# VICTORIA MUTUAL INVESTMENTS LIMITED

## FINANCIAL STATEMENTS

## DECEMBER 31, 2017

KPMG
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# INDEPENDENT AUDITORS' REPORT

To the Members of
VICTORIA MUTUAL INVESTMENTS LIMITED

## Report on the Audit of the Financial Statements

*Opinion*

We have audited the separate financial statements of Victoria Mutual Investments Limited ("the company") and the consolidated financial statements of the company and its subsidiary ("the group"), set out on pages 8 to 65 which comprise the group's and company's statements of financial position as at December 31, 2017, the group's and company's income statements, statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the group and the company as at December 31, 2017, and of the group's and company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Jamaican Companies Act.

*Basis for Opinion*

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

To the Members of
VICTORIA MUTUAL INVESTMENTS LIMITED

## Report on the Audit of the Financial Statements (cont'd)

*Key Audit Matters*

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

1. Fair value of investments

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| The valuation of the group's investments requires significant estimation, as no quoted prices are available for some of these instruments. Valuation of these investments, although based on observable inputs, involves the exercise of judgement and the use of assumptions.<br><br>Management used valuation techniques which require inputs such as market yields obtained from established yield curves. These judgements and assumptions could result in estimated fair values that are materially different from actual transaction values.<br><br>*[see notes 6 and 26 to the financial statements]* | Our procedures in this area included the following:<br><br>• Assessing and testing the design and operating effectiveness of the group's controls over the determination and computation of fair values.<br>• Challenging the reasonableness of yields/prices by comparing to independent third party pricing sources.<br>• Assessing the reasonableness of significant assumptions used by such third-party pricing sources.<br>• Involving our own valuation specialists to determine/obtain yields/prices of specific securities and comparing these to those used by management.<br>• Assessing the adequacy of the disclosures, including the degree of estimation involved in determining fair values. |

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
VICTORIA MUTUAL INVESTMENTS LIMITED

**Report on the Audit of the Financial Statements (cont'd)**

2. Issue of ordinary shares to the public

| The key audit matter | How the matter was addressed |
|---|---|
| The company was listed on the Jamaica Stock Exchange on December 29, 2017, after 20% of its shares were issued to the public at a consideration of $689,261,487. The accounting for this transaction is considered a key audit matter as judgement is required in determining the qualifying costs which relate solely to the issue of the shares, which are accounted for directly within equity.<br><br>*[see note 16 to the financial statements]* | Our procedures in this area included the following:<br>• Examining the analysis of the relevant costs incurred in the transaction and assessing their qualification as direct costs based on the requirements of IAS 32 *Financial Instruments: Presentation.*<br><br>• Verifying a sample of the qualifying costs to supporting invoices and other relevant documentation.<br><br>• Assessing the adequacy of the disclosures in respect of the share issue and the related transaction costs. |

*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.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
VICTORIA MUTUAL INVESTMENTS LIMITED

**Report on the Audit of the Financial Statements (cont'd)**

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

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

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

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

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

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

A further description of our responsibilities for the audit of the financial statements is included in the Appendix to this auditors' report. This description, which is located at pages 6-7, forms part of our auditors' report.

INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of
VICTORIA MUTUAL INVESTMENTS LIMITED

**Report on additional matters as required by the Jamaican Companies Act**

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

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

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

KPMG

Chartered Accountants
Kingston, Jamaica

February 28, 2018

To the Members of
VICTORIA MUTUAL INVESTMENTS LIMITED

## Appendix to the Independent Auditors' report

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

**Appendix to the Independent Auditors' report (cont'd)**

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

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

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

VICTORIA MUTUAL INVESTMENTS LIMITED

Statement of Financial Position
December 31, 2017

| | Notes | Group 2017 $'000 | Group 2016 $'000 | Company 2017 $'000 | Company 2016 $'000 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Cash and cash equivalents | 4 | 3,409,989 | 316,976 | 341,193 | 18,819 |
| Resale agreements | 5 | 3,371,409 | 1,980,935 | - | - |
| Investment securities | 6 | 11,683,640 | 13,076,406 | 145,237 | - |
| Interest in subsidiary | | - | - | 109,500 | 109,500 |
| Due from subsidiary | 27(c) | - | - | 280,452 | - |
| Due from fellow subsidiary | 27(e) | - | 27,343 | - | 27,343 |
| Accounts receivable: | | | | | |
| Customers | | 503,037 | 18,550 | - | - |
| Other | 7 | 761,160 | 617,695 | 449,036 | 181,142 |
| Income tax recoverable | | 2,825 | 27,276 | 2,825 | 2,662 |
| Deferred tax asset | 8(a) | 79,860 | 75,081 | - | - |
| Property, plant and equipment | 9 | 23,040 | 23,486 | - | - |
| Intangible asset – computer software | 10 | 233,494 | 98,794 | - | - |
| TOTAL ASSETS | | 20,068,454 | 16,262,542 | 1,328,243 | 339,466 |
| LIABILITIES AND EQUITY | | | | | |
| Liabilities: | | | | | |
| Due to parent society | 27(c) | 1,819 | 218,125 | 1,819 | 182,523 |
| Borrowings | 15 | 506,109 | - | 506,109 | - |
| Accounts payable: | | | | | |
| Customers | | 3,204,548 | 221,558 | - | - |
| Brokers | | 69,595 | 6,576 | - | - |
| Others | 11 | 428,845 | 209,985 | 23,906 | 23,821 |
| Repurchase agreements | 12 | 13,164,960 | 13,940,198 | | - |
| Income tax payable | | 58,997 | - | - | - |
| Deferred tax liability | 8(b) | 159 | 10 | 159 | 10 |
| Preference share | 13 | - | 12,000 | - | 12,000 |
| Employee benefit obligation | 14 | 49,400 | 38,400 | - | - |
| TOTAL LIABILITIES | | 17,484,432 | 14,646,852 | 531,993 | 218,354 |
| Equity: | | | | | |
| Share capital | 16 | 707,887 | 24,000 | 707,887 | 24,000 |
| Share premium | | 24,000 | 24,000 | 24,000 | 24,000 |
| Investment revaluation reserve | 17(a) | 201,581 | 59,942 | - | - |
| Other reserve | 17(b) | ( 9,933) | ( 6,600) | - | - |
| Retained earnings | | 1,610,487 | 1,464,348 | 64,363 | 73,112 |
| Equity attributable to owners of the company | | 2,534,022 | 1,565,690 | 796,250 | 121,112 |
| Non-controlling interest | 18 | 50,000 | 50,000 | - | - |
| TOTAL EQUITY | | 2,584,022 | 1,615,690 | 796,250 | 121,112 |
| TOTAL EQUITY AND LIABILITIES | | 20,068,454 | 16,262,542 | 1,328,243 | 339,466 |

The financial statements on pages 8 to 65 were approved for issue by the Board of Directors on February 28, 2018 and signed on its behalf by:

Chairman
Michael A. McMorris

Director
Devon Barrett

VICTORIA MUTUAL INVESTMENTS LIMITED

Income Statement
Year ended December 31, 2017

| | Notes | Group 2017 $'000 | Group 2016 $'000 | Company 2017 $'000 | Company 2016 $'000 |
|---|---|---|---|---|---|
| Interest income | 19 | 735,665 | 732,747 | 25,623 | 2,798 |
| Interest expenses | 19 | (488,676) | (481,991) | ( 16,493) | - |
| Net interest income | 19 | 246,989 | 250,756 | 9,130 | 2,798 |
| Gains from investment activities | 20 | 193,077 | 278,624 | - | - |
| Dividend income | | - | - | 200,100 | 180,550 |
| Net fees and commissions | 21 | 500,163 | 279,578 | - | - |
| Other income | | 26,226 | 1,845 | 1,102 | - |
| Other operating revenue | | 719,466 | 560,047 | 201,202 | 180,550 |
| Net interest income and other operating revenue | | 966,455 | 810,803 | 210,332 | 183,348 |
| Staff costs | 22 | (292,329) | (216,293) | - | - |
| Other operating costs | 23 | (206,301) | (200,776) | ( 18,769) | ( 12,025) |
| | | (498,630) | (417,069) | ( 18,769) | ( 12,025) |
| Profit before income tax | | 467,825 | 393,734 | 191,563 | 171,323 |
| Income tax | 24 | (121,523) | ( 76,456) | ( 149) | 2 |
| Profit for the year attributable to shareholders of the company | | 346,302 | 317,278 | 191,414 | 171,325 |
| Earnings per share (expressed as $ per share) | 32 | 0.29 | 0.26 | | |

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

VICTORIA MUTUAL INVESTMENTS LIMITED

Statement of Profit or Loss and Other Comprehensive Income
Year ended December 31, 2017

| | Notes | Group 2017 $'000 | Group 2016 $'000 | Company 2017 $'000 | Company 2016 $'000 |
|---|---|---|---|---|---|
| Profit for the year | | 346,302 | 317,278 | 191,414 | 171,325 |
| Other comprehensive income: | | | | | |
| Items that will never be classified to profit or loss: | | | | | |
| Remeasurement of employee benefit obligation | 14(b)(i) | ( 5,000) | ( 700) | - | - |
| Deferred tax on remeasurement of employee benefit obligation | 8(a) | 1,667 | 233 | - | - |
| | | ( 3,333) | ( 467) | - | - |
| Items that may be reclassified to profit or loss: | | | | | |
| Change in fair value of investment securities | | 162,734 | 86,529 | - | - |
| Deferred tax on change in fair value of investment securities | 8(a) | ( 21,095) | 28,107 | - | - |
| | | 141,639 | 114,636 | - | - |
| Total other comprehensive income net of tax | | 138,306 | 114,169 | - | - |
| Total comprehensive income for the year attributable to shareholders of the company | | 484,608 | 431,447 | 191,414 | 171,325 |

