000 | $'000 *(Restated*)* |
| **Cash flows from operating activities** | | | |
| Surplus for the year | | 2,131,551 | 1,060,517 |
| Adjustments for: | | | |
| Depreciation and amortisation | 18, 19, 20 | 512,590 | 344,896 |
| Employee benefits asset and obligation | | 71,362 | (59,500) |
| Interest income | 33 | (6,525,827) | (6,300,370) |
| Interest expense | 33 | 2,191,586 | 2,079,926 |
| Losses/(gains) on disposal of investment property and property, plant and equipment | | 9,708 | (303,568) |
| Gain on sale of investments | | (275,560) | (178,043) |
| Unrealised fair value gains | | (925,881) | (642,942) |
| Share of profits of associates | 17(b) | (210,498) | (87,840) |
| Impairment (credit)/charge on financial assets | | (500,912) | 476,972 |
| Unrealised exchange (gains)/losses on foreign currency balances | | (63,648) | 624,755 |
| Income tax expense | 38 | 821,247 | 642,332 |
| | | (2,764,282) | (2,342,865) |
| Loan advances, net of repayments | | (12,790,427) | (5,204,312) |
| Change in other assets | | 324,145 | (1,625,082) |
| Employee benefits, net | | (43,711) | (103,600) |
| Net receipts from shareholders and depositors | | 7,559,072 | 5,501,972 |
| Due to specialised institution | | 1,593,639 | 1,129,659 |
| Change in other liabilities | | 1,172,598 | (1,602,856) |
| | | (4,948,966) | (4,247,084) |
| Interest and dividends received | | 6,942,734 | 6,473,109 |
| Interest paid | | (2,291,174) | (2,019,357) |
| Income taxes paid | | (680,278) | (507,353) |
| Net cash used by operating activities | | (977,684) | (300,685) |
| **Cash flows from investing activities** | | | |
| Government of Jamaica securities | | 7,575,018 | (6,199,978) |
| Other investments | | (5,450,747) | (5,260,738) |
| Resale agreements | | (2,957,790) | 3,961,959 |
| Purchase of intangible assets | 18 | (669,197) | (537,773) |
| Purchase of investment properties | 19 | (106,335) | - |
| Purchase of property, plant and equipment | 20 | (491,095) | (496,293) |
| Proceeds of disposal of property, plant and equipment | | - | 561,850 |
| Repurchase agreements | | 961,534 | 2,134,816 |
| Net cash used by investing activities | | (1,138,612) | (5,836,157) |
| **Cash flows from financing activities** | | | |
| Loans payable, net | | 2,715,620 | 2,282,693 |
| Payment of lease liabilities | 27(d) | (46,572) | - |
| Dividend paid to non-controlling interest | | (57,001) | (42,001) |
| Net cash provided by financing activities | | 2,612,047 | 2,240,692 |
| Net increase/(decrease) in cash and cash equivalents for year | | 495,751 | (3,896,150) |
| Cash and cash equivalents at beginning of year | | 7,702,936 | 12,214,487 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | 68,042 | (615,401) |
| Cash and cash equivalents at end of year | 8 | 8,266,729 | 7,702,936 |

* See note 42

The accompanying notes are an integral part of the financial statements

# Society statement of cash flows

## Year ended December 31, 2019

| | Notes | 2019 | 2018 |
|---|---|---|---|
| | | $'000 | $'000 *(Restated*)* |
| **Cash flows from operating activities** | | | |
| Surplus for the year | | 1,392,709 | 783,112 |
| Adjustments for: | | | |
| Depreciation and amortisation | 18,19,20 | 410,132 | 290,312 |
| Unrealised exchange losses on foreign currency balances | | 119,558 | 621,273 |
| Employee benefits obligation | | 68,400 | (65,700) |
| Interest income | 33 | (5,723,088) | (5,626,071) |
| Interest expense | 33 | 1,695,190 | 1,686,586 |
| Loss/(gain) on disposal of property, plant and equipment | | 9,708 | (318,370) |
| Gain on sale of investments | | (196,031) | (177,845) |
| Unrealised fair value gains | | (925,881) | (642,942) |
| Impairment (credit)/charge on financial assets | | (404,870) | 364,053 |
| Income tax expense | 38 | 505,604 | 438,569 |
| | | (3,048,569) | (2,647,023) |
| Loan advances, net of repayments | | (9,888,079) | (5,061,328) |
| Interest in subsidiaries | | (3,060,892) | (189,026) |
| Change in other assets | | (263,471) | (61,777) |
| Employee benefits, net | | (43,611) | (103,600) |
| Net receipts from shareholders and depositors | | 7,239,780 | 5,691,659 |
| Due to specialised institution | | 1,593,639 | 1,129,659 |
| Change in other liabilities | | 1,543,652 | 147,418 |
| | | (5,927,551) | (1,094,018) |
| Interest and dividends received | | 6,074,921 | 5,688,481 |
| Interest paid | | (1,703,694) | (1,647,227) |
| Income taxes paid | | (306,834) | (224,393) |
| Net cash (used)/provided by operating activities | | (1,863,158) | 2,722,843 |
| **Cash flows from investing activities** | | | |
| Government of Jamaica securities | | 7,757,265 | (3,999,408) |
| Other investments | | (3,510,453) | (5,622,883) |
| Resale agreements | | (3,748,465) | 3,705,598 |
| Purchase of intangible assets | 18 | (662,733) | (389,388) |
| Purchase of investment properties | 19 | (106,335) | - |
| Purchase of property, plant and equipment | 20 | (346,962) | (462,478) |
| Proceeds of disposal of property, plant and equipment | | - | 576,654 |
| Net cash used by investing activities | | (617,683) | (6,191,905) |
| **Cash flows from financing activity** | | | |
| Payment of lease liability | 27 | (30,919) | - |
| Loans payable | | 1,705,156 | 2,338,282 |
| Net cash provided by financing activities | | 1,674,237 | 2,338,282 |
| Net decrease in cash and cash equivalents for year | | (806,604) | (1,130,780) |
| Cash and cash equivalents at beginning of year | | 7,562,954 | 9,315,007 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | (119,558) | (621,273) |
| Cash and cash equivalents at end of year | 7 | 6,636,792 | 7,562,954 |

* See note 42

The accompanying notes are an integral part of the financial statements

# Notes to the financial statements

## December 31, 2019

### 1. IDENTIFICATION

a. The Victoria Mutual Building Society ("the Society") is incorporated under the Building Societies Act and domiciled in Jamaica. The registered office of the Society is located at 8-10 Duke Street, Kingston, Jamaica.
During the year, the principal activities of the Society and its subsidiaries [note 1(b)] comprised granting loans, accepting deposits, trading in foreign currencies, stockbroking and securities trading, asset management, pension fund management, providing money transfer services, investing funds, investment holding and real estate services.

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

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

# Notes to the financial statements (cont'd)

December 31, 2019

c. Interest in associated companies

i. The Society has a 31.5% (2018: 31.5%) interest in British Caribbean Insurance Company Limited, which is a general insurance company incorporated in Jamaica. This investment is accounted for under the equity method as an associated company in the consolidated financial statements.

ii. During the year, the Group, through its subsidiary, Victoria Mutual Investments Limited, acquired a 30% interest in Carilend Caribbean Holdings Limited (Carilend), a company incorporated in Barbados that facilitates peer-to-peer lending. This investment is accounted for under the equity method as an associated company in the consolidated financial statements. No goodwill was identified as part of the transaction.

## 2. REGULATIONS AND LICENCE

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

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

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

## 3. BASIS OF PREPARATION

a. Statement of compliance

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

This is the first set of the Group's annual financial statements in which IFRS 16, *Leases* have been applied. Changes to significant accounting policies are described in note 4.

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

- Amendments to *References to Conceptual Framework in IFRS Standards* is effective for annual reporting periods beginning on or after January 1, 2020. The revised framework covers all aspects of standard setting including the objective of financial reporting.

The main change relates to how and when assets and liabilities are recognised and de-recognised in the financial statements.

- New 'bundle of rights' approach to assets will mean that an entity may recognise a right to use an asset rather than the asset itself;
- A liability will be recognised if an entity has no practical ability to avoid it. This may bring liabilities on balance sheet earlier than at present.
- A new control-based approach to derecognition will allow an entity to derecognise an asset when it loses control over all or part of it; the focus will no longer be on the transfer of risks and rewards.

# Notes to the financial statements (cont'd)

## December 31, 2019

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

d. Statement of compliance (cont'd)

The Group is assessing the impact that the amendments will have on its 2020 financial statements.

- Amendments to IFRS 3, *Business Combinations*, applicable to businesses acquired in annual reporting periods beginning on or after January 1, 2020, provide more guidance on the definition of a business. The amendments include:

  i. An election to use a concentration test by way of an assessment that results in an asset acquisition, if substantially all of the fair value of the gross asset is concentrated in a single identifiable asset or a group of similar identifiable assets.

  ii. Otherwise, the assessment focuses on the existence of a substantive process. A business consists of inputs and processes applied to those inputs to create outputs.

The Group is assessing the impact that the amendments will have on its 2020 financial statements.

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

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

The Group does not expect the amendment to have a significant impact on its 2020 financial statements.

- Amendments to IFRS 9, *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures* are effective for annual periods beginning on or after January 1, 2020, and address issues affecting financial reporting in the period leading up to interbank offered rates (IBOR) reform, are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform. The amendments require that entities with hedges affected by IBOR reform should:

  - Assume that the interest rate benchmark on which hedged cash flows are based is not altered as a result of IBOR reform when assessing whether the future cash flows are highly probable.

  - Assess whether the economic relationship between the hedged item and the hedging instrument exists based on the assumption that the interest rate benchmark is not altered as a result of IBOR reform.

  - Prospectively cease applying the exceptions at the earlier of:

    a. when the uncertainty regarding the timing and the amount of interest rate benchmark base cash flows is no longer present; and

    b. the discontinuation of the hedging relationship (or reclassification of all amounts from the cash flow hedge reserve).

  - Include additional disclosure for hedging relationships directly affected by IBOR reform.

The Group is assessing the impact that the amendment will have on its 2020 financial statements.

# Notes to the financial statements (cont'd)

December 31, 2019

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

b. Basis of measurement

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

i. Debt instruments at fair value through other comprehensive income (FVOCI).

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

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

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

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

vi. The defined-benefit liability measured as 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 5(o). Amounts are rounded to the nearest thousand, unless otherwise stated.

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

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

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

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

# Notes to the financial statements (cont'd)

## December 31, 2019

### 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

1. Impairment of financial assets:

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

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

Detailed information about the judgements and estimates made by the Group in the above areas is set out in notes 5(n) and 6(a).

2. Pension and other post-employment benefits

Determining employee benefit amounts to be included in the financial statements requires management to determine the fair value of plan assets and deduct the estimated present value of future benefits that employees have earned in current and prior periods.

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

3. Goodwill

Goodwill is not amortised but is tested annually for impairment. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value [see notes 5(k) and 18].

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 (see note 20).

# Notes to the financial statements (cont'd)

## December 31, 2019

**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 is initially recognised. Any such difference will impact the current and deferred income tax provisions in the period in which such determination is made.

6. Fair value of financial instruments

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

The yield curve is, in turn, obtained from a pricing source which uses indicative prices submitted to it by licensed banks and other financial institutions in Jamaica. There is significant uncertainty inherent in this approach, which is categorised as a Level 2 fair value (see notes 9, 10 and 32). 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 assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are solely payments of principal and interest (SPPI) on the principal amount outstanding [see note 5(b)] requires management to make certain judgements on its business operations.

**4. CHANGE IN ACCOUNTING POLICIES**

The Group initially applied IFRS 16 *Leases* from January 1, 2019. A number of other new standards are also effective from January 1, 2019 but they do not have a material effect on the Group's financial statements.

# Notes to the financial statements (cont'd)

December 31, 2019

**4. CHANGE IN ACCOUNTING POLICIES (CONT'D)**

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in the statement of financial position at January 1, 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

a. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 5(d).

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

b. As a lessee

As a lessee, the Group leases assets such as office space and commercial space for providing ABM services. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet [see note 5(d)].

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price. For leases of property, the Group accounts for the non-lease components separately, on the basis of their relative stand-alone prices.

*Leases classified as operating leases under IAS 17*

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

c. Impact on financial statements

*Impact on transition*

On transition to IFRS 16, the Group recognised additional right-of-use assets, and lease liabilities as summarised below:

| | Group | Society |
|---|---|---|
| | $'000 | $'000 |
| Right-of-use assets – property, plant and equipment | 114,705 | 46,918 |

# Notes to the financial statements (cont'd)

## December 31, 2019

**4. CHANGE IN ACCOUNTING POLICIES (CONT'D)**

c. Impact on financial statements (cont'd)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The incremental borrowing rate applied is 10% and 4.5% for leases denominated in Jamaica dollar and United States dollar, respectively.

| | Group | Society |
|---|---|---|
| | $'000 | $'000 |
| Operating lease commitments at December 31, 2018 per IAS 17 | 66,218 | 19,921 |
| Discounted using the incremental borrowing rate at January 1, 2019 | 56,834 | 18,780 |
| Extension options reasonably certain to be exercised | 57,871 | 28,138 |
| Lease liabilities recognised at January 1, 2019 | 114,705 | 46,918 |

**5. SIGNIFICANT ACCOUNTING POLICIES**

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

a. Basis of consolidation

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

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

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

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

b. Financial instruments - Classification, recognition and de-recognition, and measurement

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

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

# Notes to the financial statements (cont'd)

## December 31, 2019

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

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

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

i. Classification of financial instruments

**Financial assets**

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

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

- *Debt instruments*

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

Classification and subsequent measurement of debt instruments depend on the Group's business model for managing the asset and the cash flow characteristics of the asset. Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- *Amortised cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described at note 5(n). Interest income from these financial assets is included in 'Interest and similar income' using the effective interest method.
- *Fair value through other comprehensive income (FVOCI)*: Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL.
- *Fair value through profit or loss (FVTPL)*: Assets that do not meet the criteria for amortised cost or FVOCI. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss within 'Other operating revenue' in the period in which it arises. 'Interest income calculated from these financial assets is included in 'Interest income' using the effective interest method'.

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

# Notes to the financial statements (cont'd)

December 31, 2019

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

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

i. Classification of financial instruments (cont'd)

- Debt instruments (cont'd)

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

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

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

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

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

- *Equity instruments*

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

The Group subsequently measures all equity investments at FVTPL, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI.

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

**Financial liabilities**

The Group classifies non-derivative financial liabilities into the "other financial liabilities" category. These are measured at amortised cost.

# Notes to the financial statements (cont'd)

December 31, 2019

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

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

ii. Recognition and derecognition - Non-derivative financial assets and liabilities

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

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

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains all or substantially all the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

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

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

iii. Measurement gains and losses – non-derivative financial assets

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

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

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

- interest revenue using the effective interest method;
- expected credit loss (ECL) charges and reversals; and
- foreign exchange gains and losses.

# Notes to the financial statements (cont'd)

## December 31, 2019

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

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

iii. Measurement gains and losses – non-derivative financial assets (cont'd)

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

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

c. Financial instruments – Other

iv. 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 at amortised cost. They are measured at fair value on initial recognition and subsequently at amortised cost. The difference between the purchase cost and the resale consideration is recognised in the income statement as interest income using the effective interest method.

The Group enters into transactions whereby it transfers assets but retains either, all risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

Repurchase agreements are accounted for as short-term collateralised borrowing, and are classified as other liabilities. On initial recognition and subsequently, the securities given as collateral are retained in the statement of financial position and measured in accordance with their original measurement principles. The proceeds of sale are reported as liabilities and are measured at amortised cost. The difference between the sale consideration and the repurchase price is recognised in the income statement over the life of each agreement as interest expense using the effective interest method.

iii. Derivatives

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

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

# Notes to the financial statements (cont'd)

## December 31, 2019

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

c. Financial instruments – Other (cont'd)

iv. Other assets

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

v. Loans payable

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

vi. Other liabilities

Other liabilities are measured at amortised cost.

d. Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

*Policy applicable from January 1, 2019*

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

i. As a lessee

For leases of property, the Group accounts for the non-lease components separately.

The Group recognises a right of use asset and a lease liability at the lease commencement or transition date. The right of use asset is initially measured at cost, which comprises the present value of the lease liability, plus any initial direct costs incurred and estimated asset retirement costs, less any lease incentives received.

The right of use asset is subsequently depreciated using the straight line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right of use asset reflects that the Group will exercise a purchase option. In that case the right of use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the future lease payments at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

# Notes to the financial statements (cont'd)

December 31, 2019

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

d. Leases (cont'd)

*Policy applicable from January 1, 2019 (cont'd)*

i. As a lessee (cont'd)

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option, or if there is a revised in substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right of use assets in 'property, plant and equipment' and lease liabilities as such in the statement of financial position.

ii. Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets and short term leases. The Group recognises the lease payments associated with these leases as an expense on the straight line basis over the lease term.

*Policy applicable before January 1, 2019*

Assets held under leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on the straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

# Notes to the financial statements (cont'd)

## December 31, 2019

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

e. Revenue recognition

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

i. Interest income

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

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

b. Financial assets that are not 'POCI' but have subsequently become credit-impaired [see note 5(n)], for which interest revenue is calculated by applying the effective interest rate to their adjusted amortised cost (i.e., net of the expected credit loss allowance).

ii. 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.

f. Interest expense

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

g. Fee and commission expenses

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

h. Income tax

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

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.

# Notes to the financial statements (cont'd)

December 31, 2019

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

h. Income tax (cont'd)

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

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

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

i. Employee benefits

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

i. General benefits

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

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

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

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

ii. Defined-contribution pension plan

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

iii. Defined-benefit pension plan

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

# Notes to the financial statements (cont'd)

## December 31, 2019

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

i. Employee benefits (cont'd)

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

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

The Group's net asset in respect of the defined-benefit pension plan is calculated by estimating the fair value of any plan assets and deducting the present value of future benefit that employees have earned in return for their service in the current and prior periods. 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.

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

iv. Other post-employment benefits

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

j. Interest in subsidiaries

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

k. Intangible assets

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

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

# Notes to the financial statements (cont'd)

December 31, 2019

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

l. Investment and foreclosed properties

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

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

m. 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.

# Notes to the financial statements (cont'd)

## December 31, 2019

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

n. Identification and measurement of impairment

i. Non-derivative financial assests
The Group recognises allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:
- financial assets that are debt instruments, including loans and investment securities; and
- lease receivables.

*Framework*

The Group applies a 'three-stage' model for impairment based on changes in credit quality since initial recognition, as summarised below:

- *Stage 1:* a financial instrument that is not credit-impaired on initial recognition. Credit risk is continuously monitored by the Group.
- *Stage 2:* a significant increase in credit risk ('SICR') since initial recognition is identified, but the financial instrument is not yet deemed to be credit impaired. See below for a description of how the Group determines when a significant increase in credit risk has occurred.
- *Stage 3:* a financial asset is credit impaired when one or more events (see below) that have a detrimental impact on the estimated future cash flows of the financial asset have occurred

*Determining whether credit risk has increased significantly (Stage 2)*

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

- quantitative tests based on movement in Probabilities of Default (PD). Credit risk is deemed to increase significantly where the probability of default on a security or a loan has moved by six (6) basis points;
- qualitative indicators; and
- a backstop of 30 days past due. Due dates are determined without considering any grace period that might be available to the borrower.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL. In these cases, the Group determines a probation period during which the financial asset is required to demonstrate that its credit risk has declined sufficiently.

*Credit-impaired financial assets (Stage 3)*

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

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;

# Notes to the financial statements (cont'd)

## December 31, 2019

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

n. Identification and measurement of impairment (cont'd)

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

*Credit-impaired financial assets (Stage 3)* (cont'd)

Evidence that a financial asset is credit-impaired includes the following observable data (cont'd):

- the restructuring of a loan or advance by the Group on terms that it would not consider otherwise.
- the disappearance of an active market for a security because of financial difficulties.
- a loan that is overdue for 90 days or more, even when the regulatory definition of default is different.

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

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

*Restructured financial assets*

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

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

*Measurement of expected credit losses*

Expected credit losses (ECL) are probability-weighted estimates of credit losses, measured as follows:

- ECL on financial instruments in Stage 1 are measured at an amount equal to the expected credit losses that result from default events possible within the next 12 months.

# Notes to the financial statements (cont'd)

December 31, 2019

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

n. Identification and measurement of impairment (cont'd)

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

*Measurement of expected credit losses* (cont'd)

Expected credit losses (ECL) are probability-weighted estimates of credit losses, measured as follows (cont'd):

- ECL on instruments in Stages 2 or 3 are measured based on expected credit losses on a lifetime basis.
- ECL on undrawn loan commitments are measured at the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn and the cash flows that the Group expects to receive.
- ECL on financial guarantee contracts are measured at the expected payments to reimburse the holder, less any amounts that the Group expects to recover.
- ECL on trade and lease receivables are always measured as an amount equal to lifetime ECL.

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

*Incorporation of forward-looking information*

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. Forecasts of these economic variables (the "base economic scenario") are provided by the Group's Finance team on an annual basis and provide the best and worst estimate views of the economy based on the expected impact of interest rates, unemployment rates and gross domestic product (GDP).

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

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

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected.

# Notes to the financial statements (cont'd)

December 31, 2019

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

n. Identification and measurement of impairment (cont'd)

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

*Presentation of allowance for ECL in the statement of financial position*

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

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

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.

o. 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.

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

o. Foreign currencies (cont'd)

i. Transactions and balances (cont'd)

Changes in the fair value of monetary securities denominated in foreign currencies and classified as FVOCI 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.

ii. Foreign subsidiaries

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

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

## 6. FINANCIAL RISK MANAGEMENT

**Introduction and overview**

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

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

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

**Risk management framework**

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

i. Group Finance and Risk Management Committee

ii. Corporate Governance, Nomination and Compensation Committee

iii. Audit Committee

# Notes to the financial statements (cont'd)

## December 31, 2019

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

**Risk management framework (cont'd)**

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

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

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

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

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

**a. Credit risk**

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

**i. Exposure to credit risk**

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

1. For financial assets recognised in the statement of financial position:

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

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

| | Group and Society | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| Loan commitments | 5,036,478 | 1,468,359 |

# Notes to the financial statements (cont'd)

## December 31, 2019

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

#### a. Credit risk (cont'd)

##### ii. Management of credit risk attaching to key financial assets

- Loans receivable

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

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD). This is similar to the approach used for the purposes of measuring expected credit losses (ECL) under IFRS 9. See note 5(n) for discussion on measurement of ECL.

The key judgements and assumptions adopted by the Group in addressing the requirements of IFRS 9 are discussed below:

*Credit risk grades*

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

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

- Debt securities

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

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

*Maximum exposure to credit risk and credit quality analysis*

The following tables set out information about the maximum exposure to credit risk and the credit quality of financial assets measured at amortised cost, FVOCI debt instruments. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.  For loan commitments, the amounts in the table represent the amounts committed.

# Notes to the financial statements (cont'd)

## December 31, 2019

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

#### a. Credit risk (cont'd)

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

- Loans receivable at amortised cost:

| | Group | | | | |
|---|---|---|---|---|---|
| | 2019 | | | | 2018 |
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Credit grade** | | | | | |
| Grade 1 - 3 - Low risk | 9,119,095 | 377,343 | 163,732 | 9,660,170 | 35,263,254 |
| Grade 4 - 5 | 38,893,805 | 3,126,437 | 3,066,936 | 45,087,178 | 3,642,198 |
| Grade 6 - 8 | 3,159,568 | 496,061 | 529,298 | 4,184,927 | 5,527,390 |
| Grade 9 - 10 - High risk | 1,873 | - | 3,301,746 | 3,303,619 | 5,025,500 |
| | 51,174,341 | 3,999,841 | 7,061,712 | 62,235,894 | 49,458,342 |
| Loss allowance | (66,924) | (30,558) | (103,201) | (200,683) | (484,682) |
| | 51,107,417 | 3,969,283 | 6,958,511 | 62,035,211 | 48,973,660 |

| | Society | | | | |
|---|---|---|---|---|---|
| | 2019 | | | | 2018 |
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Credit grade** | | | | | |
| Grade 1 - 3 - Low risk | 5,985,135 | 377,343 | 163,732 | 6,526 ,210 | 35,168,654 |
| Grade 4 -5 | 38,893,805 | 3,126,437 | 3,066,936 | 45,087,178 | 3,642,198 |
| Grade 6 - 8 | 3,159,567 | 496,061 | 529,299 | 4,184,927 | 5,527,390 |
| Grade 9 - 10 - High risk | 1,873 | - | 3,301,745 | 3,303,618 | 5,025,500 |
| | 48,040,380 | 3,999,841 | 7,061,712 | 59,101,933 | 49,363,742 |
| Loss allowance | ( 66,924) | ( 30,558) | ( 103,201) | ( 200,683) | ( 484,682) |
| | 47,973,456 | 3,969,283 | 6,958,511 | 58,901,250 | 48,879,060 |

# Notes to the financial statements (cont'd)

December 31, 2019

6. FINANCIAL RISK MANAGEMENT (CONT'D)

a. Credit risk (cont'd)

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

- Loans receivable at amortised cost:

| | Group | | | | | | Society | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | | | 2018 | | 2019 | | | | 2018 |
| | Stage 1 | Stage 2 | Stage 3 | Total | Total | | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Aging of loans receivable** | | | | | | **Aging of loans receivable** | | | | | |
| Current | 51,157,855 | - | 1,791,302 | 52,949,157 | 40,329,540 | Current | 47,583,102 | - | 1,791,303 | 49,374,405 | 40,234,940 |
| Past due 1-30 days | 16,486 | - | 445,843 | 462,329 | 3,481,920 | Past due 1-30 days | 457,278 | - | 4,651 | 461,929 | 3,481,920 |
| Past due 31-60 days | - | 2,738,485 | 981,117 | 3,719,602 | 2,352,345 | Past due 31-60 days | - | 2,738,485 | 981,117 | 3,719,602 | 2,352,345 |
| Past due 60-90 days | - | 1,261,356 | 967,816 | 2,229,172 | 7,241 | Past due 60-90 days | - | 1,261,356 | 967,816 | 2,229,172 | 7,241 |
| Over 90 days | - | - | 2,875,634 | 2,875,634 | 3,287,296 | Over 90 days | - | - | 3,316,825 | 3,316,825 | 3,287,296 |
| Total | 51,174,341 | 3,999,841 | 7,061,712 | 62,235,894 | 49,458,342 | Total | 48,040,380 | 3,999,841 | 7,061,712 | 59,101,933 | 49,363,742 |
| **Loan commitments** | | | | | | **Loan commitments** | | | | | |
| Grades 1-3: Low risk | 5,036,478 | - | - | 5,036,478 | 1,468,359 | Grades 1-3: Low risk | 5,036,478 | - | - | 5,036,478 | 1,468,359 |
| Loss allowance | ( 6,825) | - | - | ( 6,825) | ( 2,203) | Loss allowance | ( 6,825) | - | - | ( 6,825) | ( 2,203) |

# Notes to the financial statements (cont'd)

## December 31, 2019

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

#### a. Credit risk (cont'd)

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

- Debt securities and other financial assets at amortised cost:

| | Group | | | | |
|---|---|---|---|---|---|
| | 2019 | | | | 2018 |
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Credit grade** | | | | | |
| Investment grade | 3,636,167 | - | - | 3,636,167 | 3,409,861 |
| Non-investment grade | 18,941,014 | 631,520 | - | 19,572,534 | 26,883,744 |
| | 22,577,181 | 631,520 | - | 23,208,701 | 30,293,605 |
| Loss allowance | ( 136,846) | ( 20,907) | - | ( 157,753) | ( 212,633) |
| | 22,440,335 | 610,613 | - | 23,050,948 | 30,080,972 |

| | Society | | | | |
|---|---|---|---|---|---|
| | 2019 | | | | 2018 |
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Credit grade** | | | | | |
| Investment grade | 3,636,167 | - | - | 3,636,167 | 3,409,861 |
| Non-investment grade | 12,286,971 | 607,275 | - | 12,894,246 | 19,092,993 |
| | 15,923,138 | 607,275 | - | 16,530,413 | 22,502,854 |
| Loss allowance | ( 115,150) | ( 18,156) | - | ( 133,306) | ( 218,428) |
| | 15,807,988 | 589,119 | - | 16,397,107 | 22,284,426 |

| | Group | | | | |
|---|---|---|---|---|---|
| | 2019 | | | | 2018 |
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Credit grade** | | | | | |
| Investment grade | 675,021 | - | - | 675,021 | 2,936,878 |
| Non-investment grade | 37,890,702 | 162,029 | - | 38,052,731 | 30,170,448 |
| Default | - | - | - | - | 988,000 |
| | 38,565,723 | 162,029 | - | 38,727,752 | 34,095,326 |
| Loss allowance | ( 106,523) | ( 44,464) | - | ( 150,987) | ( 808,167) |

| | Society | | | | |
|---|---|---|---|---|---|
| | 2019 | | | | 2018 |
| | Stage 1 | Stage 2 | Stage 3 | Total | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Credit grade** | | | | | |
| Investment grade | 1,853 | - | - | 1,853 | 2,116,425 |
| Non-investment grade | 25,502,341 | 162,029 | - | 25,664,370 | 18,594,575 |
| Default | - | - | - | - | 790,925 |
| | 25,504,194 | 162,029 | - | 25,666,223 | 21,501,925 |
| Loss allowance | ( 61,206) | ( 44,464) | - | ( 105,670) | ( 648,307) |

# Notes to the financial statements (cont'd)

## December 31, 2019

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

#### a. Credit risk (cont'd)

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

**Reconciliation of allowances for ECL**

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

- Debt securities, loans receivable and resale agreements at amortised cost:

| | Group | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | $'000 | $'000 | $'000 | $'000 |
| Balance at January 1, 2018 (IAS 39) | - | - | 184,280 | 184,280 |
| Remeasurement on January 1, 2018 (IFRS 9) | 424,389 | 53,862 | 260,046 | 738,297 |
| Transfer to Stage 2 | (50,359) | 50,359 | - | - |
| Transfer to Stage 3 | (5,266) | (4,804) | 10,070 | - |
| Net re-measurement of loss allowance | ( 97,811) | ( 61,590) | ( 63,658) | ( 223,059) |
| Balance at December 31, 2018 | 270,953 | 37,827 | 390,738 | 699,518 |
| Net re-measurement of loss allowance | ( 60,358) | 13,638 | (287,537) | ( 334,257) |
| Balance at December 31, 2019 | 210,595 | 51,465 | 103,201 | 365,261 |

| | Society | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | $'000 | $'000 | $'000 | $'000 |
| Balance at January 1, 2018 (IAS 39) | - | - | 184,280 | 184,280 |
| Remeasurement on January 1, 2018 (IFRS 9) | 415,774 | 60,637 | 260,046 | 736,457 |
| Transfer to Stage 2 | ( 50,359) | 50,359 | - | - |
| Transfer to Stage 3 | ( 5,266) | (4,804) | 10,070 | - |
| Net re-measurement of loss allowance | ( 83,401) | ( 68,365) | ( 63,658) | (215,424) |
| Balance at December 31, 2018 | 276,748 | 37,827 | 390,738 | 705,313 |
| Net re-measurement of loss allowance | ( 87,849) | 10,887 | (287,537) | (364,499) |
| Balance at December 31, 2019 | 188,899 | 48,714 | 103,201 | 340,814 |

# Notes to the financial statements (cont'd)

## December 31, 2019

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

#### a. Credit risk (cont'd)

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

**Reconciliation of allowances for ECL**

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument.