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

VICTORIA MUTUAL INVESTMENTS LIMITED

Group Statement of Changes in Equity
Year ended December 31, 2017

| | Attributable to owners of the company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital (Note 16) $'000 | Share premium $'000 | Investment revaluation reserve [Note 17(a)] $'000 | Other reserve [Note 17(b)] $'000 | Retained earnings $'000 | Total $'000 | Non-controlling interest (Note 18) $'000 | Total equity $'000 |
| **Balances At December 31, 2015** | **24,000** | **24,000** | **( 54,694)** | **(6,133)** | **1,327,552** | **1,314,725** | **50,000** | **1,364,725** |
| Transactions with shareholders: | | | | | | | | |
| Dividends (note 29) | - | - | - | - | ( 180,482) | ( 180,482) | - | (180,482) |
| Comprehensive income: | | | | | | | | |
| Profit for the year | - | - | - | - | 317,278 | 317,278 | - | 317,278 |
| Other comprehensive income: | | | | | | | | |
| Change in fair value of investment securities net of deferred tax | - | - | 114,636 | - | - | 114,636 | - | 114,636 |
| Remeasurment of employee benefit obligation, net of deferred tax | - | - | - | ( 467) | - | ( 467) | - | ( 467) |
| Total other comprehensive income for the year | - | - | 114,636 | ( 467) | - | 114,169 | - | 114,169 |
| Total comprehensive income for the year | - | - | 114,636 | ( 467) | 317,278 | 431,447 | - | 431,447 |
| **Balances at December 31, 2016** | **24,000** | **24,000** | **59,942** | **(6,600)** | **1,464,348** | **1,565,690** | **50,000** | **1,615,690** |
| Transactions with shareholders: | | | | | | | | |
| Dividends (note 29) | - | - | - | - | ( 200,163) | ( 200,163) | - | ( 200,163) |
| Shares issued | 689,262 | - | - | - | - | 689,262 | - | 689,262 |
| Shares issuance costs | ( 5,375) | - | - | - | - | ( 5,375) | - | ( 5,375) |
| | 683,887 | - | - | - | ( 200,163) | 483,724 | - | 483,724 |
| Comprehensive income: | | | | | | | | |
| Profit for the year | - | - | - | - | 346,302 | 346,302 | - | 346,302 |
| Other comprehensive income: | | | | | | | | |
| Change in fair value of investment securities, net of deferred tax | - | - | 141,639 | - | - | 141,639 | - | 141,639 |
| Remeasurement of employee benefit obligation, net of deferred tax | - | - | - | (3,333) | - | ( 3,333) | - | ( 3,333) |
| Total other comprehensive income for the year | - | - | 141,639 | (3,333) | - | 138,306 | - | 138,306 |
| Total comprehensive income for the year | - | - | 141,639 | (3,333) | 346,302 | 484,608 | - | 484,608 |
| **Balances at December 31, 2017** | **707,887** | **24,000** | **201,581** | **(9,933)** | **1,610,487** | **2,534,022** | **50,000** | **2,584,022** |

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

VICTORIA MUTUAL INVESTMENTS LIMITED

Company Statement of Changes in Equity
Year ended December 31, 2017

| | Share capital (Note 16) $'000 | Share premium $'000 | Retained earnings $'000 | Total $'000 |
|---|---|---|---|---|
| **Balances at December 31, 2015** | **24,000** | **24,000** | **82,270** | **130,270** |
| Transaction with shareholders: | | | | |
| Dividends (note 29) | - | - | (180,483) | (180,483) |
| Comprehensive income: | | | | |
| Profit for the year, being total comprehensive income for the year | - | - | 171,325 | 171,325 |
| **Balances at December 31, 2016** | **24,000** | **24,000** | **73,112** | **121,112** |
| Transaction with shareholders: | | | | |
| Dividends (note 29) | - | - | (200,163) | (200,163) |
| Shares issued | 689,262 | - | - | 689,262 |
| Shares issuance cost | ( 5,375) | - | - | ( 5,375) |
| Comprehensive income: | 683,887 | - | (200,163) | 483,724 |
| Profit for the year being total comprehensive income for the year | - | - | 191,414 | 191,414 |
| **Balances at December 31, 2017** | 707,887 | 24,000 | 64,363 | 796,250 |

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

VICTORIA MUTUAL INVESTMENTS LIMITED

Statement of Cash Flows
Year ended December 31, 2017

| | Notes | Group 2017 $'000 | Group 2016 $'000 | Company 2017 $'000 | Company 2016 $'000 |
|---|---|---|---|---|---|
| Cash flows from operating activities: | | | | | |
| Profit for the year | | 346,302 | 317,278 | 191,414 | 171,325 |
| Adjustments for: | | | | - | - |
| Depreciation | 9 | 6,855 | 7,799 | - | - |
| Amortisation of intangible asset | 10 | 4,386 | 6,067 | - | - |
| Change in employee benefit obligation | 14(b)(ii) | 6,000 | 4,800 | - | |
| Unrealised exchange gains on foreign currency balances | | 15,886 | ( 13,030) | - | 3,265 |
| Unrealised fair value gains on securities at fair value through profit or loss | | ( 24,222) | ( 19,323) | - | - |
| Gains from investment activities | | (171,523) | (219,326) | - | - |
| Gain on disposal of property, plant and equipment | | - | ( 27) | - | - |
| Bad debts written-off | | - | 5,039 | - | 5,039 |
| Interest income | 19 | (735,665) | (732,747) | ( 25,623) | ( 2,798) |
| Dividend income | | - | - | (200,100) | (180,483) |
| Interest expense | 19 | 488,676 | 481,991 | 16,493 | - |
| Income tax charge/(credit) | 24 | 121,523 | 76,456 | 149 | ( 2) |
| | | 58,218 | ( 85,023) | ( 17,667) | ( 3,654) |
| Changes in operating assets and liabilities: | | | | | |
| Due from subsidiary | | - | - | (253,109) | - |
| Resale agreements | | (1,417,283) | (377,736) | | - |
| Accounts receivable | | ( 459,648) | (331,672) | (266,507) | - |
| Accounts payable | | 2,975,551 | ( 21,083) | ( 6,600) | 658 |
| Repurchase agreements | | ( 560,289) | ( 2,296) | - | - |
| Income tax recoverable | | ( 163) | - | ( 163) | ( 146) |
| | | 596,386 | (817,810) | (544,046) | ( 3,142) |
| Interest received | | 798,880 | 846,718 | 24,236 | 2,853 |
| Interest paid | | ( 464,930) | (491,141) | ( 9,808) | - |
| Income tax paid | | ( 60,047) | (151,707) | - | - |
| Net cash provided by/(used in) operating activities | | 870,289 | (613,940) | (529,618) | ( 289) |
| Cash flows from investing activities: | | | | | |
| Acquisition of property, plant and equipment | 9 | ( 6,409) | ( 884) | | - |
| Acquisition of intangible asset | 10 | ( 15,440) | ( 10,962) | - | - |
| Proceeds of disposal of property, plant and equipment | | - | 27 | - | - |
| Net proceeds of sales/(purchases) of investment securities | | 1,474,336 | 630,079 | (145,237) | - |
| Net cash provided by/(used in) in investing activities | | 1,452,487 | 618,260 | (145,237) | - |
| Cash flow from financing activities: | | | | | |
| Proceeds from loan | | 506,109 | - | 506,109 | - |
| Preference shares redeemed | | ( 12,000) | - | ( 12,000) | - |
| Proceeds from share issue | | 683,887 | - | 683,887 | - |
| Dividends received | | - | - | 200,100 | - |
| Dividends paid | 29 | ( 380,867) | (154,100) | (380,867) | (154,100) |
| Net cash provided by/(used in) financing activities carried forward | | 797,129 | (154,100) | 997,229 | (154,100) |

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

VICTORIA MUTUAL INVESTMENTS LIMITED

Statement of Cash Flows (Continued)
Year ended December 31, 2017

| | Notes | Group 2017 $'000 | Group 2016 $'000 | Company 2017 $'000 | Company 2016 $'000 |
|---|---|---|---|---|---|
| Net cash provided by (used in)/financing activities brought forward | | 797,129 | (154,100) | 997,229 | (154,100) |
| Net (increase)/decrease in cash and cash equivalents | | 3,119,905 | (149,780) | 322,374 | (154,389) |
| Cash and cash equivalents at beginning of year | | 316,976 | 450,387 | 18,819 | 173,134 |
| Effect of exchange rate fluctuations on cash and cash equivalents | | ( 26,892) | 16,369 | - | 74 |
| Cash and cash equivalents at end of year | 4 | 3,409,989 | 316,976 | 341,193 | 18,819 |

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

1. Identification

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

The company issued 20% of its ordinary shares to the public on December 27, 2017 and was listed on the Jamaica Stock Exchange on December 29, 2017.

The company's income during the year was mainly interest and dividend income.

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

The company's activities are administered by its subsidiary company.

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

2. Basis of preparation

(a) Statement of compliance

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

**New and amended standards and interpretations that became effective during the year**

Certain new and amended standards and interpretations came into effect during the financial year. The group has assessed them and has adopted those which are relevant to its financial statements, viz:

- Amendments to IAS 7, *Statement of Cash Flows*, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.
- Amendments to IAS 12, *Income Taxes*, clarifies the following:
  - The existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.
  - A deferred tax asset can be recognised if the future bottom line of the tax return is expected to be a loss, if certain conditions are met.
  - Future taxable profits used to establish whether a deferred tax can be recognised should be the amount calculated before the effect of reversing temporary differences.
  - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

**New and amended standards and interpretations that became effective during the year (cont'd)**

- Amendments to IAS 12, *Income Taxes*, clarifies the following (cont'd):
  - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.
  - An entity can assume that it will recover an asset for more than its carrying amount if there is sufficient evidence that it is probable that the entity will achieve this.
  - Deductible temporary differences related to unrealised losses should be assessed on a combined basis for recognition unless a tax law restricts the use of losses to deductions against income of a specific type.

  These amendments had no significant impact on the amounts recognised or disclosed in these financial statements.

**New and amended standards and interpretation issued but not yet effective**

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

- The group is required to adopt IFRS 9, *Financial Instruments* from January 1, 2018. The standard replaces IAS 39, *Financial Instruments: Recognition and Measurement* and sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. It contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Based on its preliminary assessment, the group does not believe that the new classification requirements will have a material impact on its accounting for accounts receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis. However, the group is still in the process of its assessment and the final impact has not yet been determined.

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

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

**New and amended standards and interpretations issued but not yet effective (cont'd)**

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

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

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

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

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

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

  - The group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement as well as impairment changes. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at January 1, 2018.

  - The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.

    - The determination of the business model within which a financial asset is held.

    - The designation and revocation of previous designations of certain financial assets as measured at FVTPL.

    - The designation of certain investments in equity investments not held for trading at FVOCI.

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

**New and amended standards and interpretations issued but not yet effective (cont'd)**

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

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

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

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

  Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases. Finance lease accounting will be based on IAS 17 lease accounting, with recognition of net investment in lease comprising lease receivable and residual asset. Operating lease accounting will be based on IAS 17 operating lease accounting.

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

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

**New and amended standards and interpretations issued but not yet effective (cont'd)**

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

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

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

  The group is assessing the impact that the interpretation will have on its 2018 financial statements.

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

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

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

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

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

2. Basis of preparation (continued)

(a) Statement of compliance (continued)

**New and amended standards and interpretations issued but not yet effective (cont'd)**

- IFRIC 23, *Uncertainty Over Income Tax Treatments*, (cont'd)

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

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

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

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

  (i) Prepayment features with negative compensation:

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

  (ii) Modifications to financial liabilities:

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

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

(b) Basis of measurement

The financial statements are prepared on the historical cost basis, modified for the inclusion of fair value through profit or loss and available-for-sale investments at fair value. The methods used to measure fair values are set out in note 26(b). In addition, the employee medical benefit obligation is recognised as the present value of the post employment medical benefit obligation, as explained in note [3(f)(iii)].

(c) Functional and presentation currency

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

2. Basis of preparation (continued)

(d) Use of estimates and judgements

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

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

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

(i) Critical accounting judgements in applying the group’s accounting policies

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

The group’s accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

- In designating financial assets as at fair value through profit or loss, the group has determined that they have met the criteria for this designation set out in accounting policy [note 3(b)(i)].

- In classifying financial assets as loans and receivables, the group has determined that they have met the criteria as required by accounting policy [note 3(b)(i)].

(ii) Key assumptions and other sources of estimation uncertainty

(1) Post-employment benefit obligation

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

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

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

(1) Post-employment benefit obligation (continued)

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

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

(2) Allowance for impairment losses

In determining amounts, if any, to be recorded for impairment of securities and receivables in the financial statements, management makes assumptions in assessing whether certain facts and circumstances, such as repayment default and adverse economic conditions, are indicators that there may be a measurable decrease in the estimated future cash flows from outstanding balances. Management also makes estimates of the likely estimated future cash flows from balances determined to be impaired, as well as the timing of such cash flows. If the balances are individually significant the amount and timing of cash flows are estimated for each receivable individually. Where indicators of impairment are not observable on individually significant receivables, or on a group or portfolio of receivables that are not individually significant, management estimates the impairment by classifying each receivable or group of receivables according to their characteristics, such as credit risks and applying appropriate factors, such as historical loss experience, to each class with similar characteristics. The use of assumptions makes uncertainty inherent in such estimates.

(3) Fair value of financial instruments:

There are no quoted market prices for a significant portion of the group's financial assets and liabilities. Accordingly, fair values of several financial assets are estimated using prices obtained from a yield curve. That yield curve is, in turn, obtained from a pricing source which estimates the yield curve on the basis of indicative prices submitted to it by licensed banks and other financial institutions in Jamaica. There is significant uncertainty inherent in this approach which is categorised as a Level 2 fair value. Some other fair values are estimated based on quotes published by a broker/dealer, and these are also classified as Level 2. The estimates of fair value arrived at from these sources may be different from the actual price of the instrument in an actual arm's length transaction (see notes 6 and 26).

3. Significant accounting policies

(a) Basis of consolidation

(i) Subsidiaries

A subsidiary is an entity controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary is included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(ii) Loss of control

On the loss of control, the group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

(iii) Intra-group amounts eliminated on consolidation

Balances and transactions between companies within the group, and any unrealised gains arising from those transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(b) Financial instruments – Classification, recognition and derecognition, and measurement

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

- Financial assets comprise cash and cash equivalents, resale agreements, investment securities, accounts receivable and due from related parties.

- Financial liabilities comprise accounts payable, borrowings, repurchase agreements and due to related parties.

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

(i) Classification of financial instruments

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

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

3. Significant accounting policies (continued)

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

(i) Classification of financial instruments (continued)

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

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

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

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 liabilities into the other financial liabilities category.

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

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

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

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

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.

3. Significant accounting policies (continued)

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

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

*Loans and receivables:* On initial recognition they are measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses. Premiums and discounts are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Where securities classified as loans and receivables become quoted in an active market, such securities will not be reclassified as available-for-sale securities. An active market is one where quoted prices are readily and regularly available from an exchange dealer, broker or other agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

*Held-to-maturity:* On initial recognition they are measured at fair value, plus any directly attributable transaction costs. Premiums and discounts are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method, less impairment losses.

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

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

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

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

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

3. Significant accounting policies (continued)

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

(iv) Specific financial instruments

(1) Derivatives

Derivatives are financial instruments that derive their value from the price of the underlying items such as equities, bond interest rate, foreign exchange or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risk. The group makes use of derivatives to manage its own exposure to foreign exchange risk. Derivatives held for risk management purposes are measured initially at fair value in the statement of financial position. Subsequent to initial recognition, derivatives are measured at fair value, and, if the derivative is not held for trading, and is not designated in a qualifying hedge relationship, changes in fair value are recognised immediately in profit or loss.

(2) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term commitments (these investments include short-term deposits where the maturities do not exceed three months from the acquisition date). Cash and cash equivalents are measured at cost.

(3) Resale and repurchase agreements

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

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

3. Significant accounting policies (continued)

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

(iv) Specific financial instruments (continued)

(4) Accounts receivable

Accounts receivable are measured at amortised cost less impairment losses.

(5) Share capital

The group classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instrument. Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the group's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity. Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the stockholders, or if dividends are not discretionary. Dividends thereon are recognised as interest in profit or loss.

The convertible preference shares that the subsidiary company has in issue are redeemable at the option of the subsidiary company, and dividend payments are at the discretion of the directors. The holders of the shares also have the option to convert them to ordinary shares. Accordingly, they are presented as equity.

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

(6) Accounts payable

Accounts payable are measured at amortised cost.

(7) Borrowings

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

(c) Foreign currencies

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

(d) Property, plant and equipment

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

3. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

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

The cost of day-to-day servicing of property, plant and equipment is recognised in profit or loss as incurred.
Depreciation is charged on the straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

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

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

(e) Intangible asset – computer software and amortisation

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

These assets are measured at cost less accumulated amortisation and, if any, impairment losses. The assets are amortised using the straight-line method over their useful lives, estimated at five years. Amortisation methods, useful lives and residual values are reassessed at each reporting date.

(f) Employee benefits

(i) General benefits

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

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

3. Significant accounting policies (continued)

(f) Employee benefits (continued)

(ii) Defined-benefit pension plan

The subsidiary company is a participating employer in a group trustee, defined-benefit pension plan operated by the ultimate parent society [see note 14(a)]. The plan exposes the participating subsidiary company to actuarial risks associated with the current and former employees of group companies and there is no stated policy for charging the net defined benefit cost among group companies. Additionally, all residual interest in the scheme belongs to the ultimate parent society. The plan is, therefore, accounted for as a defined-contribution plan in the financial statements of the individual participating subsidiaries, that is, pension contributions, as recommended by the actuary, are expensed as they become due.

Effective January 1, 2017, the subsidiary company also participates in a defined contribution plan [see note 14(a)]. Contributions are expensed as they become due.

(iii) Post-employment medical benefits

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

The group's net obligation in respect of medical benefits provided to retirees is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that value is discounted to determine the present value. The discount rate is the yield on long-term government securities that have maturity dates approximating the terms of the group's obligation. The calculation is performed by an independent, qualified actuary using the *projected unit credit* method.

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

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

(g) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

3. Significant accounting policies (continued)

(g) Income tax (continued)

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

Deferred income tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on laws that have been enacted by the reporting date.