- Debt securities at FVOCI::

| | Group | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | $'000 | $'000 | $'000 | $'000 |
| Remeasurement on January 1, 2018 (IFRS 9) | 80,612 | 108,849 | - | 189,461 |
| Transfer to Stage 2 | ( 2,158) | 2,158 | - | - |
| Transfer to Stage 3 | ( 250) | (110,407) | 110,657 | - |
| Net re-measurement of loss allowance | 78,323 | 6,806 | 533,577 | 618,706 |
| Balance at December 31, 2018 | 156,527 | 7,406 | 644,234 | 808,167 |
| Net re-measurement of loss allowance | (50,004) | 37,058 | (644,234) | (657,180) |
| Balance at December 31, 2019 | 106,523 | 44,464 | - | 150,987 |

| | Society | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | $'000 | $'000 | $'000 | $'000 |
| Remeasurement on January 1, 2018 (IFRS 9) | 52,687 | 88,250 | - | 140,937 |
| Transfer to Stage 2 | ( 2,158) | 2,158 | - | - |
| Transfer to Stage 3 | ( 250) | (88,250) | 88,500 | - |
| Net re-measurement of loss allowance | 76,761 | 5,248 | 425,361 | 507,370 |
| Balance at December 31, 2018 | 127,040 | 7,406 | 513,861 | 648,307 |
| Net re-measurement of loss allowance | (65,834) | 37,058 | (513,861) | (542,637) |
| Balance at December 31, 2019 | 61,206 | 44,464 | - | 105,670 |

*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, 2019, the outstanding principal balances on loans that were restructured during the year amounted to $164,500,000 (2018: $127,030,000).

# Notes to the financial statements (cont'd)

December 31, 2019

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

### a. Credit risk (cont'd)

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

*Write-off policy, applicable for both periods*

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

*Collateral*

Loan collateral represents mortgages over property, liens over motor vehicles and hypothecation of deposits held. The fair value of collateral that the Group held for loans past due (greater than three months) was $9,097,864,000 (2018: $5,428,221,000) [see note 5(a)(iii)].

*Foreclosure*

The Group sometimes acquires properties by way of foreclosure in the process of recovering amounts from defaulting borrowers. At the reporting date, the carrying amount of these assets was $288,093,000 (2018: $188,523,000). The Group's policy is, in accordance with regulatory requirements, to pursue realisation of the collateral in a timely manner, that is, within three years of foreclosure. No financial or other assets (other than real property mentioned herein) were obtained during the year by taking possession of collateral.

#### 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.

1. 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.

2. Investment securities

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

# Notes to the financial statements (cont'd)

December 31, 2019

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

### a. Credit risk (cont'd)

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

3. Resale agreements and certificates of deposit

   Collateral is held for resale agreements other than those acquired from Bank of Jamaica, as set out in note 6(a)(iii) below.

4. 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.

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

| | Group | | | | Society | | | |
|---|---|---|---|---|---|---|---|---|
| | Loans and advances | | Resale agreements | | Loans and advances | | Resale agreements | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Against neither past due nor impaired financial assets: | | | | | | | | |
| Real property | 82,737,704 | 74,991,043 | - | - | 77,521,856 | 74,991,043 | - | - |
| Debt securities | - | - | 18,252,455 | 16,858,992 | - | - | 13,636,105 | 12,436,572 |
| Liens on motor vehicles | 2,954,485 | 494,043 | - | - | 2,954,485 | 494,043 | - | - |
| Hypothecation of deposits | 2,768,926 | 2,494,486 | - | - | 2,768,926 | 2,494,486 | - | - |
| Subtotal | 88,461,115 | 77,979,572 | 18,252,455 | 16,858,992 | 83,245,267 | 77,979,572 | 13,636,105 | 12,436,572 |
| Against past due (greater than 3 months) but not impaired financial assets: | | | | | | | | |
| Real property | 13,102,611 | 15,291,355 | - | - | 13,102,611 | 15,291,355 | - | - |
| Against past due (greater than 3 months) and impaired financial assets: | | | | | | | | |
| Real property | 9,097,864 | 11,766,040 | - | - | 9,097,864 | 11,766,040 | - | - |
| Total | 110,661,590 | 105,036,967 | 18,252,455 | 16,858,992 | 105,445,742 | 105,036,967 | 13,636,105 | 12,436,572 |

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.

# Notes to the financial statements (cont'd)

December 31, 2019

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

b. **Market risks**

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

**Management and monitoring of market risks**

The Group separates its exposure to market risks between trading and non-trading portfolios. Market risks from trading activities are monitored by the ALCO. The ALCO monitors the price movement of securities on the local and international markets for both debt and equity securities. Market risk is managed through the use of Board-approved limits, offsetting of financial assets and liabilities and maintaining matched portfolios of foreign currency financial assets and liabilities with the maintenance of currency portfolio long and short gap position.

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

i. Interest rate risk

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

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

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

# Notes to the financial statements (cont'd)

December 31, 2019

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

   b. **Market risks (cont'd)**

      i. Interest rate risk (cont'd

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

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | | | |
| | Immediately rate sensitive | Within 3 months | Three to 12 months | Over 12 months | Non-rate sensitive | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Cash and cash equivalents | 1,281,690 | 18,905 | - | - | 6,966,134 | 8,266,729 |
| Jamaica Government Securities | - | 3,424,076 | 4,749,839 | 12,312,983 | - | 20,486,898 |
| Investments | 5,508,817 | 2,868,528 | 1,329,553 | 20,634,026 | 2,797,301 | 33,138,225 |
| Resale agreements | 1,481,105 | 7,448,127 | 1,294,164 | 3,030,463 | - | 13,253,859 |
| Loans | - | 60,907,772 | 1,127,439 | - | - | 62,035,211 |
| Other assets | - | - | - | - | 14,751,174 | 14,751,174 |
| Total financial assets | 8,271,612 | 74,667,408 | 8,500,995 | 35,977,472 | 24,514,609 | 151,932,096 |
| Savings fund | 48,867,450 | 17,372,469 | 14,714,650 | 8,424,106 | - | 89,378,675 |
| Due to specialised institution | - | 114 | 932 | 4,903,025 | 9,865,306 | 14,769,377 |
| Repurchase agreements | 900,036 | 4,665,015 | 9,352,280 | - | 1,312 | 14,918,643 |
| Lease liabilities | - | - | 40,243 | 238,743 | - | 278,986 |
| Other liabilities | - | - | - | - | 12,476,715 | 12,476,715 |
| Total financial liabilities | 49,767,486 | 22,037,598 | 24,108,105 | 13,565,874 | 22,343,333 | 131,822,396 |
| Total interest rate sensitivity gap * | (41,495,874) | 52,629,810 | (15,607,110) | 22,411,598 | 2,171,276 | 20,109,700 |
| Cumulative gap | (41,495,874) | 11,133,936 | (4,473,174) | 17,938,424 | 20,109,700 | - |

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

# Notes to the financial statements (cont'd)

## December 31, 2019

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

#### b. Market risks (cont'd)

i. Interest rate risk (cont'd)

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | | | |
| | Immediately rate sensitive | Within 3 months | Three to 12 months | Over 12 months | Non-rate sensitive | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Cash and cash equivalents | 4,496,670 | 950 | - | - | 3,205,316 | 7,702,936 |
| Jamaica Government securities | 3,458,723 | 1,861,882 | 1,560,067 | 18,987,332 | - | 25,868,004 |
| Investments | 597,474 | 3,660,083 | 1,530,134 | 6,531,075 | 14,315,128 | 26,633,894 |
| Resale agreements | 3,776,924 | 4,091,172 | 2,427,973 | - | - | 10,296,069 |
| Loans | - | 48,973,660 | - | - | - | 48,973,660 |
| Other assets | - | 160,073 | 852,491 | 363,575 | 12,266,514 | 13,642,653 |
| Total financial assets | 12,329,791 | 58,747,820 | 6,370,665 | 25,881,982 | 29,786,958 | 133,117,216 |
| Savings fund | 50,888,445 | 8,538,658 | 22,251,700 | - | 263,128 | 81,941,931 |
| Due to specialised institution | - | 13,050,519 | - | - | 125,219 | 13,175,738 |
| Other liabilities | - | - | - | - | 8,189,029 | 8,189,029 |
| Repurchase agreements | 1,000,000 | 9,777,709 | 3,177,888 | - | 1,512 | 13,957,109 |
| Total financial liabilities | 51,888,445 | 31,366,886 | 25,429,588 | - | 8,578,888 | 117,263,807 |
| Total interest rate sensitivity gap * | (39,558,654) | 27,380,934 | (19,058,923) | 25,881,982 | 21,208,070 | 15,853,409 |
| Cumulative gap | (39,558,654) | (12,177,720) | (31,236,643) | (5,354,661) | 15,853,409 | - |

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

# Notes to the financial statements (cont'd)

December 31, 2019

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

**b. Market risks (cont'd)**

i. Interest rate risk (cont'd)

| | Society | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | | | |
| | Immediately rate sensitive | Within 3 months | Three to 12 months | Over 12 months | Non-rate sensitive | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Cash and cash equivalents | 897,275 | - | - | - | 5,739,517 | 6,636,792 |
| Jamaica Government securities | - | 1,486,526 | 1,462,135 | 5,954,917 | - | 8,903,578 |
| Investments | 3,526,039 | 2,865,743 | 806,519 | 18,165,470 | 2,540,311 | 27,904,082 |
| Resale agreements | 3,763,152 | 3,886,014 | 919,002 | 3,758,609 | - | 12,326,777 |
| Loans | - | 58,901,250 | - | - | - | 58,901,250 |
| Other assets | - | - | - | - | 14,669,154 | 14,669,154 |
| Total financial assets | 8,186,466 | 67,139,533 | 3,187,656 | 27,878,996 | 22,948,982 | 129,341,633 |
| Savings fund | 48,867,450 | 17,372,469 | 14,714,650 | 9,095,970 | - | 90,050,539 |
| Due to specialised institution | - | 114 | 932 | 4,903,025 | 9,865,306 | 14,769,377 |
| Repurchase agreements | 900,036 | 100,000 | - | - | 1,312 | 1,001,348 |
| Other borrowings | - | - | - | - | 4,181,589 | 4,181,589 |
| Other liabilities | - | - | - | - | 4,232,411 | 4,232,411 |
| Lease liabilities | - | - | 25,231 | 146,534 | - | 171,765 |
| Total financial liabilities | 49,767,486 | 17,472,583 | 14,740,813 | 14,145,529 | 18,280,618 | 114,407,029 |
| Total interest rate sensitivity gap * | (41,581,020) | 49,666,950 | (11,553,157) | 13,733,467 | 4,668,364 | 14,934,604 |
| Cumulative gap | (41,581,020) | 8,085,930 | ( 3,467,227) | 10,266,240 | 14,934,604 | - |

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

# Notes to the financial statements (cont'd)

## December 31, 2019

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

#### b. Market risks (cont'd)

i. Interest rate risk (cont'd)

| | Society | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | | | |
| | Immediately rate sensitive | Within 3 months | Three to 12 months | Over 12 months | Non-rate sensitive | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Cash and cash equivalents | 5,097,372 | - | - | - | 2,465,582 | 7,562,954 |
| Jamaica Government securities | 3,458,723 | 1,861,882 | 1,490,065 | 9,084,538 | - | 15,895,208 |
| Investments | 997,895 | 2,783,099 | 806,519 | 14,727,280 | 3,895,071 | 23,209,864 |
| Resale agreements | 3,776,924 | 2,584,187 | 2,217,201 | - | - | 8,578,312 |
| Loans | - | 48,879,060 | - | - | - | 48,879,060 |
| Other assets | - | - | - | - | 10,194,392 | 10,194,392 |
| Total financial assets | 13,330,914 | 56,108,228 | 4,513,785 | 23,811,818 | 16,555,045 | 114,319,790 |
| Savings fund | 50,888,445 | 8,538,658 | 23,141,906 | - | 263,128 | 82,832,137 |
| Due to specialised institution | - | 13,050,519 | - | - | 125,219 | 13,175,738 |
| Other borrowings | - | 2,476,269 | - | - | - | 2,476,269 |
| Repurchase agreements | 1,000,000 | - | - | - | 1,512 | 1,001,512 |
| Other liabilities | - | - | - | - | 2,225,802 | 2,225,802 |
| Total financial liabilities | 51,888,445 | 24,065,446 | 23,141,906 | - | 2,615,661 | 101,711,458 |
| Total interest rate sensitivity gap * | (38,557,531) | 32,042,782 | (18,628,121) | 23,811,818 | 13,939,384 | 12,608,332 |
| Cumulative gap | (38,557,531) | ( 6,514,749) | (25,142,870) | ( 1,331,052) | 12,608,332 | - |

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

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

### b. Market risks (cont'd)

i. Interest rate risk (cont'd)

*Sensitivity to interest rate movements*

The following table shows the effect on surplus and reserves of a reasonably possible change in interest rates. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant. The analysis is performed on the same basis as for 2018.

| | **Group** | | **Society** | |
|---|---|---|---|---|
| | 2019 | | | |
| | Increase | Decrease | Increase | Decrease |
| Jamaica dollar | 100bps | 100bps | 100bps | 100bps |
| Foreign currencies | 100bps | 100bps | 100bps | 100bps |
| Effect on surplus for the year | ( 33,268) | 30,954 | 52,972 | ( 52,972) |
| Effect on reserves | (1,897,659) | 1,635,405 | (1,282,977) | 1,268,536 |

| | **Group** | | **Society** | |
|---|---|---|---|---|
| | 2018 | | | |
| | Increase | Decrease | Increase | Decrease |
| Jamaica dollar | 100bps | 100bps | 100bps | 100bps |
| Foreign currencies | 100bps | 100bps | 100bps | 100bps |
| Effect on surplus for the year | 10,336 | ( 10,451) | 60,750 | ( 60,750) |
| Effect on reserves | (1,980,205) | 2,250,115 | (1,540,842) | 1,728,155 |

# Notes to the financial statements (cont'd)

## December 31, 2019

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

**b. Market risks (cont'd)**

ii. Foreign currency risk

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

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

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | USD | GBP | CDN | USD | GBP | CDN |
| | '000 | '000 | '000 | '000 | '000 | '000 |
| Foreign currency assets | 297,569 | 70,905 | 8,713 | 268,763 | 66055 | 7,920 |
| Foreign currency liabilities | (290,089) | (68,178) | (9,010) | (259,206) | (66,196) | (8,238) |
| Net foreign currency assets | 7,480 | 2,727 | ( 297) | 9,557 | ( 141) | ( 318) |

| | Society | | | | | |
|---|---|---|---|---|---|---|
| | 2019 | | | 2018 | | |
| | USD | GBP | CDN | USD | GBP | CDN |
| | '000 | '000 | '000 | '000 | '000 | '000 |
| Foreign currency assets | 193,394 | 70,813 | 8,651 | 179,980 | 65,957 | 7,917 |
| Foreign currency liabilities | (189,529) | (68,039) | (8,948) | (171,139) | (66,147) | (8,235) |
| Net foreign currency assets | 3,865 | 2,774 | ( 297) | 8,841 | ( 190) | ( 318) |

# Notes to the financial statements (cont'd)

## December 31, 2019

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

#### b. Market risks (cont'd)

ii. Foreign currency risk (cont'd)

*Sensitivity to foreign exchange rate movements*

The Group uses the average of Bank of Jamaica's buying and selling rates for balances denominated in foreign currencies [see policy 5(o)]; the rates are as follows:

| | 2019 | 2018 |
|---|---|---|
| | J$ | J$ |
| United States dollar | 131.18 | 126.80 |
| Pound Sterling | 169.37 | 160.07 |
| Canadian dollar | 99.48 | 90.15 |

A 4% (2018: 2%) strengthening of the Jamaica dollar against the relevant currencies at the reporting date would have increased/(decreased) surplus by the amounts shown below. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis as for 2018.