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

(h) Impairment

The carrying amount of the group’s assets is reviewed at each reporting date to determine whether there is any indication of impairment. If any such indications exist the asset’s recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Any cumulative impairment loss in respect of an available-for-sale investment recognised previously in other comprehensive income is transferred to profit or loss.

(i) Calculation of recoverable amount

The recoverable amount of the group’s investment in loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

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

3. Significant accounting policies (continued)

(h) Impairment (continued)

(ii) Reversals of impairment

An impairment loss in respect of loans and receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

For financial assets measured at amortised cost and available-for-sale investments that are debt securities, the reversal is recognised in profit or loss. For available-for-sale investments that are equity securities, the reversal is recognised in other comprehensive income.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

(i) Operating leases

Payments made under operating leases are recognised as an expense on the straight-line basis over the lease term.

(j) Revenue recognition

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

(i) Interest income

Interest income is recognised in profit or loss over the tenure of the instrument for all interest earning instruments on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset to its carrying amount. The effective interest rate is established on initial recognition of the financial asset and is not revised subsequently. Interest income includes coupons earned on fixed income investments, accretion of discount on treasury bills and other discounted instruments, and amortisation of premium on instruments bought at a premium.

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, interest is taken into account on the cash basis. IFRS requires that when receivables become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

3. Significant accounting policies (continued)

(j) Revenue recognition (continued)

(i) Interest income (continued)

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

(ii) Fee and commission income

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

(iii) Gain or loss from trading and holding securities

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

(iv) Dividend income

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

(k) Interest expense

Interest expense is recognised in profit or loss on the accrual basis over the tenure of the instrument using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial liability to its carrying amount.

(l) Segment reporting

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the entity’s chief operating decision maker to make decisions about resources to be allocated to the segment and assesses its performance; and for which discrete financial information is available.

Based on the information presented to and reviewed by the chief operating decision maker, the entire operations of the group are considered as one operating segment.

## 4. Cash and cash equivalents

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Bank accounts | 3,392,354 | 307,593 | 341,193 | 18,819 |
| Accounts with brokers | 17,635 | 9,383 | - | - |
| | 3,409,989 | 316,976 | 341,193 | 18,819 |

## 5. Resale agreements

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

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Denominated in Jamaica dollars | 2,460,000 | 190,000 |
| Denominated in United States dollars [US$7,332,093 (2016: US$13,996,003)] | 911,409 | 1,790,935 |
| | 3,371,409 | 1,980,935 |

Under collateralised resale agreements, the group obtains securities as collateral on terms which permit it to re-pledge or resell them to others under repurchase agreements (see note 12). At December 31, 2017, securities with such permission that the group held had a fair value of $3,627,458,000 (2016: $2,180,795,000).

VICTORIA MUTUAL INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

6. Investment securities

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| | $'000 | $'000 | $'000 | $'000 |
| **Investment securities at fair value through profit or loss:** | | | | |
| Quoted equities | 4,291 | 6,646 | - | - |
| Units in unit trust funds: | | | | |
| Denominated in Jamaica dollars | 148,182 | 109,703 | - | - |
| Denominated in United States dollars [US$285,222 (2016: US$228,596] | 35,454 | 29,251 | - | - |
| | 187,927 | 145,600 | - | - |
| **Loans and receivables:** | | | | |
| Certificates of deposit: | | | | |
| Bank of Jamaica | 547,175 | 103,726 | - | - |
| Corporate bonds | 145,237 | - | 145,237 | - |
| Government of Jamaica securities: | | | | |
| US$ Global bonds[US$317,911 (2016: US$325,083)] | 39,518 | 41,598 | - | - |
| | 731,930 | 145,324 | 145,237 | - |
| **Available-for-sale securities:** | | | | |
| Unquoted equities | 3,322 | 3,414 | - | - |
| Quoted equities | 372,300 | 272,850 | - | - |
| | 375,622 | 276,264 | - | - |
| Government of Jamaica securities: | | | | |
| Treasury bills | 3,537,765 | 5,050,746 | - | - |
| Benchmark investment notes | | | | |
| US$ bonds [US$35,947,243 (2016: US$36,902,695)] | 4,468,390 | 3,668,611 | - | - |
| | 8,006,155 | 8,719,357 | - | - |
| Bank of Jamaica securities: | | | | |
| US$ Certificates of deposit [US$8,344,832 (2016: US$18,264,294)] | 1,037,297 | 2,337,108 | - | - |
| Other public sector securities: | | | | |
| Denominated in United States dollars [US$ Nil (2016: US$1,234,900)] | - | 158,019 | - | - |
| Foreign government securities: | | | | |
| US$ bonds [US$10,817,900 (2016: US$10,118,234)] | 1,344,709 | 1,294,734 | - | - |
| | 10,763,783 | 12,785,482 | - | - |
| | 11,683,640 | 13,076,406 | 145,237 | - |

VICTORIA MUTUAL INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

6. Investment securities (continued)

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

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

| | Group 2016 | | | | | |
|---|---|---|---|---|---|---|
| | Within 3 months | 3 months to 1 year | 1 to 5 years | More than 5 years | No maturity | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| Investment securities at fair value through profit or loss: | | | | | | |
| Quoted equities | - | - | - | - | 6,646 | 6,646 |
| Units in unit trust funds | - | - | - | - | 138,954 | 138,954 |
| Loans and receivables: | | | | | | |
| Certificates of deposit | 59,968 | 43,758 | - | - | - | 103,726 |
| US$ Global bonds | - | - | - | 41,598 | - | 41,598 |
| Available-for-sale: | | | | | | |
| Unquoted equities | - | - | - | - | 3,414 | 3,414 |
| Quoted equities | - | - | - | - | 272,850 | 272,850 |
| Bank of Jamaica securities | - | - | 2,337,108 | - | - | 2,337,108 |
| Investment notes | - | 197,837 | 2,546,119 | 2,306,790 | - | 5,050,746 |
| US$ bonds | 255,921 | - | 1,060,670 | 3,804,773 | - | 5,121,364 |
| | 315,889 | 241,595 | 5,943,897 | 6,153,161 | 421,864 | 13,076,406 |

The corporate bonds of the group and the company include a bond with a carrying value of $71,552,000 which will mature within one year, while remaining bonds with carrying values totalling $73,685,000, mature after five years from the reporting date. There were no investment securities for the company as at December 31, 2016.

6. Investment securities (continued)

Certain Government of Jamaica and foreign government securities are pledged as collateral for repurchase agreements (see note 12).

Government of Jamaica securities having an aggregate face value of $32,000,000 (2016: $32,000,000) have been pledged as collateral against possible overdrafts and uncleared effects at one of the subsidiary company's bankers.

7. Accounts receivable - others

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2017 $'000** | **2016 $'000** | **2017 $'000** | **2016 $'000** |
| Interest receivable | 201,999 | 191,589 | 1,979 | - |
| Dividends receivable | - | - | - | 180,550 |
| Withholding tax and GCT recoverable, net | 70,540 | 58,602 | 2,196 | - |
| Margin loans receivable | 441,057 | 268,626 | 441,057 | - |
| Other receivables and prepaid expenses | 47,564 | 98,878 | 3,804 | 592 |
| | 761,160 | 617,695 | 449,036 | 181,142 |

Margin loans receivable are used to secure borrowings (note 15).

8. Deferred tax asset/liability

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

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

VICTORIA MUTUAL INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

8. Deferred tax asset/liability (continued)

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

| | Group 2016 | | | |
|---|---|---|---|---|
| | Balance at beginning of year | Recognised in other comprehensive income | Recognised in income (note 24) | Balance at end of year |
| | $'000 | $'000 | $'000 | $'000 |
| Property, plant and equipment | ( 919) | - | 2,492 | 1,573 |
| Investment securities | 37,047 | 28,107 | 24,289 | 89,443 |
| Interest receivable | (31,444) | - | (20,283) | (51,727) |
| Dividends receivable | ( 116) | - | ( 118) | ( 234) |
| Interest payable | 31,239 | - | ( 3,050) | 28,189 |
| Accrued vacation leave | 436 | - | - | 436 |
| Employee benefit obligation | 11,000 | 233 | 1,600 | 12,833 |
| Unrealised foreign exchange gains | ( 5,961) | - | 529 | ( 5,432) |
| | 41,282 | 28,340 | 5,459 | 75,081 |

(b) Deferred tax liability is attributable to the following:

| | Group and Company | | | | |
|---|---|---|---|---|---|
| | Balance at December 31, 2015 | Recognised in income (note 24) | Balance at December 31, 2016 | Recognised in income (note 24) | Balance at December 31, 2017 |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Interest receivable | 12 | ( 2) | 10 | 149 | 159 |

9. Property, plant and equipment

| | Group and Company | | | |
|---|---|---|---|---|
| | Computer equipment | Furniture and fixtures | Leasehold improvements | Total |
| | $'000 | $'000 | $'000 | $'000 |
| Cost: | | | | |
| December 31, 2015 | 13,311 | 23,249 | 20,048 | 56,608 |
| Additions | 730 | 72 | 82 | 884 |
| December 31, 2016 | 14,041 | 23,321 | 20,130 | 57,492 |
| Additions | 953 | 1,998 | 3,458 | 6,409 |
| December 31, 2017 | 14,994 | 25,319 | 23,588 | 63,901 |
| Depreciation: | | | | |
| December 31, 2015 | 8,118 | 7,625 | 10,464 | 26,207 |
| Charge for the year | 1,695 | 2,100 | 4,004 | 7,799 |
| December 31, 2016 | 9,813 | 9,725 | 14,468 | 34,006 |
| Charge for the year | 1,462 | 2,147 | 3,246 | 6,855 |
| December 31, 2017 | 11,275 | 11,872 | 17,714 | 40,681 |
| Net book value: | | | | |
| December 31, 2017 | 3,719 | 13,447 | 5,874 | 23,040 |
| December 31, 2016 | 4,228 | 13,596 | 5,662 | 23,486 |
| December 31, 2015 | 5,193 | 15,624 | 9,584 | 30,401 |

## 10. Intangible asset – computer software

| | Group | |
|---|---|---|
| | **2017** **$'000** | **2016** **$'000** |
| Cost: | | |
| At beginning of year | 146,384 | 115,919 |
| Additions | 139,086 | 30,465 |
| At end of year | 285,470 | 146,384 |
| Amortisation: | | |
| At beginning of year | 47,590 | 41,523 |
| Charge for the year | 4,386 | 6,067 |
| At end of year | 51,976 | 47,590 |
| Net book values | 233,494 | 98,794 |

Additions include $138,207,000 in respect of software development which is still in progress (2016: $28,377,000). These additions include costs totaling $123,646,000 that are payable to related parties at the end of the year (2016: $19,503,000).