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| United States Dollar | (39,252) | (24,235) | (20,280) | (22,422) |
| Pound Sterling | (18,478) | 452 | (18,794) | 608 |
| Canadian Dollar | 1,181 | 573 | 1,182 | 573 |
| | (56,549) | (23,210) | (37,892) | (21,241) |

# Notes to the financial statements (cont'd)

## December 31, 2019

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

**b. Market risks (cont'd)**

ii. Foreign currency risk (cont'd)

*Sensitivity to foreign exchange rate movements* (cont'd)

A 6% (2018: 4%) weakening of the Jamaica dollar against the relevant currencies at the reporting date would have (decreased)/increased surplus by the amounts shown. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis as for 2018.

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| United States Dollar | 58,878 | 48,471 | 30,420 | 44,843 |
| Pound Sterling | 27,717 | (903) | 28,190 | ( 1,217) |
| Canadian Dollar | ( 1,772) | ( 1,146) | ( 1,773) | ( 1,147) |
| | 84,823 | 46,422 | 56,837 | 42,479 |

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% (2018: 10%) in share prices as at the reporting date would result in an increase or an equal decrease, respectively, in profit or loss of $281,761,600 (2018: $32,635,600) for the Group and $240,592,500 (2018: $12,262,900) 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. Liquidty risk**

Liquidity risk is the risk that the Group is unable to raise cash to settle its financial obligations as they fall due or to meet its lending obligations to maintain public and stakeholder confidence. Liquidity risk could result from the Group's inability to manage unplanned decreases or changes in funding sources and the failure to recognise or address changes in market conditions that affect the Group's ability to liquidate assets quickly and with minimal loss in value. Prudent liquidity risk management requires the Group to maintain sufficient cash and high quality marketable securities, monitor future cash flows and liquidity on a daily basis and have funding available through an adequate amount of committed facilities.

# Notes to the financial statements (cont'd)

## December 31, 2019

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

#### c. Liquidity risk (cont'd)

The management of the Group establishes and implements procedures to ensure that the Group maintains sufficient liquidity, including a buffer of unencumbered, high quality liquid assets, to meet liabilities that fall due in the short term; to meet any demands for funds by its members and creditors and to withstand a range of stress events, including those involving loss or impairment of both secured and unsecured funding sources.

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

The Society is subject to externally imposed liquidity ratios. These ratios are taken into account by management in its measurement and management of liquidity risk.

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

| | Ratio of net liquid assets to deposits from customers | |
|---|---|---|
| | 2019 | 2018 |
| Regulator's minimum required ratio | 5.00% | 5.00% |

| | Ratio of net liquid assets to deposits from customers | |
|---|---|---|
| | 2019 | 2018 |
| Actual ratios: | | |
| As at December 31 | 5.03% | 9.95% |
| Average for the year | 8.55% | 10.42% |
| Highest % attained for the year | 12.40% | 12.17% |
| Lowest % attained for the year | 5.03% | 8.54% |

# Notes to the financial statements (cont'd)

## December 31, 2019

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

**c. Liquidity risk (cont'd)**

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

| | Ninety-day liquidity gap ratio | |
|---|---|---|
| | 2019 | 2018 |
| Regulator's minimum required ratio | 25.00% | 25.00% |
| Actual ratio | 56.96% | 58.26% |

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 | One to 3 months | Three to 12 months | One to 5 years | Over 5 years | Contractual cash flows | Carrying amount |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| | | | | 2019 | | | |
| Due to savers | 48,958,655 | 17,646,086 | 15,535,502 | 13,534,650 | - | 95,674,893 | 89,378,675 |
| Due to specialised institution | 9,775,979 | 115 | 952 | 389,434 | 4,959,846 | 15,126,326 | 14,769,377 |
| Other liabilities | 1,963,951 | 1,465,993 | 123,082 | - | - | 3,553,026 | 3,763,008 |
| Lease liabilities | - | 12,354 | 37,334 | 146,627 | 195,397 | 391,712 | 278,986 |
| Repurchase agreements | 905,348 | 7,741,026 | 9,465,626 | - | - | 18,112,000 | 14,918,643 |
| Other borrowings | 21,662 | - | - | 4,159,928 | - | 4,181,590 | 6,592,214 |
| | | | | 2018 | | | |
| Due to savers | 43,792,612 | 15,058,674 | 17,674,868 | 12,432,557 | - | 88,958,711 | 81,941,931 |
| Due to specialised institution | 7,887,538 | 155 | 1,089 | 512,786 | 5,282,108 | 13,683,676 | 13,175,738 |
| Other liabilities | 2,501,003 | - | - | - | - | 2,501,003 | 2,576,826 |
| Repurchase agreements | 1,001,525 | 9,777,709 | 3,337,095 | - | - | 14,116,329 | 13,957,109 |
| Other borrowings | - | 25,691 | 173,101 | 4,129,566 | - | 4,328,358 | 3,876,594 |

# Notes to the financial statements (cont'd)

December 31, 2019

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

c. **Liquidity risk (cont'd)**

iii. Maturity profile (cont'd)

| | Society | | | | | | |
|---|---|---|---|---|---|---|---|
| | Within One month | One to 3 months | Three to 12 months | One to 5 years | Over 5 years | Contractual cash flows | Carrying amount |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| | | | | 2019 | | | |
| Due to savers | 48,958,655 | 17,646,086 | 15,535,502 | 13,534,650 | - | 95,674,893 | 90,050,539 |
| Due to specialised instittions | 9,775,979 | 115 | 952 | 389,434 | 4,959,846 | 15,126,326 | 14,769,377 |
| Other liabilities | 2,208,453 | - | - | - | - | 2,208,453 | 2,208,453 |
| Lease liabilities | - | 8,342 | 24,154 | 134,361 | 75,701 | 242,558 | 171,765 |
| Repurchase agreements | 905,348 | 96,000 | - | - | - | 1,001,348 | 1,001,348 |
| | | | | 2018 | | | |
| Due to savers | 43,792,611 | 15,948,880 | 17,674,868 | 12,432,557 | - | 89,848,916 | 82,832,137 |
| Due to specialised instittions | 7,987,623 | 153 | 1,089 | 512,786 | 5,282,108 | 13,783,759 | 13,175,738 |
| Other liabilities | 655,081 | - | - | - | - | 655,081 | 655,093 |
| Repurchase agreements | 1,001,512 | - | - | - | - | 1,001,512 | 1,001,512 |
| Other borrowings | - | - | - | 2,476,269 | - | 2,476,269 | 2,476,269 |

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.

# Notes to the financial statements (cont'd)

December 31, 2019

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

d. **Operational risk (cont'd)**

The primary responsibility for the development and implementation of controls to identify operational risk is assigned to the Executive ERM Committee with oversight given by the Group Finance and Risk Management Committee. This responsibility is supported by overall Group standards for the management of operational risk to minimise exposure to key operational risk areas, including new products and marketing initiatives, continuity of critical services and processes, talent retention and development, information security and internal and external fraud. Where these risks arise, the Group will consider the impact to its reputation and take measures to mitigate the risk, within the context of its relevant risk appetite.

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

7. **CAPITAL MANAGEMENT**

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

- To comply with the capital requirements set by the regulators;
- To safeguard the Society's and its subsidiaries' ability to continue as going concerns, so that the Group 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% (2018: 10%) of their risk weighted assets in capital.

| | Society | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| Regulatory capital (note 30) | 18,255,368 | 16,097,122 |
| Qualifying capital | 15,210,198 | 14,104,190 |
| On balance sheet risk weighted assets | 75,061,961 | 62,042,255 |
| Off balance sheet risk weighted assets - loan commitments | 5,036,478 | 1,468,359 |
| Foreign exchange exposure | 1,700,686 | 1,126,339 |
| Total risk assessed assets | 81,799,125 | 64,636,953 |
| Risk based capital adequacy ratio | 18.59% | 21.82% |
| Regulatory requirement | 10.00% | 10.00% |

## 7. CAPITAL MANAGEMENT (CONT'D)

### b. Victoria Mutual Wealth Management Limited

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

| | 2019 | 2018 |
|---|---|---|
| | $'000 | $'000 |
| Tier 1 Capital | 2,043,132 | 1,771,632 |
| Tier 2 Capital | 55,734 | 52,334 |
| Total regulatory capital | 2,098,866 | 1,823,966 |
| Risk weighted assets: | 11,889,297 | 10,544,598 |
| Per statement of financial position | 351 | 53 |
| Foreign exchange exposure | 11,889,648 | 10,544,651 |
| Operational risk-weighted assets | 281,831 | 273,419 |
| | 12,171,479 | 10,818,070 |

| Capital ratios | Minimum required | | Actual | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Total regulatory qualifying capital | | | | |
| Total risk weighted assets | 10.00% | 10.00% | 17.24% | 16.86% |
| Tier 1 Capital / Total regulatory capital | 50.00% | 50.00% | 97.34% | 97.13% |
| Capital base / Total assets | 6.00% | 6.00% | 16.18% | 10.65% |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 7. CAPITAL MANAGEMENT (CONT'D)

#### c. Victoria Mutual Pensions Management Limited

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

| | 2019 | 2018 |
|---|---|---|
| | $'000 | $'000 |
| Tier 1 Capital | 201,668 | 173,002 |
| Risk-weighted assets: | | |
| Operating assets | 254,777 | 209,999 |
| Per statement of financial position | 204,906 | 219,653 |
| Foreign exchange exposure | 42,349 | 32,659 |
| | 502,032 | 462,311 |

| Capital adequacy ratios: | Minimum required | | Actual | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Total regulatory capital/risk- weighted assets | 10.00% | 10.00% | 40.17% | 37.42% |
| Tier 1 Capital/Total regulatory capital | 50.00% | 50.00% | 100.00% | 100.00% |
| Actual capital base/total assets | 6.00% | 6.00% | 68.62% | 66.91% |

### 8. CASH AND CASH EQUIVALENTS

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Cash in hand and at banks and other financial institutions | 6,535,121 | 4,855,618 | 4,905,184 | 4,715,636 |
| Statutory reserves held at Bank of Jamaica | 833,290 | 782,068 | 833,290 | 782,068 |
| Term deposits at banks | 898,318 | 2,065,250 | 898,318 | 2,065,250 |
| | 8,266,729 | 7,702,936 | 6,636,792 | 7,562,954 |

## 8. CASH AND CASH EQUIVALENTS (CONT'D)

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 cash reserve amounts are determined as a percentage of specified liabilities stipulated by Bank of Jamaica. For the cash reserve rate to remain at no more than one per cent of specified liabilities, as defined, the Society must have qualifying assets of 40% (2018: 40%) of specified liabilities.

## 9. INVESTMENTS - JAMAICA GOVERNMENT SECURITIES

These comprise:

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| **FVOCI** | | | | |
| Securities denominated in United States dollars: | | | | |
| Bonds | 5,600,006 | 8,665,280 | 506,755 | 3,803,764 |
| Securities denominated in Jamaica dollars: | | | | |
| Bonds | 13,779,922 | 8,514,856 | 7,289,853 | 8,514,856 |
| Certificates of deposit | - | 7,488,727 | - | 2,377,447 |
| Treasury bills | - | 906,080 | - | 906,080 |
| | 13,779,922 | 16,909,663 | 7,289,853 | 11,798,383 |
| **Amortised cost** | | | | |
| Securities denominated in United States dollars: | | | | |
| Bonds | 1,134,680 | 96,824 | 1,134,680 | 96,824 |
| Securities denominated in Jamaica dollars: | | | | |
| Bonds | - | 497,559 | - | 497,559 |
| Less: Allowance for impairment on amoritised cost | ( 27,710) | ( 301,322) | ( 27,710) | ( 301,322) |
| | ( 27,710) | 196,237 | ( 27,710) | 196,237 |
| | 20,486,898 | 25,868,004 | 8,903,578 | 15,895,208 |

# Notes to the financial statements (cont'd)

December 31, 2019

**9. INVESTMENTS - JAMAICA GOVERNMENT SECURITIES (CONT'D)**

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

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Within 3 months | 1,462,135 | 906,080 | 1,462,135 | 906,080 |
| From 3 months to 1 year | 2,527,846 | 2,121,152 | 590,296 | 2,051,150 |
| From 1 year to 5 years | 7,446,756 | 8,943,891 | 4,139,052 | 5,191,679 |
| Thereafter | 9,050,161 | 13,896,881 | 2,712,095 | 7,746,299 |
| | 20,486,898 | 25,868,004 | 8,903,578 | 15,895,208 |

Certain Government of Jamaica securities are pledged by the Group as collateral for repurchase agreements (note 24).

# Notes to the financial statements (cont'd)

## December 31, 2019

### 10. INVESTMENTS - OTHER

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| **FVTPL** | | | | |
| Quoted equities | 2,817,616 | 326,356 | 2,405,925 | 122,629 |
| Preference shares | 58,998 | - | - | - |
| Units in unit trust funds | 5,097,560 | 3,808,084 | 4,698,283 | 3,772,402 |
| | 7,974,174 | 4,134,440 | 7,104,208 | 3,895,031 |
| **Amortised cost** | | | | |
| Bonds | 7,496,877 | 6,304,422 | 6,674,512 | 5,862,979 |
| Preference shares | - | 860,070 | - | 860,070 |
| Ordinary shares - quoted | - | 10,468 | - | - |
| Ordinary shares - unquoted | 3,935 | 3,733 | - | - |
| Treasury bills | 5,814,236 | 3,411,195 | 5,814,236 | 3,411,195 |
| | 13,315,048 | 10,589,888 | 12,488,748 | 10,134,244 |
| **FVOCI** | | | | |
| Bonds | 10,393,412 | 11,262,255 | 8,311,087 | 9,180,550 |
| Ordinary shares - quoted | 1,421,370 | 535,500 | - | - |
| Ordinary shares - unquoted | 3,533 | 3,439 | 39 | 39 |
| | 11,818,315 | 11,801,194 | 8,311,126 | 9,180,589 |
| Net investment in finance leases | 30,688 | 108,371 | - | - |
| | 33,138,225 | 26,633,893 | 27,904,082 | 23,209,864 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 10. INVESTMENTS - OTHER (CONT'D)

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

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Immediately | 2,298,765 | 597,474 | - | - |
| Within 3 months | - | 3,660,083 | - | 3,409,952 |
| From 3 months to 1 year | 7,646,462 | 1,530,134 | 7,104,208 | 1,030,112 |
| From 1 year to 5 years | 2,780,145 | 6,531,075 | 1,729,555 | 5,619,628 |
| Thereafter/no maturity | 20,412,853 | 14,315,127 | 19,070,319 | 13,150,172 |
| | 33,138,225 | 26,633,893 | 27,904,082 | 23,209,864 |

### 11. RESALE AGREEMENTS

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

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Denominated in Jamaica dollars | 7,496,764 | 9,020,174 | 4,356,045 | 5,760,174 |
| Denominated in Sterling | 1,130,569 | 1,064,316 | 1,130,569 | 1,064,316 |
| Denominated in United States dollars | 4,627,170 | 211,979 | 6,840,683 | 1,754,178 |
| Less allowance for impairment | ( 644) | ( 400) | ( 520) | ( 356) |
| | 13,253,859 | 10,296,069 | 12,326,777 | 8,578,312 |

The securities obtained as collateral under resale agreements, may themselves be sold under repurchase agreements (see note 24). At December 31, 2019, such securities had a fair value of $15,016,253,000 (2018: $14,236,374,000) and $13,636,105,000 (2018: $12,436,572,000) for the Group and the Society, respectively.