## 11. Accounts payable - other

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** **$'000** | **2016** **$'000** | **2017** **$'000** | **2016** **$'000** |
| Interest payable | 108,313 | 84,568 | 6,685 | - |
| Other payables and accrued expenses | 320,532 | 125,417 | 17,221 | 23,821 |
| | 428,845 | 209,985 | 23,906 | 23,821 |

## 12. Repurchase agreements

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

| | Group | |
|---|---|---|
| | **2017** **$'000** | **2016** **$'000** |
| Denominated in Jamaica dollars | 5,857,502 | 4,605,521 |
| Denominated in United States dollars [US$58,786,945 (2016: US$72,949,676)] | 7,307,458 | 9,334,677 |
| | 13,164,960 | 13,940,198 |

At December 31, 2017, securities obtained under resale agreements and certain investments (see notes 5 and 6) and interest accrued thereon are pledged by the group as collateral for repurchase agreements. These financial instruments have a carrying value of $15,711,254,000 (2016: $15,058,599,000).

13. Preference shares

Interest-bearing borrowing which included preference shares were fully redeemed during the year. Details of these preference shares are set out in note 16. Related interest of $1,819,000 (2016: $2,040,000) was accrued during the year (note 23).

14. Employee benefit obligation

(a) Pensions

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

The members make compulsory contributions at 5% of pensionable salaries and may elect to pay voluntary contributions up to 14.5% to the extent that the total contributions paid by or on behalf of a member in any year does not, in aggregate, exceed 20% of remuneration in that year. The employer makes ordinary annual contributions as advised by the Actuary to be adequate, in addition to the members' compulsory contributions, to ensure the solvency of the Plan or to provide for any improvement, so long as such are in keeping with the relevant Act or other applicable legislation. The Plan provides for retirement and death benefits.

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

The most recent funding actuarial valuation of the defined benefit plan, performed as of December 31, 2016, indicated that it is adequately funded. The group's contribution to the plans for the year amounted to $496,000 (2016: $394,000) [note 22].

(b) Medical obligation

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

| | **2017** | **2016** |
|---|---|---|
| | **$'000** | **$'000** |
| Present value of obligation | 49,400 | 38,400 |

14. Employee benefits obligation (continued)

(b) Medical obligation (continued)

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

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Balance at beginning of year | 38,400 | 32,900 |
| Interest cost | 3,700 | 2,900 |
| Current service cost | 2,200 | 2,100 |
| Past service cost | 300 | - |
| Benefits paid | ( 200) | ( 200) |
| Experience adjustments and actuarial gains recognised in OCI | 5,000 | 700 |
| Net expense in profit or loss and OCI | 11,000 | 5,500 |
| Balance at end of year | 49,400 | 38,400 |

(ii) Expense recognised in staff costs (note 22):

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Current service cost | 2,200 | 2,100 |
| Past service cost | 300 | - |
| Interest on obligation | 3,700 | 2,900 |
| Benefits paid | ( 200) | ( 200) |
| | 6,000 | 4,800 |

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

| | 2017 % | 2016 % |
|---|---|---|
| Discount rate | 8.00 | 9.00 |
| Medical premiums growth | 7.00 | 8.00 |

(iv) As at December 31, 2017, the weighted average duration of the employee benefit obligation was 23 years (2016: 23 years).

14. Employee benefits obligation (continued)

(b) Medical obligation (continued)

(v) Sensitivity analysis

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

| | **1% increase** | | **1% decrease** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Discount rate | 947,500 | 30,600 | 1,474,200 | 48,800 |
| Assumed medical cost trend rate | 1,474,200 | 48,800 | 947,500 | 30,600 |

15 Borrowings

On August 16, 2017, the company issued a fixed rate secured bond for $500,000,000. The bond is secured by margin loans receivable (note 7) and is repayable by September 30, 2018. The bond is to be repaid by a lump sum payment and attracts a fixed interest rate of 8% per annum.

16. Share capital

| | **2017** | **2016** |
|---|---|---|
| | **$'000** | **$'000** |
| Authorised: | | |
| 5,000,000,000 (2016: 24,000,400) ordinary shares at no par value | | |
| Nil (2016: 12,000,000) preference shares at no par value | | |
| Issued and fully paid: | | |
| 1,500,025,000 (2016: 24,000,400) ordinary shares | 713,262 | 24,000 |
| Less: share issuance costs | ( 5,375) | - |
| | 707,887 | 24,000 |
| Nil (2016: 12,000,000) preference shares | - | 12,000 |
| | 707,887 | 36,000 |
| Less: Preference shares classified as non-current liability [see (c) below and note 13] | - | (12,000) |
| | 707,887 | 24,000 |

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

16. Share capital (continued)

(a) (Continued)

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

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

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

(b) The issued share capital does not include premium of $24,000,000 (2016: $24,000,000) on the shares, in accordance with Section 39(7) of the Jamaican Companies Act. This has been retained in the share premium account.

Preference shareholders have the right to a fixed cumulative preferential dividend at the rate of 17% per annum on the capital, as well as the right, in a winding up, of repayment of capital and payment of arrears of dividend, whether earned, declared or not, down to the commencement of the winding up in priority to the ordinary shares, but with no further right to participate in profits.

(c) International Financial Reporting Standards ("IFRS") require preference shares to be classified as a liability where the terms of issue provide for a fixed rate of dividend and/or for mandatory redemption by the issuer for a fixed or determinable amount at a fixed or determinable future date or gives the holder the right to require the issuer to redeem the shares at or after a particular date for a fixed or determinable amount.

The preference shares are, therefore, classified as a non-current liability and the related preference dividends are treated as interest and included in finance costs.

17. Reserves

(a) Investment revaluation reserve

This represents unrealised gains/(losses), net of taxation, on the revaluation of available-for-sale investment securities.

(b) Other reserve

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

## 18. Non-controlling interest

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

The holders of this category of preference shares have the right to convert each preference share to one ordinary share. The preference shares are redeemable, redemption being at the option of the subsidiary company and dividends are payable at such time as the subsidiary company may determine. The number of units in this category totals 50,000,000 (2016: 50,000,000).

## 19. Net interest income

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Interest income: | | | | |
| Investment securities | 600,473 | 656,907 | 5,311 | - |
| Resale agreements | 98,070 | 55,815 | - | - |
| Other | 37,122 | 20,025 | 20,312 | 2,798 |
| | 735,665 | 732,747 | 25,623 | 2,798 |
| Interest expense: | | | | |
| Repurchase agreements | (472,182) | (481,991) | (16,370) | - |
| Loans and borrowings | ( 16,370) | - | - | - |
| Other | ( 124) | - | ( 123) | - |
| | (488,676) | (481,991) | (16,493) | - |
| Net interest income | 246,989 | 250,756 | 9,130 | 2,798 |

## 20. Gains from investment activities

| | **Group** | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Fixed income securities | 162,882 | 203,304 |
| Equities | 6,752 | 32,897 |
| Unit trust funds | 26,111 | 2,449 |
| Net foreign exchange translation (losses)/gains | ( 2,668) | 39,974 |
| | 193,077 | 278,624 |

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

VICTORIA MUTUAL INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

## 21. Net fees and commissions

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Fixed income securities | 3,452 | 1,147 |
| Brokerage activities | 27,169 | 20,867 |
| Corporate advisory services | 316,537 | 164,094 |
| Portfolio management services | 96,982 | 90,674 |
| Unit trust funds | 55,984 | 2,761 |
| Mutual funds | 39 | 35 |
| | 500,163 | 279,578 |

## 22. Staff costs

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Salaries and wages | 239,607 | 175,628 |
| Statutory payroll contributions | 16,649 | 14,397 |
| Pension plan contributions [note 14(a)] | 496 | 394 |
| Post-employment medical benefit [note 14(b)(ii)] | 6,000 | 4,800 |
| Allowances and other benefits | 29,577 | 21,074 |
| | 292,329 | 216,293 |