# Notes to the financial statements (cont'd)

December 31, 2019

## 12. LOANS

a. Composition of loans

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Conventional mortgage loans | 55,555,296 | 46,887,715 | 54,427,857 | 46,793,115 |
| Mortgage escrow (see below) | 357,750 | 399,124 | 357,750 | 399,124 |
| Total conventional mortgage loans | 55,913,046 | 47,286,839 | 54,785,607 | 47,192,239 |
| Share loans | 1,207,732 | 1,155,179 | 1,207,732 | 1,155,179 |
| Consumer loans | 2,737,582 | 694,190 | 2,737,582 | 694,190 |
| Specialised loans | 2,006,522 | - | - | - |
| Staff loans | 371,012 | 322,134 | 371,012 | 322,134 |
| Total gross carrying value of loans | 62,235,894 | 49,458,342 | 59,101,933 | 49,363,742 |
| Less: allowance for impairment | ( 200,683) | ( 484,682) | ( 200,683) | ( 484,682) |
| Total loans, net | 62,035,211 | 48,973,660 | 58,901,250 | 48,879,060 |

Mortgage escrow represents insurance premiums paid by the Society on behalf of mortgagors. These amounts are recoverable over one year and are collected as part of monthly mortgage instalments.

b. Allowance for impairment

| | Group and Society | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| Balances at the beginning of the year | 484,682 | 184,280 |
| Adjustment on initial application of IFRS 9 | - | 356,158 |
| Net remeasurement of allowance for ECL | ( 283,999) | ( 55,756) |
| Balances at the end of the year [see (c) below] | 200,683 | 484,682 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 12. LOANS (CONT'D)

c. Credit facility reserve

| | Group and Society | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| Regulatory loan loss provision | 1,515,422 | 1,506,066 |
| Less: Impairment allowance based on IFRS 9 [see (b) above] | ( 200,683) | ( 484,682) |
| Credit facility reserve at end of year | 1,314,739 | 1,021,384 |

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

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Within three months | 3,147,195 | 1,403,680 | 3,147,195 | 1,403,680 |
| 3 months to 1 year | 100,158 | 388,368 | 100,158 | 388,368 |
| From 1 year to 5 years | 5,076,938 | 3,180,115 | 3,949,499 | 3,180,115 |
| Thereafter | 53,710,920 | 44,001,497 | 51,704,398 | 43,906,897 |
| | 62,035,211 | 48,973,660 | 58,901,250 | 48,879,060 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 13. OTHER ASSETS

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Interest receivable | 859,900 | 990,917 | 669,913 | 809,342 |
| Rent receivable | 141,165 | 115,185 | 141,165 | 115,185 |
| Withholding tax recoverable | 944,482 | 866,667 | 860,399 | 854,468 |
| Late fees | 51,469 | 68,321 | 51,469 | 68,321 |
| Margin loans receivable | 1,876,637 | 1,314,837 | - | - |
| Customers' receivable | 32,609 | 1,019,133 | - | - |
| Sundry receivables and prepayments | 977,947 | 964,311 | 737,002 | 488,590 |
| | 4,884,209 | 5,339,371 | 2,459,948 | 2,335,906 |

### 14. DEFERRED TAX ASSETS AND LIABILITIES

a. Deferred tax assets

Deferred tax assets are attributable to the following:

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2017 | Recognised in income | Recognised in OCI | 2018 | Recognised in income | Recognised in OCI | 2019 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Investments | 65,131 | 66,704 | 56,514 | 188,349 | (187,349) | - | 1,000 |
| Other receivables | (45,319) | 5,018 | - | ( 40,301) | 39,418 | - | ( 883) |
| Property, plant and equipment | 3,944 | 8,444 | - | 12,388 | ( 8,093) | - | 4,295 |
| Other liabilities | 34,166 | ( 9,248) | - | 24,918 | ( 26,138) | - | (1,220) |
| Employee benefits obligation | 21,899 | 1,841 | ( 7,158) | 16,582 | ( 11,532) | (650) | 4,400 |
| Unrealised foreign exchange loss | 5,204 | ( 5,628) | - | (424) | 516 | - | 92 |
| Provision for vacation leave | 436 | ( 36) | - | 400 | ( 400) | - | - |
| Unused tax loss | - | 10,783 | - | 10,783 | ( 10,783) | - | - |
| | 85,461 | 77,878 | 49,356 | 212,695 | (204,361) | ( 650) | 7,684 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 14. DEFERRED TAX ASSETS AND LIABILITIES (CONT'D)

a. Deferred tax assets (cont'd)

Deferred tax assets of approximately $5,379,000 (2018: $6,457,000) have not been recognised in respect of tax losses of certain subsidiaries [note 38(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 | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2017 | Recognised in income | Recognised in OCI | 2018 | Recognised in income | Recognised in OCI | 2019 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| | | Restated* | | Restated* | | | |
| Other receivables | ( 176) | 108 | - | ( 68) | 9,571 | - | 9,503 |
| Employee benefits asset | (684,393) | 240 | (14,220) | (698,373) | ( 13,080) | (95,100) | (806,553) |
| Property, plant and equipment | 82,948 | (66,764) | - | 16,184 | 39,572 | 322 | 56,078 |
| Employee benefits obligation | 303,026 | 40,094 | (74,030) | 269,090 | 34,453 | 22,775 | 326,318 |
| Unrealised gains on units in unit trust | - | (263,297) | - | (263,297) | (277,764) | - | (541,061) |
| Investment securities | - | - | - | - | 144,413 | (176,045) | ( 31,632) |
| | (298,595) | (289,619) | (88,250) | (676,464) | ( 62,835) | (248,048) | (987,347) |

* See note 42.

# Notes to the financial statements (cont'd)

December 31, 2019

## 14. DEFERRED TAX ASSETS AND LIABILITIES (CONT'D)

b. Deferred tax liabilities (cont'd)

| | Society | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2017 | Recognised in income | Recognised in OCI | 2018 | Recognised in income | Recognised in OCI | 2019 |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| | | Restated* | | Restated* | | | |
| Employee benefits asset | (684,393) | 240 | (14,220) | (698,373) | ( 13,080) | (95,100) | (806,553) |
| Property, plant and equipment | 82,948 | ( 63,877) | - | 19,071 | 31,614 | - | 50,685 |
| Employee benefits obligation | 303,026 | 39,214 | (73,050) | 269,190 | 20,520 | 24,630 | 314,340 |
| Other receivables | - | - | - | - | 6,431 | - | 6,431 |
| Unrealised gains on units in unit trust | - | (263,297) | - | (263,297) | (277,764) | - | (541,061) |
| | (298,419) | (287,720) | (87,270) | (673,409) | (232,279) | (70,470) | (976,158) |

* See note 42.

## 15. EMPLOYEE BENEFITS ASSET / OBLIGATION

The Group operates a defined-benefit plan, under which retirement benefits are calculated by reference to, *inter alia*, final salary. The plan is subject to a triennial actuarial funding valuation, the most recent performed as at December 31, 2016. For purposes of determining the employee benefit asset or obligation included in the financial statements at the end of the period and the costs for the period, an IAS 19 actuarial valuation is done each year. The Group also provides post-employment medical benefits to retirees.

The amounts in the statement of financial position in respect of the defined-benefit pension plans and post-employment medical benefits are as follows:

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Employee benefits asset (i) | 2,688,511 | 2,327,900 | 2,688,511 | 2,327,900 |
| Post-employment medical benefit obligation (ii) | 1,101,400 | 950,400 | 1,047,800 | 897,300 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 15. EMPLOYEE BENEFITS ASSET / OBLIGATION (CONT'D)

i. Employee benefits asset

a. Amount recognised in the statement of financial position

| | Group and Society | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| Present value of funded obligations | (5,170,500) | (4,280,800) |
| Fair value of plan assets | 9,077,400 | 7,775,000 |
| Unrecognised amount due to limitation | (1,218,389) | (1,166,300) |
| | 2,688,511 | 2,327,900 |

b. Movements in the present value of defined benefit obligations

| | Group and Society | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| Balance at beginning of year | 4,280,800 | 4,775,100 |
| Benefits paid | ( 186,900) | ( 238,900) |
| Voluntary contributions | 58,900 | 52,400 |
| Transfer in | 14,100 | 3,800 |
| Service cost | 186,600 | 249,600 |
| Interest cost | 308,100 | 388,900 |
| Gain on curtailment | ( 16,700) | ( 124,100) |
| Remeasurement loss/(gain) arising from: | | |
| Experience adjustments | - | 18,600 |
| Financial assumptions | 525,600 | ( 844,600) |
| Balance at end of year | 5,170,500 | 4,280,800 |

# Notes to the financial statements (cont'd)

December 31, 2019

**15. EMPLOYEE BENEFITS ASSET / OBLIGATION (CONT'D)**

i. Employee benefits asset (cont'd)

| | Group and Society | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| c. Movement in plan assets | | |
| Fair value of plan assets at beginning of year | 7,775,000 | 6,952,000 |
| Contributions paid into the plan | 134,200 | 129,800 |
| Benefits paid by the plan | ( 187,200) | ( 246,000) |
| Net interest income on plan assets | 542,400 | 551,500 |
| Remeasurement gain on assets included in other comprehensive income | 813,000 | 387,700 |
| Fair value of plan assets at end of year | 9,077,400 | 7,775,000 |
| Plan assets consist of the following: | | |
| Equity securities | 4,612,200 | 3,785,300 |
| Government securities | 2,495,600 | 2,426,500 |
| Real estate fund | 1,733,800 | 1,463,200 |
| Other assets | 235,800 | 100,000 |
| | 9,077,400 | 7,775,000 |
| d. Credit recognised in the income statement, net | | |
| Service costs | 117,100 | 179,200 |
| Interest on obligation | 322,600 | 399,800 |
| Past service cost | 1,011 | - |
| Interest on effect of asset ceiling | 81,589 | - |
| Gain on curtailment | ( 16,700) | ( 124,100) |
| Net interest income on plan assets | ( 542,400) | ( 551,500) |
| | ( 36,800) | ( 96,600) |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 15. EMPLOYEE BENEFITS ASSET / OBLIGATION (CONT'D)

i. Employee benefits asset (cont'd)

e. Credit recognised in other comprehensive income, net

| | Group and Society | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| Remeasurement loss/(gain) on obligations | 525,600 | ( 826,000) |
| Remeasurement gain on assets | ( 813,000) | ( 387,700) |
| Change in effect of asset ceiling | ( 29,500) | 1,166,300 |
| | ( 316,900) | ( 47,400) |

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

| | Group and Society | |
|---|---|---|
| | 2019 | 2018 |
| | % | % |
| Discount rate at December 31 | 7.5 | 7.0 |
| Future salary increases | 5.0 | 4.0 |
| Future pension increases | 3.5 | 2.5 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 15. EMPLOYEE BENEFITS ASSET / OBLIGATION (CONT'D)

i. Employee benefits asset (cont'd)

g. Sensitivity analysis

A one-half percentage (2018: one-half 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 | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| Financial assumptions | 0.5% point increase | 0.5% point decrease | 0.5% point increase | 0.5% point decrease |
| | $'000 | $'000 | $'000 | $'000 |
| Discount rate | (4,894,400) | 5,739,600 | (4,056,300) | 4,724,800 |
| Rate of salary escalation | 5,459,100 | (5,126,600) | 4,501,800 | (4,244,600) |
| Future rate of pension | 5,546,300 | (5,050,200) | 4,572,400 | (4,180,000) |

| | Society | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | 0.5% point increase | 0.5% point decrease | 0.5% point increase | 0.5% point decrease |
| | $'000 | $'000 | $'000 | $'000 |
| Discount rate | (4,427,700) | 5,190,000 | (3,741,900) | 4,356,100 |
| Rate of salary escalation | 4,933,400 | (4,640,800) | 4,148,200 | (3,918,200) |
| Future rate of pension | 5,018,600 | (4,565,600) | 4,218,700 | (3,853,500) |

h. The Group expects to pay $6,001,000 in contributions to the defined-benefit plan in 2020.

# Notes to the financial statements (cont'd)

## December 31, 2019

### 15. EMPLOYEE BENEFITS ASSET / OBLIGATION (CONT'D)

ii. Other post-employment benefits

The employee benefits obligation represents the present value of the constructive obligation to provide medical and other benefits to retirees.

a. Movement in present value of defined benefit obligation

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Present value of obligation at the start of the year | 950,400 | 1,276,800 | 897,300 | 1,206,500 |
| Interest cost | 67,900 | 100,000 | 64,000 | 94,100 |
| Past service cost/(income) | 1,300 | ( 75,500) | - | ( 72,500) |
| Current service cost | 28,300 | 50,100 | 28,300 | 46,700 |
| Benefits paid | ( 20,100) | ( 16,700) | ( 18,100) | ( 16,500) |
| Gain on curtailment | ( 5,800) | ( 117,500) | ( 5,800) | ( 117,500) |
| Remeasurement gain arising from: | | | | |
| Experience adjustments | - | ( 58,900) | - | ( 58,900) |
| Financial assumptions | 79,400 | ( 207,900) | 82,100 | ( 184,600) |
| | 1,101,400 | 950,400 | 1,047,800 | 897,300 |

b. Charge / (credit) recognised in the income statement

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Gain on curtailment | ( 5,800) | - | ( 5,800) | ( 117,500) |
| Interest cost | 67,900 | 91,200 | 64,000 | 94,100 |
| Past service income | 1,300 | ( 3,000) | - | ( 72,500) |
| Current service cost | 28,300 | 45,500 | 28,300 | 46,700 |
| Benefits paid | ( 200) | ( 200) | - | - |
| | 91,500 | 133,500 | 86,500 | ( 49,200) |

# Notes to the financial statements (cont'd)

December 31, 2019

**15. EMPLOYEE BENEFITS ASSET / OBLIGATION (CONT'D)**

ii. Other post-employment benefits

c. Items in other comprehensive income

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Remeasurement loss/(gain) on obligation | 79,400 | ( 266,800) | 82,100 | ( 243,500) |

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

| | Group and Society | |
|---|---|---|
| | 2019 | 2018 |
| | % | % |
| Financial assumptions: | | |
| Discount rate | 7.5 | 7.0 |
| Medical claims growth | 6.0 | 5.0 |

Statistical assumptions:

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining life expectancy of an individual retiring at age 65 is 21 years for males and 26 years for females.

# Notes to the financial statements (cont'd)

December 31, 2019

**15. EMPLOYEE BENEFITS ASSET / OBLIGATION (CONT'D)**

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

e. Sensitivity to changes in financial assumptions

A one-half percentage (2018: one-half 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 | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | 0.5% point increase | 0.5% point decrease | 0.5% point increase | 0.5% point decrease |
| | $'000 | $'000 | $'000 | $'000 |
| Medical cost trend rate and rate of salary escalation | 1,095,800 | ( 892,900) | 956,000 | ( 782,900) |
| Discount rate | ( 892,900) | 1,095,800 | ( 782,900) | 956,000 |

| | Society | | | |
|---|---|---|---|---|
| | 2019 | | 2018 | |
| | 0.5% point increase | 0.5% point decrease | 0.5% point increase | 0.5% point decrease |
| | $'000 | $'000 | $'000 | $'000 |
| Medical cost trend rate and rate of salary escalation | 1,033,800 | ( 843,000) | 896,600 | (735,300) |
| Discount rate | ( 843,000) | 1,033,800 | (735,300) | 896,600 |

# Notes to the financial statements (cont'd)

December 31, 2019

## 16. INTEREST IN SUBSIDIARIES

| | Society | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| Shares, at cost [see note 1(b)] | 811,888 | 811,888 |
| Current accounts | 201,316 | 148,839 |
| Loans and advances | 3,318,108 | 309,693 |
| | 4,331,312 | 1,270,420 |

## 17. INTEREST IN ASSOCIATES

a. The carrying amount of interest in associated companies represents the cost of shares acquired and the Group's share of post-acquisition reserves in British Caribbean Insurance Company Limited (BCIC) and Carilend Caribbean Holdings Limited, as follows:

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Shares, at cost | 749,966 | 659,200 | 659,200 | 659,200 |
| Share of post-acquisition profits | 598,604 | 413,472 | - | - |
| Share of investment revaluation reserve | 91,298 | 61,783 | - | - |
| | 1,439,868 | 1,134,455 | 659,200 | 659,200 |

b. Group's share of profit/(loss) is broken out as follows:

| | 2019 | 2018 |
|---|---|---|
| | $'000 | $'000 |
| British Caribbean Insurance Company Limited | 225,835 | 87,840 |
| Carilend Caribbean Holdings Limited | ( 15,337) | - |
| | 210,498 | 87,840 |

# Notes to the financial statements (cont'd)

December 31, 2019

## 17. INTEREST IN ASSOCIATES (CONT'D)

c. The following table summarises the financial information of BCIC showing fair value adjustments on acquisition and differences in accounting policies. The table also reconciles the summarised financial information to the carrying amount of the Group's interest in this associate. The interest in Carilend is not considered material for similar disclosure.

| | 2019 | 2018 |
|---|---|---|
| | $'000 | $'000 |
| **Percentage ownership interest** | **31.5%** | **31.5%** |
| Assets | 15,541,958 | 12,878,761 |
| Liabilities | (11,398,494) | ( 9,592,784) |
| Net assets (100%) | 4,143,464 | 3,285,977 |
| Group's share of net assets | 1,305,191 | 1,035,083 |
| Fair value adjustments and elimination of differences in accounting policies and intra-group transactions | 43,916 | 99,372 |
| Carrying amount of interest in BCIC | 1,349,107 | 1,134,455 |
| Revenue | 12,568,888 | 9,920,968 |
| Profit for the year | 716,936 | 237,828 |
| Other comprehensive income, net of tax | 237,652 | 51,592 |
| Total comprehensive income | 954,588 | 289,420 |
| Group's share of profit for year | 225,835 | 74,916 |
| Impact of IFRS 9 on share of profit | - | 12,924 |
| | 225,835 | 87,840 |
| Group's share of total comprehensive income | 74,860 | 94,531 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 18. INTANGIBLE ASSETS

| | Group | | | | Society | | |
|---|---|---|---|---|---|---|---|
| | Goodwill | Computer software | Work in progress | Total | Computer software | Work in progress | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost** | | | | | | | |
| December 31, 2017 | 609,215 | 982,242 | 1,222,828 | 2,814,285 | 756,028 | 1,156,536 | 1,912,564 |
| Additions | - | 148,385 | 389,388 | 537,773 | - | 389,388 | 389,388 |
| Transfers (see note 20) | - | 822,337 | ( 747,602) | 74,735 | 747,602 | ( 747,602) | - |
| December 31, 2018 | 609,215 | 1,952,964 | 864,614 | 3,426,793 | 1,503,630 | 798,322 | 2,301,952 |
| Additions | - | 74,426 | 594,771 | 669,197 | 67,962 | 594,771 | 662,733 |
| Transfers | - | 261,592 | ( 261,592) | - | 261,592 | ( 261,592) | - |
| December 31, 2019 | 609,215 | 2,288,982 | 1,197,793 | 4,095,990 | 1,833,184 | 1,131,501 | 2,964,685 |
| **Amortisation** | | | | | | | |
| December 31, 2017 | - | 461,937 | - | 461,937 | 405,452 | - | 405,452 |
| Charge for year | - | 170,619 | - | 170,619 | 140,481 | - | 140,481 |
| December 31, 2018 | - | 632,556 | - | 632,556 | 545,933 | - | 545,933 |
| Charge for year | - | 287,714 | - | 287,714 | 220,346 | - | 220,346 |
| December 31, 2019 | - | 920,270 | - | 920,270 | 766,279 | - | 766,279 |
| **Carrying value** | | | | | | | |
| December 31, 2019 | 609,215 | 1,368,712 | 1,197,793 | 3,175,720 | 1,066,905 | 1,131,501 | 2,198,406 |
| December 31, 2018 | 609,215 | 1,320,409 | 864,613 | 2,794,237 | 957,697 | 798,322 | 1,756,019 |
| December 31, 2017 | 609,215 | 520,305 | 1,222,828 | 2,352,348 | 350,576 | 1,156,536 | 1,507,112 |

## 18. INTANGIBLE ASSETS (CONT'D)

Goodwill comprises the excess of cost over fair value of the net assets of Victoria Mutual Pensions Management Limited *(formerly Prime Asset Management Limited)* acquired in 2013. In testing goodwill for impairment, the recoverable amount of the cash-generating unit is estimated based on value-in-use. Where the recoverable amount exceeds the carrying amount, no impairment allowance is made. The recoverable amount of the cash-generating unit is arrived at by estimating the future cash flows and discounting those cash flows using long-term discount rates applicable to Jamaica. Future sustainable cash flows are estimated based on the most recent projections, after taking account of past experience. The cash flow projections include specific estimates for each of the five years following the reporting date, and a terminal value thereafter. These annual estimates and the terminal value are calculated using an assumed growth rate.

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

| | 2019 | 2018 |
|---|---|---|
| Discount rate | 25.00% | 24.60% |
| Growth rate | 18.50% | 18.50% |
| Jamaica dollar inflation rate | 3% | 3% |

# Notes to the financial statements (cont'd)

December 31, 2019

**19. INVESTMENT AND FORECLOSED PROPERTIES**

| | Group | | | Society | | |
|---|---|---|---|---|---|---|
| | Investment properties | Foreclosed properties | Total | Investment properties | Foreclosed properties | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost** | | | | | | |
| December 31, 2017 | 444,178 | 120,742 | 564,920 | 444,178 | 238,062 | 682,240 |
| Disposals | (309,797) | ( 14,163) | (323,960) | (309,797) | ( 14,163) | (323,960) |
| December 31, 2018 | 134,381 | 106,579 | 240,960 | 134,381 | 223,899 | 358,280 |
| Additions | - | 106,335 | 106,335 | - | 106,335 | 106,335 |
| December 31, 2019 | 134,381 | 212,914 | 347,295 | 134,381 | 330,234 | 464,615 |
| **Depreciation** | | | | | | |
| December 31, 2017 | 95,650 | 31,648 | 127,298 | 95,651 | 31,648 | 127,299 |
| Charge for the year | 5,859 | 5,021 | 10,880 | 5,859 | 5,021 | 10,880 |
| Eliminated on disposals | ( 64,384) | ( 1,293) | ( 65,677) | ( 64,384) | ( 1,293) | ( 65,677) |
| December 31, 2018 | 37,125 | 35,376 | 72,501 | 37,126 | 35,376 | 72,502 |
| Charge for the year | 2,282 | 6,767 | 9,049 | 2,282 | 6,766 | 9,048 |
| December 31, 2019 | 39,407 | 42,143 | 81,550 | 39,408 | 42,142 | 81,550 |
| **Net book values** | | | | | | |
| December 31, 2019 | 94,974 | 170,771 | 265,745 | 94,973 | 288,092 | 383,065 |
| December 31, 2018 | 97,256 | 71,203 | 168,459 | 97,255 | 188,523 | 285,778 |
| December 31, 2017 | 348,528 | 89,094 | 437,622 | 348,527 | 206,414 | 554,941 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 19. INVESTMENT AND FORECLOSED PROPERTIES (CONT'D)

The fair values of properties were determined, in the case of properties acquired by way of foreclosure, by several different VMBS-approved qualified independent property valuers, having appropriate recognised professional qualifications and recent experience in the locations and categories of the property being valued, and, in the case of investment properties, by management. 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 | | | | |
|---|---|---|---|---|---|
| | 2017 | Disposals | 2018 | Additions | 2019 |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Investment properties | 2,087,000 | (710,000) | 1,377,000 | - | 1,377,000 |
| Foreclosed properties | 662,927 | ( 15,600) | 647,327 | 106,335 | 753,662 |
| | 2,749,927 | (725,600) | 2,024,327 | 106,335 | 2,130,662 |

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.

# Notes to the financial statements (cont'd)

## December 31, 2019

### 20. PROPERTY, PLANT AND EQUIPMENT

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Right-of-use on leasehold properties | Freehold land and buildings | Office furniture and equipment | Motor vehicles | Work in progress | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost** | | | | | | |
| December 31, 2017 | - | 507,328 | 1,970,806 | 32,288 | 174,102 | 2,684,524 |
| Translation adjustments | - | 13,647 | ( 2,214) | - | - | 11,433 |
| Additions | - | 6,348 | 35,091 | - | 454,938 | 496,377 |
| Disposals | - | - | - | ( 280) | - | ( 280) |
| Transfers (see note 18) | - | - | 110,005 | - | (184,740) | ( 74,735) |
| December 31, 2018 | - | 527,323 | 2,113,688 | 32,008 | 444,300 | 3,117,319 |
| Recognition of right-of-use assets on initial application of IFRS 16 | 114,705 | - | - | - | - | 114,705 |
| Translation adjustments | - | ( 9,922) | 3,412 | - | - | ( 6,510) |
| Additions | 188,113 | 18,247 | 272,621 | 165 | 200,062 | 679,208 |
| Disposals | - | - | ( 11,389) | ( 10,075) | - | ( 21,464) |
| Transfers | - | 187,225 | 57,313 | - | (244,538) | - |
| December 31, 2019 | 302,818 | 722,873 | 2,435,645 | 22,098 | 399,824 | 3,883,258 |
| **Depreciation** | | | | | | |
| December 31, 2017 | - | 134,237 | 1,318,601 | 24,530 | - | 1,477,368 |
| Translation adjustments | - | ( 4,550) | ( 5,817) | - | - | ( 10,367) |
| Charge for year | - | 18,457 | 142,302 | 2,638 | - | 163,397 |
| Eliminated on disposal | - | - | - | ( 196) | - | ( 196) |
| December 31, 2018 | - | 148,144 | 1,455,086 | 26,972 | - | 1,630,202 |
| Translation adjustments | - | ( 5,365) | 3,249 | - | - | ( 2,116) |
| Charge for year | 36,238 | 25,848 | 151,492 | 2,249 | - | 215,827 |
| Eliminated on disposal | - | - | ( 11,389) | ( 10,045) | - | ( 21,434) |
| December 31, 2019 | 36,238 | 168,627 | 1,598,438 | 19,176 | - | 1,822,479 |
| **Net book values** | | | | | | |
| December 31, 2019 | 266,580 | 554,246 | 837,207 | 2,922 | 399,824 | 2,060,779 |
| December 31, 2018 | - | 379,179 | 658,602 | 5,036 | 444,300 | 1,487,117 |
| December 31, 2017 | - | 373,091 | 652,205 | 7,758 | 174,102 | 1,207,156 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 20. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

| | Society | | | | | |
|---|---|---|---|---|---|---|
| | Right-of-use on leasehold properties | Leasehold and Freehold land and buildings | Office furniture and equipment | Motor vehicles | Work in progress | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost** | | | | | | |
| December 31, 2017 | - | 450,241 | 1,808,270 | 31,883 | 99,366 | 2,389,760 |
| Additions | - | 5,966 | 1,574 | - | 454,938 | 462,478 |
| Transfer from work in progress | - | - | 110,005 | - | (110,005) | - |
| December 31, 2018 | - | 456,207 | 1,919,849 | 31,883 | 444,299 | 2,852,238 |
| Recognition of right-of-use assets on initial application of IFRS 16 | 46,918 | - | - | - | - | 46,918 |
| Additions | 142,892 | 6,701 | 145,287 | - | 194,974 | 489,854 |
| Disposals | - | - | - | ( 9,950) | - | ( 9,950) |
| Transfer from work in progress | - | 187,225 | 57,313 | - | (244,538) | - |
| December 31, 2019 | 189,810 | 650,133 | 2,122,449 | 21,933 | 394,735 | 3,379,060 |
| **Depreciation** | | | | | | |
| December 31, 2017 | - | 102,836 | 1,202,501 | 24,275 | - | 1,329,612 |
| Charge for year | - | 10,378 | 125,960 | 2,613 | - | 138,951 |
| December 31, 2018 | - | 113,214 | 1,328,461 | 26,888 | - | 1,468,563 |
| Charge for year | 24,625 | 18,245 | 135,648 | 2,220 | - | 180,738 |
| Disposals | - | - | - | ( 9,950) | - | ( 9,950) |
| December 31, 2019 | 24,625 | 131,459 | 1,464,109 | 19,158 | - | 1,639,351 |
| **Net book values** | | | | | | |
| December 31, 2019 | 165,185 | 518,674 | 658,340 | 2,775 | 394,735 | 1,739,709 |
| December 31, 2018 | - | 342,993 | 591,388 | 4,995 | 444,299 | 1,383,675 |
| December 31, 2017 | - | 347,405 | 605,769 | 7,608 | 99,366 | 1,060,148 |

# Notes to the financial statements (cont'd)

December 31, 2019

## 21. SHAREHOLDERS' SAVINGS

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| General investment ("B") shares | 1,267,515 | 892,860 | 1,939,379 | 1,783,066 |
| Paid up investment ("C") shares | 80,900,583 | 75,151,187 | 80,900,583 | 75,151,187 |
| | 82,168,098 | 76,044,047 | 82,839,962 | 76,934,253 |
| Deferred shares [notes 29(i) and 30] | 5,734,315 | 4,675,423 | 5,734,315 | 4,675,423 |
| | 87,902,413 | 80,719,470 | 88,574,277 | 81,609,676 |

Deferred shares are issued on terms that they shall not be withdrawable before the expiration of five years.

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

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| On demand to 3 months | 65,265,046 | 58,521,529 | 65,265,046 | 58,521,529 |
| Three to 12 months | 14,645,119 | 16,908,111 | 14,645,119 | 16,908,111 |
| Over 12 months | 7,992,248 | 5,289,830 | 8,664,112 | 6,180,036 |
| | 87,902,413 | 80,719,470 | 88,574,277 | 81,609,676 |

## 22. DEPOSITORS' SAVINGS

| | Group and Society | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| Due to depositors | 1,476,262 | 1,222,461 |
| Percentage of the Society's mortgage loan balances | 2.71% | 2.61% |

Per section 27(B) of the Building Societies' Act, the total depositors' savings shall not at any time exceed ¾ (75%) of the mortgage loan balance due from members.

# Notes to the financial statements (cont'd)

December 31, 2019

## 23. OTHER LIABILITIES

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Deposits – private treaty sales | 29,347 | 22,838 | 29,347 | 22,838 |
| Customers' and clients' funds | 920,997 | 115,318 | 920,977 | 115,318 |
| Accrued expenses | 918,774 | 389,484 | 918,774 | 389,484 |
| Other payables | 1,893,890 | 2,049,186 | 339,355 | 127,453 |
| | 3,763,008 | 2,576,826 | 2,208,453 | 655,093 |

## 24. REPURCHASE AGREEMENTS

The Group sells government and corporate securities, or interests therein, and agrees to repurchase them on specified dates and at specified prices prior to their maturity ("repurchase agreements").

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Denominated in Jamaica dollars | 4,894,130 | 6,065,320 | 1,001,348 | 1,001,512 |
| Denominated in United States dollars | 10,024,513 | 7,891,789 | - | - |
| | 14,918,643 | 13,957,109 | 1,001,348 | 1,001,512 |

Securities obtained under resale agreements and certain investments (see notes 10 and 11) and interest accrued thereon are pledged as collateral for repurchase agreements. These financial instruments have a carrying value of $16,326,849,000 (2018: $14,654,965,000) for the Group and $1,050,051,000 (2018: $1,077,668,000) for the Society.

# Notes to the financial statements (cont'd)

December 31, 2019

## 25. DUE TO SPECIALISED INSTITUTIONS

| | Group and Society | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| Conventional mortgage loans | 14,769,377 | 13,175,738 |

This represents the balance of loans disbursed by the National Housing Trust under joint financing arrangements with borrowers of the Group.

## 26. OTHER BORROWINGS

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Deferred shares | 4,181,589 | 2,476,269 | 4,181,589 | 2,476,269 |
| Other variable rate bonds | 1,500,000 | 1,000,000 | - | - |
| Other fixed rate bonds | 910,625 | 400,325 | - | - |
| | 6,592,214 | 3,876,594 | 4,181,589 | 2,476,269 |

## 27. LEASES - IFRS 16

The Group leases office space and commercial space. The leases typically run for a period of five years, with options to renew. Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which Group is a lessee is presented below.

a. Right-of-use assets

Right-of-use of assets are presented as leasehold properties and property, plant and equipment (see note 20).