VICTORIA MUTUAL INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

## 23. Other operating costs

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 $'000** | **2016 $'000** | **2017 $'000** | **2016 $'000** |
| Advertising and public relations | 30,195 | 28,454 | | - |
| Asset tax | 38,606 | 36,767 | 200 | 200 |
| Audit fees | 8,480 | 6,817 | 1,480 | 1,317 |
| Bad debs written-off | - | 5,039 | - | 5,039 |
| Bank charges | 7,272 | 6,459 | - | - |
| Communication and courier | 4,236 | 3,723 | - | - |
| Depreciation and amortisation | 11,241 | 13,866 | - | - |
| Directors' fees | 10,034 | 6,932 | 3,003 | - |
| Financial Services Commission fees | 8,684 | 7,834 | - | - |
| Foreign exchange loss | - | 3,265 | - | 3,265 |
| Irrecoverable GCT | 5,062 | 8,092 | 221 | 98 |
| Legal and other professional fees | 12,113 | 7,360 | 6,071 | - |
| Postage and telegraph | 1,170 | 1,177 | 83 | - |
| Rent, maintenance and utilities | 24,023 | 24,716 | - | - |
| Software maintenance and IT expenses | 22,600 | 21,129 | - | - |
| Stationery and office supplies | 4,601 | 3,996 | - | - |
| Trustee fees – retail repurchase agreements | 3,877 | 4,304 | - | - |
| Preference shares interest expense | 1,819 | 2,040 | 1,819 | 2,040 |
| Management fees | - | - | 3,356 | - |
| Other expenses | 12,288 | 8,806 | 2,536 | 66 |
| | 206,301 | 200,776 | 18,769 | 12,025 |

VICTORIA MUTUAL INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

24. Income tax

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| (i) Current income tax | | | | |
| Current year | 145,497 | 81,822 | - | - |
| Adjustment to prior year estimate | 84 | 93 | - | - |
| | 145,581 | 81,915 | - | - |
| (ii) Deferred income tax (note 8) | | | | |
| Origination and reversal of temporary differences | (24,058) | ( 5,459) | 149 | ( 2) |
| Total income tax charge | 121,523 | 76,456 | 149 | ( 2) |

(b) The effective tax rate for 2017 was 25.98% (2016: 19.42%) for the group and 0.001% (2016: 0.001%) for the company of pre-tax profits. The statutory rates are 25% (2016: 25%) for the company and 33⅓% (2016:33⅓) for the subsidiary company. The actual tax charge/(credit) differs from the theoretical tax charge for the year, as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Profit before income tax | 467,825 | 393,734 | 191,563 | 171,323 |
| Tax calculated at a rate of: | | | | |
| - 25% | 47,891 | 42,831 | 47,891 | 42,831 |
| - 33⅓% | 108,051 | 88,414 | - | - |
| Adjusted for the effects of: | | | | |
| Depreciation, amortisation and capital allowances | ( 299) | 346 | - | - |
| Income not subject to tax | ( 43,753) | ( 30,358) | ( 50,025) | ( 45,138) |
| (Income)/expenses not deductible for tax purposes | 9,549 | ( 24,870) | 2,283 | 2,305 |
| | 121,439 | 76,363 | 149 | ( 2) |
| Adjustment to prior year estimate | 84 | 93 | - | - |
| Actual tax charge | 121,523 | 76,456 | 149 | ( 2) |

25. Financial instruments-risk management

(a) Introduction and overview

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

- credit risk
- liquidity risk
- market risk

The Board of Directors of the company has overall responsibility for the establishment and oversight of the group's risk management framework. Senior management of the company and the subsidiary company report to the respective Board of Directors on their activities. The group's risk management policies are designed to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The group regularly reviews its risk management policies and systems to reflect changes in market conditions and product and service offerings. The respective Audit, Risk and Conduct Review Committees of the company and the subsidiary company are responsible for monitoring compliance with the group's risk management policies and for reviewing the adequacy of the risk management framework in relation to the risks faced by the group.

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

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

(b) Credit risk

Credit risk is the risk of financial loss to the 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 from stock broking activities, investing activities, collateralised lending and deposits with other institutions. Balances arising from these activities include debt securities, resale agreements, cash and cash equivalents and accounts receivable.

(i) Exposure to credit risk

The maximum credit exposure, the total amount of loss the group would suffer if every counterparty to the group's financial assets were to default at once, is represented by the carrying amount of financial assets.

25. Financial instruments-risk management (continued)

(b) Credit risk (continued)

(ii) Management of credit risk

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

- Cash and cash equivalents

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

- Resale agreements

  Collateral is held for all resale agreements.

- Investment securities

  In relation to its holding of investment securities, the group manages the level of risk it undertakes by investing substantially in short term Government of Jamaica debt securities; such securities are generally unsecured. Management does not expect any counterparty to fail to meet its obligations.

- Accounts receivable

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

(iii) Concentration of credit risk

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

(iv) Impairment

No financial asset was considered impaired at the reporting date.

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

(c) Liquidity risk

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

25. Financial instruments-risk management (continued)

(c) Liquidity risk (continued)

The group also manages this risk by keeping a pre-determined portion of its financial assets in liquid form. The key measure used for monitoring liquidity risk is the ninety day liquidity gap ratio. In computing the ratio, the numerator is calculated by subtracting the total assets maturing within ninety days from the total liabilities which fall due in ninety days. The denominator is total liabilities. The ninety day liquidity gap ratio at the end of the year was 38.28% (2016: 81.65%).

During the year there was no change to the nature of liquidity risk to which the group is exposed, or to the manner in w2hich it measures and manages the risk.

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

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

| | **Group** | | | | |
|---|---|---|---|---|---|
| | **2016** | | | | |
| | **Within 3 months** | **3 to 12 months** | **Over 12 months** | **Contractual cash flows** | **Carrying amount** |
| | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Accounts payable | 438,119 | - | - | 438,119 | 438,119 |
| Preference shares | - | - | 12,000 | 12,000 | 12,000 |
| Due to parent society | 218,125 | - | - | 218,125 | 218,125 |
| Repurchase agreements, including interest | 10,001,583 | 4,116,616 | 17,068 | 14,135,267 | 14,024,766 |
| | 10,657,827 | 4,116,616 | 29,068 | 14,803,511 | 14,693,010 |

25. Financial instruments-risk management (continued)

(c) Liquidity risk (continued)

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

| | Company | | | | |
|---|---|---|---|---|---|
| | 2016 | | | | |
| | Within 3 months | 3 to 12 months | Over 12 months | Contractual cash flows | Carrying amount |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Due to parent society | 182,523 | - | - | 182,523 | 182,523 |
| Accounts payables and accruals | 1,300 | - | 22,521 | 23,821 | 23,821 |
| Preference shares | - | - | 12,000 | 12,000 | 12,000 |
| | 183,823 | - | 34,521 | 218,344 | 218,344 |

(d) Market risk

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

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

(i) Foreign currency risk

Foreign currency risk is the risk that the market value of, or the cash flows from, financial instruments will vary because of exchange rate fluctuations. The group is exposed to foreign currency risk due to fluctuations in exchange rates on transactions and balances that are denominated in currencies other than the Jamaica dollar. The main currency giving rise to this risk is the United States dollar (US$). The group ensures that this risk is kept to an acceptable level by matching foreign currency assets with foreign currency liabilities, to the extent practicable. The net foreign currency exposure is kept to an acceptable level by buying or selling currencies at spot rates when necessary to address short-term imbalances. Foreign exchange gains and losses from these activities are included in other income.

VICTORIA MUTUAL INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

25. Financial instruments-risk management (continued)

(d) Market risk (continued)

(i) Foreign currency risk (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2017 US$'000** | **2016 US$'000** | **2017 US$'000** | **2016 US$'000** |
| Foreign currency assets: | | | | |
| Cash and cash equivalents | 7,379 | 2,115 | 24 | 9 |
| Resale agreements | 7,332 | 13,996 | - | - |
| Investments | 55,747 | 58,876 | - | - |
| Loan receivables | - | 214 | 274 | 214 |
| Accounts receivable | 5,794 | 1,997 | - | - |
| | 76,252 | 77,198 | 298 | 223 |
| Foreign currency liabilities: | | | | |
| Accounts payable | 12,822 | 1,970 | - | - |
| Repurchase agreements | 58,787 | 72,950 | - | - |
| | 71,609 | 74,920 | - | - |
| Net foreign currency assets | 4,643 | 2,278 | 298 | 223 |

Foreign exchange rates

The group uses the average of Bank of Jamaica's buying and selling rates [see note 3(b)]. The rates as at the reporting date were as follows:

| | **2017** | **2016** |
|---|---|---|
| United States dollar | 124.3041 | 127.961 |

Sensitivity to foreign exchange rate movements:

A 2% strengthening (2016: 1%) and a 4% weakening (2016: 6%) of the Jamaica dollar against the United States dollar at December 31, 2017 would have increased/(decreased) profit by the amounts shown in the table below. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis as for 2016.

| | **Group** | | | |
|---|---|---|---|---|
| | **2017** | | **2016** | |
| | **% Change in Currency Rate** | **Effect on Profit** | **% Change in Currency Rate** | **Effect on Profit** |
| | **%** | **$'000** | **%** | **$'000** |
| Currency: | | | | |
| US$ | 2% Revaluation | (11,543) | 1% Revaluation | ( 2,915) |
| US$ | 4% Revaluation | 23,086 | 6% Devaluation | 17,490 |

VICTORIA MUTUAL INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

25. Financial instruments-risk management (continued)

(d) Market risk (continued)

(i) Foreign currency risk (continued)

Sensitivity to foreign exchange rate movements (continued):

| | Company | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | % Change in Currency Rate | Effect on Profit | % Change in Currency Rate | Effect on Profit |
| | % | $'000 | % | $'000 |
| Currency: | | | | |
| US$ | 2% Revaluation | ( 7,41) | 1% Revaluation | ( 285) |
| US$ | 4% Revaluation | 1,482 | 6% Devaluation | 1,712 |