# Notes to the financial statements (cont'd)

## December 31, 2019

### 27. LEASES - IFRS 16 (CONT'D)

b. Lease liabilities

Maturity analysis – contractual undiscounted cash flows:

| | Group | Society |
|---|---|---|
| | 2019 | 2019 |
| | $'000 | $'000 |
| Less than one year | 50,594 | 32,496 |
| One to five years | 227,248 | 132,360 |
| More than five years | 111,221 | 75,701 |
| | 389,063 | 240,557 |
| Carrying amount of lease liabilities: | | |
| Current | 40,243 | 25,231 |
| Non-current | 238,743 | 146,534 |
| | 278,986 | 171,765 |

c. Amounts recognised in profit or loss:

| | Group | Society |
|---|---|---|
| | 2019 | 2019 |
| | $'000 | $'000 |
| Leases under IFRS 16: | | |
| Interest on lease liabilities | 22,740 | 12,875 |
| Expenses relating to short-term leases | 4,574 | 1,906 |
| | 2018 | 2018 |
| | $'000 | $'000 |
| Operating leases under IAS 17 | 75,547 | 49,831 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 27. LEASES - IFRS 16 (CONT'D)

d. Amounts recognised in statement of cash flows:

| | Group | Society |
|---|---|---|
| | 2019 | 2019 |
| | $'000 | $'000 |
| Total cash outflow for leases | 46,572 | 30,919 |

e. Extension options

Some property leases contain extension options exercisable by the Group up to one year before the end of the non-cancellable contract period. Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options and reassesses this conclusion if there is a significant event or significant changes in circumstances within its control.

The Group has estimated that the potential future lease payments, should it exercise the extension option, would result in an increase in lease liability of $107,000.

f. Leases as lessor

The Group leases out investment property consisting of commercial properties. All leases are classified as operating leases from a lessor perspective. The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be paid after the reporting date.

| | Group |
|---|---|
| | 2019 |
| | $'000 |
| One to two years | 40,360 |
| Two to three years | 41,732 |
| Three to four years | 41,732 |
| Four to five years | 28,847 |
| More than five years | 11,000 |
| | 163,671 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 28. PERMANENT CAPITAL FUND

The Regulations (see note 2) require that every building society should maintain a minimum subscribed capital of $25,000,000. At least four-fifths of such subscribed capital is to be paid up in cash. In view of the non-applicability of "subscribed capital" to a mutual society, and in accordance with an agreement with Bank of Jamaica, pending passage of appropriate legislation, a "Permanent Capital Fund" has been established in lieu of subscribed capital [see note 29(i)].

### 29. RESERVES

i. Reserve fund

The Banking Services Act and Regulations require the Society to transfer at least 15% of its net surplus after income tax each year to the reserve fund until the amount of the reserve fund is equal to the amount paid up on its Permanent Capital Fund [which, though not formally recognised, is the fund substituted for the capital shares referred to in the Regulations (see notes 28 and 30)] and its deferred shares (note 21).

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 30). Transfers of profits to the retained earnings reserve are made at the discretion of the Directors, but must be communicated to Bank of Jamaica to be effective.

iii. Non-distributable reserve

This represents the transfer of net accumulated remeasurement gains on the Group's employee benefits assets and obligations.

iv. Capital reserve on consolidation

Capital reserve on consolidation represents primarily subsidiaries' post acquisition retained earnings capitalised by the issue of bonus shares.

v. Credit facility reserve

Credit facility reserve represents provisions for loan losses required under the Building Societies Act in excess of the requirements of IFRS [see notes 5(n)(i) and 12(c)].

vi. Investment revaluation reserve

Investment revaluation reserve represents cumulative unrealised gains, net of losses, arising from the changes in fair value of investments measured at fair value through other comprehensive income until the investment is derecognised or impaired.

vii. Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Society's net investment in foreign operations.

# Notes to the financial statements (cont'd)

## December 31, 2019

### 30. REGULATORY CAPITAL

| | Group and Society | |
|---|---|---|
| | 2019 | 2018 |
| | $'000 | $'000 |
| Permanent capital fund (note 28) | 7,746,058 | 7,746,058 |
| Reserve fund [note 29(i)] | 1,409,308 | 1,244,405 |
| Retained earnings reserve [note 29(ii)] | 3,365,687 | 2,431,236 |
| Deferred shares (note 21) | 5,734,315 | 4,675,423 |
| Total regulatory capital [note 7(a)] | 18,255,368 | 16,097,122 |

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

### 31. NON-CONTROLLING INTEREST

The following table summarises information relating to the Group's material non-controlling interest (NCI) in VMIL, before any intra-group eliminations:

a. Statement of financial position

| | 2019 | 2018 |
|---|---|---|
| | $'000 | $'000 |
| NCI percentage | 20% | 20% |
| Total assets | 25,327,701 | 21,610,199 |
| Total liabilities | (21,000,873) | (18,837,775) |
| Net assets | 4,326,828 | 2,772,424 |
| Carrying amount of NCI | 865,366 | 722,364 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 31. NON-CONTROLLING INTEREST

b. Profit and loss account and other comprehensive income:

| | 2019 | 2018 |
|---|---|---|
| | $'000 | $'000 |
| Revenue | 1,682,961 | 1,306,775 |
| Profit | 598,049 | 397,598 |
| Other comprehensive income | 1,241,360 | 23,551 |
| Impact of IFRS 9 on NCI | - | ( 4,549) |
| Profit allocated to NCI | 119,610 | 79,520 |
| Other comprehensive income allocated to NCI | 248,272 | 4,710 |

c. Statement of cash flows

| | 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities | 2,258,669 | ( 1,586,077) |
| Cash flows from investment activities | ( 1,230,996) | ( 1,783,763) |
| Cash flows from financing activities | 127,721 | 694,512 |
| Net increase/(decrease) in cash and cash equivalents | 1,155,394 | ( 2,675,328) |

### 32. FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Definition and measurements of fair values:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In measuring fair value of an asset or liability, where a quoted market price is available, fair value is computed by the Group using the quoted bid price at the reporting date, without any deduction for transaction costs or other adjustments. Where a quoted market price is not available, fair value is computed using alternative techniques making use of observable data as far as possible. Fair values are categorised into different levels in a three-level fair value hierarchy, based on the degree to which the inputs used in the valuation techniques are observable. The different levels in the hierarchy have been defined as follows:

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.

# Notes to the financial statements (cont'd)

## December 31, 2019

### 32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

a. Definition and measurements of fair values (cont'd):

Level 2 refers to financial assets and financial liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in funds with fair values obtained via fund managers, and assets that are valued using a model whereby the majority of assumptions are market observable.

Level 3 refers to financial assets and financial liabilities that are measured using non-market observable inputs. This means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data.

b. Valuation techniques for investment securities classified as Level 2

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

| **Type** | **Valuation techniques** |
|---|---|
| United States Dollar denominated Government of Jamaica, Bank of Jamaica securities and Foreign Government securities | • Obtain bid price provided by a recognised broker/dealer, namely, Oppenheimer<br>• Apply price to estimate fair value |
| Jamaica Dollar denominated securities issued or guaranteed by Government of Jamaica and Bank of Jamaica | • Obtain bid price provided by a recognised pricing source (which uses Jamaica-market-supplied indicative bids)<br>• Apply price to estimate fair value |
| Units in unit trusts | • Obtain prices quoted by unit trust managers<br>• Apply price to estimate fair value |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 32. 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 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2019 | | | | | | | | |
| | Carrying amount | | | | Fair value | | | | |
| | Notes | FVOCI | FVTPL | Total | Level 1 | Level 2 | Level 3 | Total |
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial assets measured at fair value:** | | | | | | | | |
| Bank of Jamaica securities | 9 | 559,164 | - | 559,164 | - | 559,164 | - | 559,164 |
| Government of Jamaica | 9 | 18,820,764 | - | 18,820,764 | - | 18,820,764 | - | 18,820,764 |
| Ordinary shares - unquoted | 10 | 3,533 | - | 3,533 | - | 3,533 | - | 3,533 |
| Ordinary shares – quoted | 10 | 1,421,370 | 2,817,616 | 4,238,986 | 4,238,986 | - | - | 4,238,986 |
| Investments - other | 10 | 10,393,412 | 58,998 | 10,452,410 | - | 10,393,412 | 58,998 | 10,452,410 |
| Units in unit trust | 10 | - | 5,097,560 | 5,097,560 | - | 5,097,560 | - | 5,097,560 |
| | | 31,198,243 | 7,974,174 | 39,172,417 | 4,238,986 | 34,874,433 | 58,998 | 39,172,417 |

# Notes to the financial statements (cont'd)

December 31, 2019

## 32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

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

| | Group | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2018 | | | | | | |
| | | Carrying amount | | | Fair value | | |
| | Notes | FVOCI | FVTPL | Total | Level 1 | Level 2 | Total |
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial assets measured at fair value:** | | | | | | | |
| Bank of Jamaica securities | 9 | 1,064,177 | - | 1,064,177 | - | 1,064,177 | 1,064,177 |
| Government of Jamaica | 9 | 22,291,416 | - | 22,291,416 | - | 22,291,416 | 22,291,416 |
| Certificates of deposit | 9 | 2,377,447 | - | 2,377,447 | - | 2,377,447 | 2,377,447 |
| Treasury bills | 9,10 | 906,080 | - | 906,080 | - | 906,080 | 906,080 |
| Ordinary shares - unquoted | 10 | 39 | - | 39 | - | 39 | 39 |
| Ordinary shares – quoted | 10 | 535,500 | 155,429 | 690,929 | 690,929 | - | 690,929 |
| Investments - other | 10 | 10,198,078 | - | 10,198,078 | - | 10,198,078 | 10,198,078 |
| Units in unit trust | 10 | - | 3,979,011 | 3,979,011 | - | 3,979,011 | 3,979,011 |
| | | 37,372,737 | 4,134,440 | 41,507,177 | 690,929 | 40,816,248 | 41,507,177 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)

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

| | Society | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2019 | | | | | | |
| | | Carrying amount | | | Fair value | | |
| | Notes | FVOCI | FVTPL | Total | Level 1 | Level 2 | Total |
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial assets measured at fair value:** | | | | | | | |
| Government of Jamaica securities | 9 | 7,796,608 | - | 7,796,608 | - | 7,796,608 | 7,796,608 |
| Ordinary shares - quoted | 10 | - | 2,405,925 | 2,405,925 | 2,405,925 | - | 2,405,925 |
| Ordinary shares - unquoted | 10 | 39 | - | 39 | - | 39 | 39 |
| Investments - other | 10 | 8,311,087 | - | 8,311,087 | - | 8,311,087 | 8,311,087 |
| Units in unit trust | 10 | - | 4,698,283 | 4,698,283 | - | 4,698,283 | 4,698,283 |
| | | 16,107,734 | 7,104,208 | 23,211,942 | 2,405,925 | 20,806,017 | 23,211,942 |

# Notes to the financial statements (cont'd)

December 31, 2019

**32. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT'D)**

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

| | | Society | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2018 | | | | | |
| | | Carrying amount | | | Fair value | | |
| | Notes | Available for-sale | FVTPL | Total | Level 1 | Level 2 | Total |
| | | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Financial assets measured at fair value:** | | | | | | | |
| Government of Jamaica | | | | | | | |
| securities | 9 | 12,318,620 | - | 12,318,620 | - | 12,318,620 | 12,318,620 |
| Certificates of deposit | 9 | 2,377,447 | - | 2,377,447 | - | 2,377,447 | 2,377,447 |
| Treasury bills | 9 | 906,080 | - | 906,080 | - | 906,080 | 906,080 |
| Ordinary shares - quoted | 10 | - | 122,629 | 122,629 | 122,629 | - | 122,629 |
| Ordinary shares - unquoted | 10 | 39 | - | 39 | - | 39 | 39 |
| Investments - other | 10 | 9,180,550 | - | 9,180,550 | - | 9,180,550 | 9,180,550 |
| Units in unit trust | 10 | - | 3,772,402 | 3,772,402 | - | 3,772,402 | 3,772,402 |
| | | 24,782,736 | 3,895,031 | 28,677,767 | 122,629 | 28,555,138 | 28,677,767 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 33. NET INTEREST INCOME

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| **Interest income, calculated using the effective interest method:** | | | | |
| Investment securities | 2,398,772 | 2,654,454 | 1,714,786 | 1,991,514 |
| Loans to customers | 4,127,055 | 3,645,916 | 4,008,302 | 3,634,557 |
| | 6,525,827 | 6,300,370 | 5,723,088 | 5,626,071 |
| **Interest expense** | | | | |
| On borrowings | ( 618,330) | ( 397,215) | ( 17,248) | ( 3,875) |
| To shareholders | ( 1,277,467) | ( 1,458,144) | ( 1,277,467) | ( 1,458,144) |
| To depositors | ( 295,789) | ( 224,567) | ( 400,475) | ( 224,567) |
| | ( 2,191,586) | ( 2,079,926) | ( 1,695,190) | ( 1,686,586) |
| **Net interest income** | 4,334,241 | 4,220,444 | 4,027,898 | 3,939,485 |

### 34. NET FEE AND COMMISSION INCOME

| | **Group** | | **Society** | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| **Fee and commission income** | | | | |
| Customers | 1,734,449 | 1,227,963 | 381,031 | 235,674 |
| Associated company | 102,908 | 109,813 | 102,908 | 109,813 |
| Other | 10,509 | 10,421 | 10,509 | 10,421 |
| | 1,847,866 | 1,348,197 | 494,448 | 355,908 |
| **Fee and commission expenses** | | | | |
| Inter-bank transaction fees | ( 80,374) | ( 38,678) | ( 80,313) | ( 38,678) |
| Other | ( 70,462) | ( 60,587) | - | - |
| | ( 150,836) | ( 99,265) | ( 80,313) | ( 38,678) |
| Net fee and commission income | 1,697,030 | 1,248,932 | 414,135 | 317,230 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 35. OTHER OPERATING REVENUE

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Foreign exchange trading gains, net | 938,124 | 454,644 | 530,157 | 266,603 |
| Fees for late payments | 55,885 | 50,340 | 55,885 | 50,340 |
| Rent | 21,913 | 36,402 | 18,811 | 47,999 |
| Dividends - from associates and subsidiaries | - | - | 259,504 | 401,290 |
| - other | 59,183 | 13,854 | 59,183 | 13,854 |
| Gain on sale of investments | 275,560 | 178,043 | 196,031 | 177,845 |
| (Loss)/gain on disposal of property, plant and equipment | ( 9,708) | 303,484 | ( 9,708) | 318,371 |
| Unrealised fair value gains on units held in unit trust | 925,881 | 642,942 | 925,881 | 642,942 |
| Other income | 700,668 | 445,601 | 514,921 | 44,230 |
| | 2,967,506 | 2,125,310 | 2,550,665 | 1,963,474 |

### 36. PERSONNEL COSTS

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Salaries | 1,907,670 | 1,757,349 | 1,172,097 | 1,214,352 |
| Statutory payroll contributions | 262,220 | 260,155 | 209,007 | 215,269 |
| Pension and medical benefits (note 15) | 54,900 | ( 119,941) | 49,700 | ( 145,800) |
| Termination payments | 43,075 | 144,271 | 43,075 | 144,271 |
| Other staff benefits | 1,221,192 | 911,477 | 1,104,280 | 844,814 |
| | 3,489,057 | 2,953,311 | 2,578,159 | 2,272,906 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 37. OTHER OPERATING EXPENSES

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Asset taxes | 313,565 | 290,515 | 267,725 | 244,610 |
| Overseas business development | 53,002 | 227,404 | 252,027 | 227,404 |
| Irrecoverable GCT | 286,098 | 262,909 | 276,155 | 254,171 |
| Marketing | 339,841 | 92,853 | 261,368 | 178,997 |
| Computer maintenance | 302,507 | 261,079 | 256,400 | 223,942 |
| Maintenance – buildings, furniture and fixtures | 200,737 | 101,894 | 214,412 | 158,320 |
| Insurance | 131,607 | 136,248 | 129,425 | 134,675 |
| Administration | 367,475 | 195,149 | 350,650 | 221,646 |
| Postage, courier and stationery | 138,703 | 90,452 | 126,554 | 75,210 |
| Electricity, water and telephone | 148,216 | 148,249 | 128,636 | 130,755 |
| Consultancy and other professional fees | 187,958 | 144,151 | 88,346 | 59,205 |
| Audit fees | 60,237 | 64,652 | 30,783 | 35,656 |
| Directors' fees [note 39(e)] | 47,030 | 44,878 | 20,024 | 16,924 |
| Security | 54,622 | 44,226 | 39,450 | 39,006 |
| Service contracts | 92,914 | 59,945 | 37,780 | 30,824 |
| Direct operating expenses for investment property that generated rental income | 31,230 | 39,894 | 31,229 | 39,892 |
| | 2,755,742 | 2,204,498 | 2,510,964 | 2,071,237 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 38. 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. 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 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| i. Current tax expense: | | | | |
| Current tax at 30% | 205,236 | 150,849 | 205,011 | 150,849 |
| Current tax at 25% and 33⅓% | | | | |
| - provision for current year | 280,501 | 279,288 | - | - |
| - adjustment for prior year's under provision | 68,314 | 454 | 68,314 | - |
| | 554,051 | 430,591 | 273,325 | 150,849 |
| ii. Deferred tax expense: | | | | |
| Tax losses | 10,783 | ( 10,783) | - | - |
| Origination and reversal of other temporary differences [notes 14(a) and (b)] | 256,413 | 222,524 | 232,279 | 287,720 |
| | 267,196 | 211,741 | 232,279 | 287,720 |
| Actual tax expense recognised | 821,247 | 642,332 | 505,604 | 438,569 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 38. INCOME TAX EXPENSE (CONT'D)

b. 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 38(a)] being 27.81% (2018: 37.72%) for the Group and 26.63% (2018: 35.90%) for the Society. The actual income tax expense differs from the expected income tax expense for the year, as follows:

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Surplus before income tax | 2,952,798 | 1,702,849 | 1,898,313 | 1,221,681 |
| Computed "expected" income tax at 30% | 885,840 | 510,855 | 569,494 | 366,504 |
| Effect of different tax rates for subsidiaries | 112,793 | 168,714 | - | - |
| Tax effect of treating the following items differently for income tax than for financial statement purposes: | | | | |
| Depreciation charge and capital allowances | 11,373 | 5,256 | 3,614 | ( 14,210) |
| Tax exempt income | ( 289,371) | ( 238,826) | ( 99,389) | ( 143,411) |
| Disallowed expenses, net | 60,561 | 262,288 | ( 12,572) | 252,992 |
| Other | ( 28,263) | ( 66,409) | ( 23,857) | ( 23,306) |
| | 752,933 | 641,878 | 437,290 | 438,569 |
| Adjustment for prior years underprovision | 68,314 | 454 | 68,314 | - |
| Actual tax expense recognised | 821,247 | 642,332 | 505,604 | 438,569 |

At the reporting date, taxation losses of certain subsidiaries, subject to agreement by the tax authorities in the relevant jurisdictions, amounted to approximately $28,311,000 (2018: $36,621,000). 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).

# Notes to the financial statements (cont'd)

## December 31, 2019

### 39. 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, joint control or significant influence over the Group;
2. 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 companies [note 1(c)]. The Directors, senior officers and executives are collectively referred to as "key management personnel".

# Notes to the financial statements (cont'd)

December 31, 2019

## 39. 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:

| | 2019 | 2018 |
|---|---|---|
| | $'000 | $'000 |
| Subsidiaries: | | |
| Resale agreements | 600,829 | 1,499,379 |
| Repo receivable | 5,188 | 13,129 |
| Loan receivable | 3,251,486 | 142,015 |
| Shareholders' savings | ( 676,993) | ( 1,039,541) |
| Repo payable | (575) | (1,525) |
| Securities sold under repurchase agreements | ( 800,049) | ( 1,000,000) |
| Key management personnel: | | |
| Executive and senior management: | | |
| Mortgage loans | 153,335 | 150,086 |
| Other loans | 73,241 | 62,870 |
| Shareholders' savings | ( 47,847) | ( 83,061) |
| Non-executive directors: | | |
| Mortgage loans | 40,910 | 41,664 |
| Shareholders' savings | ( 14,972) | ( 18,810) |
| Associate: | | |
| Shareholders' savings | ( 321,647) | ( 336,445) |

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.

# Notes to the financial statements (cont'd)

## December 31, 2019

### 39. RELATED PARTY TRANSACTIONS (CONT'D)

d. The Society's income statement includes income earned/(expenses incurred) from transactions with related parties, as follows:

| | 2019 | 2018 |
|---|---|---|
| | $'000 | $'000 |
| Key management personnel: | | |
| Non-executive and senior management: | | |
| Interest from loans | 11,277 | 11,676 |
| Interest expense | ( 211) | ( 29) |
| Directors: | | |
| Interest from loans | 3,416 | 3,605 |
| Interest expense | ( 177) | ( 56) |
| Subsidiaries: | | |
| Interest and dividends from investments | 258,244 | 310,927 |
| Interest on loans | 37,889 | 9,809 |
| Other operating revenue | 70,695 | 31,965 |
| Interest expense | ( 37,778) | ( 10,567) |
| Other operating expenses | ( 2,738) | ( 2,116) |
| Associate: | | |
| Dividends | 31,500 | 119,194 |
| Interest expense | ( 37,192) | ( 18,219) |
| Other operating income | 103,748 | 114,136 |
| Other operating expenses | ( 13,596) | ( 12,600) |
| | 425,077 | 557,725 |

# Notes to the financial statements (cont'd)

## December 31, 2019

### 39. RELATED PARTY TRANSACTIONS (CONT'D)

e. Key management personnel compensation

In addition to directors' fees paid to non-executive directors (note 36), compensation of key management personnel, included in personnel costs (note 36), is as follows:

| | Group | | Society | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | $'000 | $'000 | $'000 | $'000 |
| Short-term employee benefits | 442,129 | 333,011 | 316,077 | 217,350 |
| Post employment benefits | 3,952 | 1,358 | 3,952 | 1,358 |
| | 446,081 | 334,369 | 320,029 | 218,708 |

In addition to their salaries, key management personnel, excluding non-executive directors are provided with non-cash benefits, as well as post-employment benefits under a defined-benefit pension plan (note 15). In accordance with the rules of the plan, key management personnel, executive director 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.

### 40. CAPITAL COMMITMENTS

Commitments for capital expenditure for the Group and the Society amount to approximately $453,080,000 (2018: $270,799,000) at the reporting date.

### 41. 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, 2019, these funds amounted to $29,477,536,000 (2018: $24,313,239,000).

Additionally, at December 31, 2019, there were custodial arrangements for assets totalling $18,807,714,000 (2018: $24,500,120,000).

Victoria Mutual Pensions Management Limited is responsible for funds under management in the Victoria Mutual Pensions Management Limited Pooled Pension Funds. Total value of pension assets under management at December 31, 2019 is $63,400,000,000 (2018: $52,240,000,000).

# Notes to the financial statements (cont'd)

December 31, 2019

## 42. PRIOR YEAR ADJUSTMENTS

During 2019, it was clarified that fair value gains on certain equity investments are considered taxable, rather than capital, although the Society's business model is to hold these investments. As a consequence, deferred tax liability had been understated in the prior year. This adjustment has been reflected by restating the financial statements for 2018, having determined that there was no material impact for 2017.

The restatement had the following effects on the statement of financial position as at December 31, 2018:

| | Group | | | Society | | |
|---|---|---|---|---|---|---|
| | As previously reported | Adjustments | As restated | As previously reported | Adjustments | As restated |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| TOTAL ASSETS | 133,117,216 | - | 133,117,216 | 114,319,790 | - | 114,319,790 |
| LIABILITIES | | | | | | |
| Savings fund: | | | | | | |
| Shareholders' savings | 80,719,470 | - | 80,719,470 | 81,609,676 | - | 81,609,676 |
| Depositors' savings | 1,222,461 | - | 1,222,461 | 1,222,461 | - | 1,222,461 |
| Savings fund | 81,941,931 | - | 81,941,931 | 82,832,137 | - | 82,832,137 |
| Due to specialised institution | 13,175,738 | - | 13,175,738 | 13,175,738 | - | 13,175,738 |
| | 95,117,669 | - | 95,117,669 | 96,007,875 | - | 96,007,875 |
| Income tax payable | 108,745 | - | 108,745 | - | - | - |
| Other liabilities | 2,576,826 | - | 2,576,826 | 655,093 | - | 655,093 |
| Repurchase agreements | 13,957,109 | - | 13,957,109 | 1,001,512 | - | 1,001,512 |
| Other borrowings | 3,876,594 | - | 3,876,594 | 2,476,269 | - | 2,476,269 |
| Deferred tax liabilities | 518,849 | 157,615 | 676,464 | 515,794 | 157,615 | 673,409 |
| Employee benefits obligation | 950,400 | - | 950,400 | 897,300 | - | 897,300 |
| **Total liabilities** | **117,106,192** | **157,615** | **117,263,807** | **101,553,843** | **157,615** | **101,711,458** |

# Notes to the financial statements (cont'd)

December 31, 2019

**42. PRIOR YEAR ADJUSTMENTS (CONT'D)**

The restatement had the following effects on the statement of financial position as at December 31, 2018 (cont'd):

| | Group | | | Society | | |
|---|---|---|---|---|---|---|
| | As previously reported | Adjustments | As restated | As previously reported | Adjustments | As restated |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| CAPITAL AND RESERVES | | | | | | |
| Permanent capital fund | 7,746,058 | - | 7,746,058 | 7,746,058 | - | 7,746,058 |
| Reserve fund | 1,268,048 | ( 23,643) | 1,244,405 | 1,268,048 | ( 23,643) | 1,244,405 |
| Retained earnings reserve | 2,565,208 | ( 133,972) | 2,431,236 | 2,565,208 | ( 133,972) | 2,431,236 |
| Non-distributable reserve | 216,559 | - | 216,559 | 216,559 | - | 216,559 |
| Capital reserve on consolidation | 82 | - | 82 | - | - | - |
| Credit facility reserve | 1,021,384 | - | 1,021,384 | 1,021,384 | - | 1,021,384 |
| Investment revaluation reserve | 242,632 | - | 242,632 | ( 61,310) | - | ( 61,310) |
| General reserve | 10,000 | - | 10,000 | 10,000 | - | 10,000 |
| Currency translation reserve | 291,323 | - | 291,323 | - | - | - |
| Retained earnings | 1,927,366 | - | 1,927,366 | - | - | - |
| | 15,288,660 | ( 157,615) | 15,131,045 | 12,765,947 | ( 157,615) | 12,608,332 |
| Non-controlling interest | 722,364 | - | 722,364 | - | - | - |
| **Total capital and reserves** | **16,011,024** | **( 157,615)** | **15,853,409** | **12,765,947** | **( 157,615)** | **12,608,332** |
| **Total liabilities and capital and reserves** | **133,117,216** | **-** | **133,117,216** | **114,319,790** | **-** | **114,319,790** |

# Notes to the financial statements (cont'd)

December 31, 2019

## 42. PRIOR YEAR ADJUSTMENTS (CONT'D)

The effect on the statement of profit or loss and other comprehensive income for the year ended December 31, 2018 was as follows:

| | Group | | | Society | | |
|---|---|---|---|---|---|---|
| | As previously reported | Adjustments | As restated | As previously reported | Adjustments | As restated |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Surplus before income tax | 1,702,849 | - | 1,702,849 | 1,221,681 | - | 1,221,681 |
| Income tax charge | ( 484,717) | (157,615) | ( 642,332) | ( 280,954) | (157,615) | ( 438,569) |
| **Surplus for the year** | **1,218,132** | **(157,615)** | **1,060,517** | **940,727** | **(157,615)** | **783,112** |

## 43. SUBSEQUENT EVENT

The World Health Organization declared the novel Coronavirus (COVID-19) outbreak a pandemic on March 11, 2020 and the Government of Jamaica declared the island a disaster area on March 13, 2020. The pandemic and the measures to control its human impact have resulted in disruptions to economic activity, business operations and asset prices. This could have significant negative financial effects on the Group, depending on factors such as (i) the duration and spread of the outbreak, (ii) the restrictions and advisories from Government, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are highly uncertain.

The Group has performed various assessments and stress testing of its business plans under multiple scenarios, as part of its business continuity and contingency planning. However, at the date of authorisation of the financial statements, the Group is unable to determine a reliable estimate of the financial impact of this matter on its profitability, liquidity, capital adequacy and financial position.

# Corporate Data

## External Auditors

KPMG Chartered Accountants

## Bankers

CIBC First Caribbean International Bank of Jamaica Ltd.

Citibank N.A. (Jamaica Branch)

National Commercial Bank Jamaica Ltd.

Sagicor Bank Jamaica Ltd.

Bank of Jamaica

## Panel of Attorneys-At-Law

Delroy Chuck & Company

DunnCox

Phillips, Malcolm, Morgan & Matthies

O.G. Harding & Company

Livingston, Alexander & Levy

Murray & Tucker

Myers, Fletcher & Gordon

Nunes, Scholefield, DeLeon & Company

Rattray, Patterson, Rattray

Robertson, Smith, Ledgister & Company

Robinson, Phillips & Whitehorne

Grant, Stewart, Phillips & Malcolm

Nicholson Phillips

Samuda & Johnson

Matthew Hogarth & Co.

Harrison & Harrison

Lex Caribbean

L. Howard Facey & Co.

Scott, Bhoorasingh & Bonnick

Russell & Russell

Earle & Wilson

Palomino, Gordon-Palomino

G. Anthony Levy & Company

## Group Executives

- **Courtney Campbell**, MBA (Distinction), ACIB, BSc, JP
  President & Chief Executive Officer
- **Janice McKenley**, FCCA, FCA, MBA, BSc
  Group Chief Financial Officer
- **Devon Barrett**, MBA, BSc
  Group Chief Investment Officer
- **Peter Reid**, BA (Hons.)
  Chief Operating Officer
  Building Society Operations
- **Keri-Gaye Brown**, LL.B Group
  Chief Legal & Compliance Officer
  & Corporate Secretary
- **Laraine Harrison**, MBA, BA
  Group Chief Human Resources Officer
- **Judith Forth Blake**, MBA, BA (Hons.)
  Group Chief Customer & Brand Officer
- **Rickardo Ebanks**, BSc. (Hons.)
  Group Chief Operations Officer
- **Carla McIntosh Gordon**, MBA, BA, PMP, BSP
  Group Chief Strategy Officer
- **Renee Allen Casey**
  Group Chief Audit Officer

## Chief Executive Officers of Subsidiaries

- **Victoria Mutual Pensions Management**
  Conroy Rose
  Chief Executive Officer
- **Victoria Mutual Investments Limited**
  Rezworth Burchenson
  Chief Executive Officer
- **Victoria Mutual Wealth Management Limited**
  Rezworth Burchenson
  Chief Executive Officer
- **VMBS Money Transfer Services Limited**
  Michael Howard, MBA, BA
  Chief Executive Officer
- **Victoria Mutual Property Services Limited**
  Michael Neita, MBA, BEng, BSc
  Chief Executive Officer

## Building Society Operations

- **Mr. Paul Elliott**, AICB, MBA, BSc (Hons)
  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
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▷ **Modern Mutual**

▷ **Employer of Choice**

▷ **Model Corporate Citizen**

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