(ii) Interest rate risk

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

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

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

VICTORIA MUTUAL INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

25. Financial instruments-risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

| | Group | | | | |
|---|---|---|---|---|---|
| | 2016 | | | | |
| | Within 3 months | 3 to 12 months | Over 12 months | Non-rate sensitive | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Cash and cash equivalents | 79,883 | - | - | 237,093 | 316,976 |
| Resale agreements | 1,348,149 | 632,786 | - | - | 1,980,935 |
| Investment securities | 5,147,363 | 241,595 | 7,265,584 | 421,864 | 13,076,406 |
| Loans receivable | - | - | 27,343 | - | 27,343 |
| Accounts receivable | 18,550 | - | - | 617,695 | 636,245 |
| **Total financial assets** | **6,593,945** | **874,381** | **7,292,927** | **1,276,652** | **16,037,905** |
| Due to parent society | 218,125 | - | - | - | 218,125 |
| Accounts payable | - | - | - | 438,119 | 438,119 |
| Repurchase agreements | 9,917,111 | 3,999,145 | 23,942 | - | 13,940,198 |
| Preference share | - | - | - | 12,000 | 12,000 |
| **Total financial liabilities** | **10,135,236** | **3,999,145** | **23,942** | **450,119** | **14,608,442** |
| **Total interest sensitivity gap*** | **(3,541,291)** | **(3,124,764)** | **7,268,985** | **826,533** | **1,429,463** |
| **Cumulative gap** | **(3,541,291)** | **(6,666,055)** | **602,930** | **1,429,463** | **-** |

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

VICTORIA MUTUAL INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

25. Financial instruments-risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

| | Company | | | | |
|---|---|---|---|---|---|
| | 2016 | | | | |
| | Within 3 months | 3 to 12 months | Over 12 months | Non-rate sensitive | Total |
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| Cash and cash equivalents | 18,819 | - | - | - | 18,819 |
| Loans receivable | - | - | 27,343 | - | 27,343 |
| **Total financial assets** | **18,819** | - | **27,343** | - | **46,162** |
| Due to parent society | 182,523 | - | - | - | 182,523 |
| Other payable | - | - | - | 23,821 | 23,821 |
| Preference shares | - | - | - | 12,000 | 12,000 |
| **Total financial liabilities** | 182,523 | - | - | 35,821 | 218,344 |
| **Total interest sensitivity gap*** | **(163,704)** | - | **27,343** | **( 35,821)** | **(172,182)** |
| **Cumulative gap** | **(163,704)** | **(163,704)** | **(136,361)** | **(172,182)** | - |

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

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

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

VICTORIA MUTUAL INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

25. Financial instruments-risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

| | Group | | | |
|---|---|---|---|---|
| | **Within 3 months** | **3 to 12 months** | **Over 12 months** | **Overall average** |
| **December 31, 2016:** | % | % | % | % |
| **Assets** | | | | |
| J$ Cash and cash equivalents | 0.05 | - | - | 0.05 |
| US$ Cash and cash equivalents | 0.10 | - | - | 0.10 |
| J$ Resale agreements | 5.54 | 7.00 | - | 5.70 |
| US$ Resale agreements | 1.71 | 2.87 | - | 2.11 |
| J$ Investment securities | 6.13 | 7.19 | 8.62 | 6.19 |
| US$ Investment securities | 0.42 | - | 6.22 | 6.02 |
| **Liabilities** | | | | |
| J$ Repurchase agreements | 5.64 | 6.46 | 4.75 | 5.82 |
| US$ Repurchase agreements | 1.79 | 2.34 | 1.25 | 1.96 |

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

| | Company | | | |
|---|---|---|---|---|
| | **Within 3 months** | **3 to 12 months** | **Over 12 months** | **Overall average** |
| **December 31, 2016:** | % | % | % | % |
| **Assets** | | | | |
| J$ Cash and cash equivalents | .03 | - | - | .03 |
| US$ Cash and cash equivalents | .01 | - | - | .01 |
| Loan receivable | - | - | 8 | 8 |
| **Liabilities** | | | | |
| Preference shares | - | - | 17 | 17 |

25. Financial instruments-risk management (continued)

(d) Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivity to interest rate movements

The following shows the sensitivity to interest rate movements at the reporting date on the group's profit and equity. The analysis assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis is performed on the same basis as for 2016.

| | 2017 | 2016 |
|---|---|---|
| J$ interest rates | Increase by 100 bps; Decrease by 100 bps | Increase by 100 bps; Decrease by 100 bps |
| US$ interest rates | Increase by 100 bps; Decrease by 50 bps | Increase by 100 bps; Decrease by 50 bps |

| 2017 | | | 2016 | | |
|---|---|---|---|---|---|
| **Change in basis points** | **Effect on profit** | **Effect on equity** | **Change in basis points** | **Effect on profit** | **Effect on equity** |
| **JMD / USD** | **$'000** | **$'000** | **JMD / USD** | **$'000** | **$'000** |
| +100 / + 50 | (24,925) | (209,686) | +100 / +100 | (69,628) | (771,830) |
| - 100 / - 50 | 24,925 | 218,570 | - 100 / - 50 | 32,202 | 762,188 |

(iii) Equity price risk

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

The group's equity securities that are listed on the Jamaica Stock Exchange total $376,591,000 (2016: $279,496,000). An increase or decrease of 15% (2016: 10%) in share prices would result in an increase or an equal decrease, respectively, in profit of $644,000 (2016: $665,000) and an increase or equal decrease in other comprehensive income of $56,489,000 (2016: $27,950,000).

25. Financial instruments-risk management (continued)

(e) Capital management

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

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

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

| | **2017** | **2016** |
|---|---|---|
| | **$'000** | **$'000** |
| Tier 1 Capital | 1,655,624 | 1,500,736 |
| Tier 2 Capital | 40,067 | 43,400 |
| Total regulatory capital | 1,695,691 | 1,544,136 |
| Risk-Weighted Assets: | | |
| On statement of financial position | 9,506,948 | 7,458,620 |
| Foreign exchange exposure | 530,910 | 263,213 |
| | 10,037,858 | 7,721,833 |
| Operational risk-weighted assets | 247,527 | 218,894 |
| | 10,285,385 | 7,940,727 |

Capital adequacy ratios:

| | **FSC Benchmark** | **2017** | **2016** |
|---|---|---|---|
| Tier 1 Capital/Total regulatory capital | Greater than 50% | 97.64% | 97.19% |
| Total regulatory capital/risk-weighted | Minimum 10% | 16.49% | 19.45% |
| Actual capital base /total assets | Greater than 6% | 9.92% | 9.89% |

The capital position is sensitive to changes in market conditions. This sensitivity is due primarily to changes in the value of assets and liabilities resulting from changes in interest rates.

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

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

25. Financial instruments - risk management (continued)

(e) Capital management (continued)

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

| | 2017 $'000 | 2016 $'000 |
|---|---|---|
| Net Free Capital | 1,495,594 | 1,334,885 |
| Minimum Capital Requirements | ( 861,644) | ( 730,452) |
| Excess of Net Free Capital | 633,950 | 604,433 |
| | | |
| Total Liabilities | 17,232,891 | 14,609,048 |

| | JSE Benchmark | 2017 | 2016 |
|---|---|---|---|
| Net Free Capital/Total Liabilities | Greater than 5% | 8.68% | 9.14% |

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

26. Financial instruments - fair values

(a) Definition and measurement of fair values

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When measuring fair value of an asset or liability, where a quoted market price is available, fair value is computed by the group using the quoted bid price at the reporting date, without any deduction for transaction costs or other adjustments. Where a quoted market price is not available, fair value is computed using alternative techniques making use of available input data; the group uses observable data as far as possible. Fair values are categorised into different levels in a three-level fair value hierarchy, based on the degree to which the inputs used in the valuation techniques are observable.

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

**Level 1**
Included in the Level 1 category are financial assets and liabilities that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

26. Financial instruments - fair values (continued)

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

**Level 2**
Included in the Level 2 category are financial assets and liabilities that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in funds with fair values obtained via fund managers, and assets that are valued using a model whereby the majority of assumptions are market observable.

**Level 3**
Included in the Level 3 category are financial assets and liabilities that are measured using non-market observable inputs. This means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. The techniques used to estimate fair values, together with the inputs used, are described in note 26(b). The use of assumptions and estimates means that the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

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

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

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

26. Financial instruments - fair values (continued)

(c) Accounting classifications and fair values:

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy.

| | | Group 2017 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Carrying amount | | | | Fair value* | | |
| | Notes | Loans and receivables $'000 | Available-for- sale $'000 | Fair value through profit or loss $'000 | Total $'000 | Level 1 $'000 | Level 2 $'000 | Total $'000 |
| **Financial assets measured at fair value:** | | | | | | | | |
| Quoted equities | 6 | - | 372,300 | 4,291 | 376,591 | 376,591 | - | 376,591 |
| Units in unit trust funds | 6 | - | - | 183,636 | 183,636 | - | 183,636 | 183,636 |
| Bank of Jamaica securities | 6 | - | 1,037,297 | - | 1,037,297 | - | 1,037,297 | 1,037,297 |
| Government of Jamaica securities | 6 | - | 8,006,155 | - | 8,006,155 | - | 8,006,155 | 8,006,155 |
| Foreign government securities | 6 | - | 1,344,709 | - | 1,344,709 | - | 1,344,709 | 1,344,709 |
| | | - | 10,760,461 | 187,927 | 10,948,388 | 376,591 | 10,571,797 | 10,948,388 |
| **Financial assets not measured at fair value:** | | | | | | | | |
| Government of Jamaica securities | 6 | 39,518 | - | - | 39,518 | - | 41,992 | 41,992 |

| | | Group 2016 | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Carrying amount | | | | Fair value* | | |
| | Notes | Loans and receivables $'000 | Available-for- sale $'000 | Fair value through profit or loss $'000 | Total $'000 | Level 1 $'000 | Level 2 $'000 | Total $'000 |
| **Financial assets measured at fair value:** | | | | | | | | |
| Quoted equities | 6 | - | 272,850 | 6,646 | 279,496 | 279,496 | - | 279,496 |
| Units in unit trust funds | 6 | - | - | 138,954 | 138,954 | - | 138,954 | 138,954 |
| Bank of Jamaica securities | 6 | - | 2,337,108 | - | 2,337,108 | - | 2,337,108 | 2,337,108 |
| Government of Jamaica securities | 6 | - | 8,719,357 | - | 8,719,357 | - | 8,719,357 | 8,719,357 |
| Other public sector securities | 6 | - | 158,019 | - | 158,019 | - | 158,019 | 158,019 |
| Foreign government securities | 6 | - | 1,294,734 | - | 1,294,734 | - | 1,294,734 | 1,294,734 |
| | | - | 12,782,068 | 145,600 | 12,927,668 | 279,496 | 12,648,172 | 12,927,668 |
| **Financial assets not measured at fair value:** | | | | | | | | |
| Government of Jamaica securities | 6 | 41,598 | - | - | 41,598 | 42,206 | - | 42,206 |

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

27. Related party transactions and balances

(a) Definition of related party

A related party is a person or entity that is related to the group.

(i) A person or a close member of that person's family is related to the group if that person:

(1) has control or joint control over the group;

(2) has significant influence over the group; or

(3) is a member of the key management personnel of the group or of a parent of the group.

(ii) An entity is related to the group if any of the following conditions applies:

(1) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an entity of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

(6) The entity is controlled, or jointly controlled, by a person identified in (a)(i) above.

(7) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity or any member of a group of which it is a part providing key management services to the group or to the parent of the group;

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

(b) Identity of related parties

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

VICTORIA MUTUAL INVESTMENTS LIMITED

Notes to the Financial Statements (Continued)
December 31, 2017

27. Related party transactions and balances (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| Cash and cash equivalents: | | | | |
| Parent society | 590,577 | 22,016 | 328,210 | 18,819 |
| Loans receivable: | | | | |
| Fellow subsidiary [note 27(e)] | - | 27,343 | - | - |
| Repurchase agreements: | | | | |
| Ultimate parent society | 1,284,549 | 1,359,620 | - | - |
| Fellow subsidiaries | 59,826 | 15,544 | - | |
| Associate of ultimate parent society | 99,659 | 252,629 | - | - |
| Directors | 1,545 | 6,095 | - | - |
| Key management personnel, excluding directors | 22,156 | 9,922 | - | - |
| Investment securities: | | | | |
| Ultimate parent society | 50,000 | - | - | - |
| Accounts receivable: | | | | |
| Directors | - | 7,279 | - | - |
| Key management personnel, excluding directors | - | 7,490 | - | - |
| Subsidiary | - | - | 280,452 | - |
| Fellow subsidiary | - | 27,343 | - | 27,343 |
| Ultimate parent society | 50,000 | - | 50,000 | - |
| Due to ultimate parent society | 1,819 | 218,125 | 1,819 | 182,523 |
| Accounts payable – other: | | | | |
| Fellow subsidiaries | - | 27,021 | - | 22,520 |
| Due to ultimate parent society | 158,753 | - | - | - |
| Associate of ultimate parent society | 1,253 | 2,640 | - | - |
| Directors | 3 | 2 | - | - |
| Key management personnel, excluding directors | 153 | 43 | - | - |

27. Related party transactions and balances (continued)

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

| | Group | | Company | |
|---|---|---|---|---|
| | 2017 $'000 | 2016 $'000 | 2017 $'000 | 2016 $'000 |
| Interest and dividend income: | | | | |
| Parent society | 8,586 | 44 | 726 | 577 |
| Directors | 494 | 502 | - | - |
| Key management personnel, excluding directors | 526 | 482 | - | - |
| Fellow subsidiary | - | 2,221 | 200,100 | 182,771 |
| Commission expense: | | | | |
| Fellow subsidiary | 5,697 | 1,308 | - | - |
| Operating expenses: | | | | - |
| Parent society | 62,167 | 44,399 | - | - |
| Fellow subsidiary | 8,280 | 2,000 | 3,358 | - |
| Ultimate parent society | 50,000 | - | 50,000 | - |
| Interest and dividend expense: | | | | |
| Parent society | 246,497 | 58,178 | 201,982 | 182,523 |
| Fellow subsidiaries | 1,464 | 1,698 | - | - |
| Associate of ultimate parent society | 15,285 | 16,492 | - | |
| Directors | 67 | 164 | - | - |
| Key management personnel, excluding directors | 361 | 293 | - | - |
| Directors' fees (note 23) | 10,034 | 6,932 | 3,003 | - |
| Short-term employee benefits: | | | | |
| Key management personnel, excluding directors | 72,008 | 61,376 | - | - |

(e) Loan receivable

| | Group | |
|---|---|---|
| | 2017 $'000 | 2016 $'000 |
| At beginning of year | 27,343 | 30,683 |
| Repayment | (27,550) | - |
| Exchange gains/(losses) | 207 | ( 3,340) |
| At end of year | - | 27,343 |
| | £ - | £173,913 |

This is a demand loan to Victoria Mutual Finance Limited, a fellow subsidiary. It was denominated in Pound Sterling, unsecured and bore interest at 8% per annum. It was part of an approved loan facility totalling £352,000. The loan was repaid during the year.

## 28. Reclassification of financial assets

At September 30, 2008, the subsidiary group reclassified certain investment securities previously included in available-for-sale to loans and receivables in accordance with paragraph 50(E) of IAS 39, due to the market for these investments becoming inactive in 2008. The standard requires that the reclassification be made at the fair value of the assets at the date of the reclassification. The prices of the Government of Jamaica Global Bonds as at September 30, 2008 were used to determine the fair value at the reclassification date.

The carrying value and fair value of these securities as at the reporting date are as follows:

| | **2017** | | **2016** | |
|---|---|---|---|---|
| | **Carrying value $'000** | **Fair value $'000** | **Carrying value $'000** | **Fair value $'000** |
| Government of Jamaica securities: | | | | |
| US$ denominated Global Bonds | 39,518 | 41,992 | 41,598 | 42,206 |

(a) Fair value losses, excluding deferred taxation, of $10,000 (2016: $9,000) were recognised in equity in relation to the above investment securities reclassified in 2008.

(b) None of these securities were sold in 2017 [2016: None]. Fair value losses of $214,000 (2016: gains of $2,616,000), excluding deferred taxation, would have been included in equity for the year had the remaining investments not been reclassified. This amount was estimated on the basis of the bid-price of the securities as at December 31, 2017.

Based on data on market activity during the fourth quarter of 2010, it was determined that the market for Government of Jamaica Global Bonds had regained active status as of December 1, 2010. The subsidiary company opted to retain the classification of these securities as loans and receivables.

(c) The weighted average effective interest rate of the investment securities at the date of reclassification was 8.32% for US$ denominated bonds and 10.50% for EURO denominated bonds. The undiscounted cash flows to be recovered from the remaining investment securities reclassified amount to $48,609,000 (2016: $53,995,000).

## 29. Dividends

On November 22, 2017 the Board of Directors declared an interim dividend of $8.34 (2016: $7.52) per ordinary stock unit of the paid up capital stock of 24,000,400 ordinary stock units, paid to the shareholders on record as at October 31, 2017.

## 30. Managed funds and custodial arrangements

The group acts as agent and earns fees for managing clients' funds on a non-recourse basis under management agreements. The subsidiary group has no legal or equitable right or interest in these funds and, accordingly, they have been excluded from the financial statements. At December 31, 2017, these funds amounted to $19,875,308,000 (2016: $15,339,937,000).

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

## 31. Capital commitment

| | Group | |
|---|---|---|
| | **2017** | **2016** |
| | **$'000** | **$'000** |
| Intangible asset – computer software | 85,895 | 224,102 |

## 32. Earnings per share

The calculation of basic earnings per share is calculated by dividing the profit for the year attributable to owners of the company of $346,302,000 (2016: $317,278,000), by a weighted average number of ordinary shares held during the year.

| | **2017** | **2016** |
|---|---|---|
| Weighted- average number of ordinary shares (basic) | | |
| Issued ordinary shares at 1 January* | 1,200,020,000 | 1,200,020,000 |
| Effect of shares issued on December 27, 2017 | 3,287,726 | - |
| Weighted- average number of ordinary shares at December 31 | 1,203,307,726 | 1,200,020,000 |
| Basic earnings per share | $ 0.29 | $ 0.26 |

* This was adjusted for the stock split during the year [Note 16(a)].

## 33. Subsequent event

At the Board of Directors meeting held on February 26, 2018, a resolution was passed approving the payment of an interim dividend of $0.02 per share amounting to $30,001,000, to be paid on March 23, 2018 to shareholders on record as at March 9, 2018.