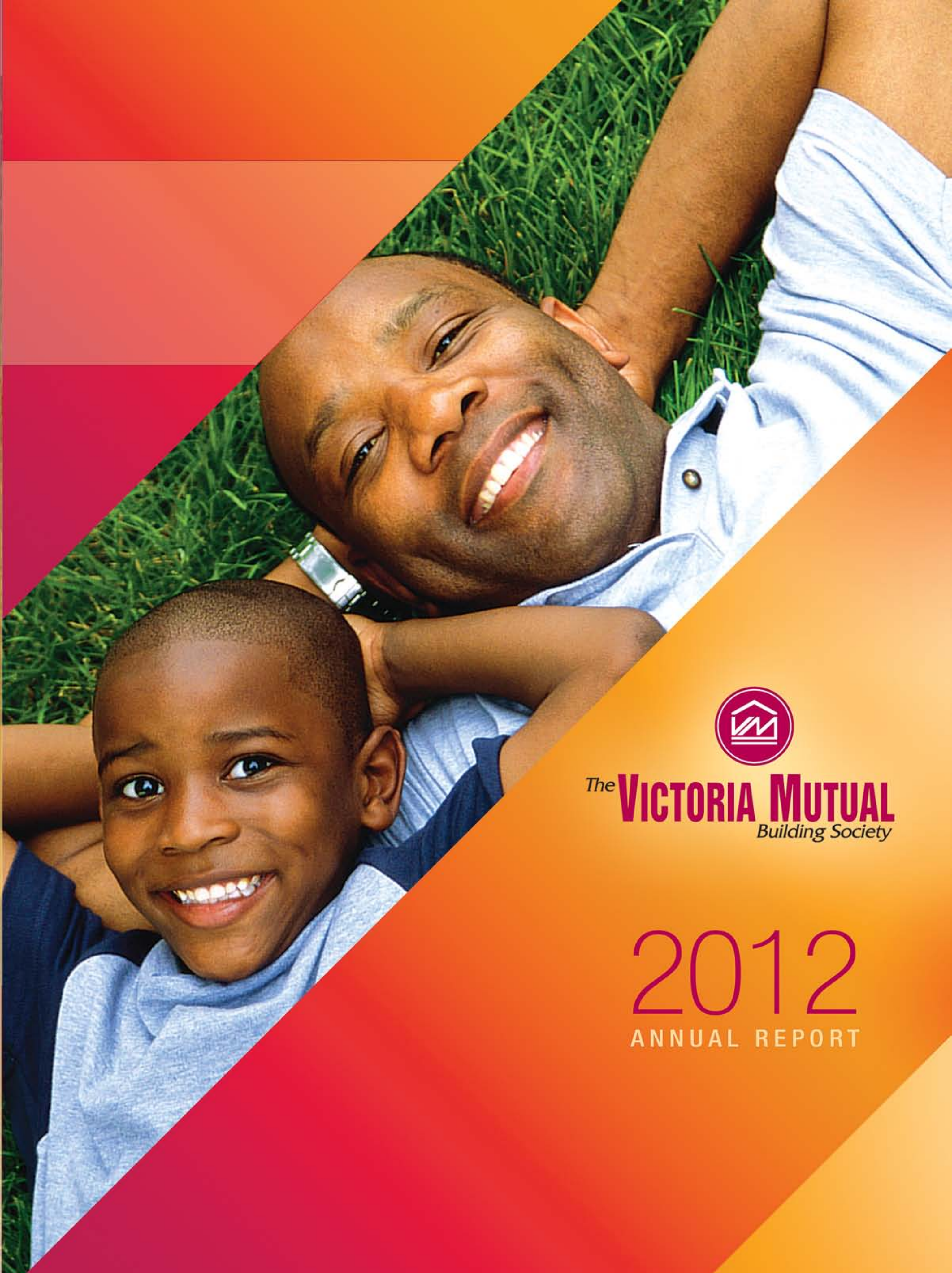

The Victoria Mutual Building Society

2012 ANNUAL REPORT

The Victoria Mutual Building Society

Vision Statement

To be the leading provider of financial services

Mission Statement

We are a mutual organisation whose mission is to maximise value for our Members and other key stakeholders by providing exceptional financial services locally, regionally and internationally to Caribbean nationals through enabling technology and a highly trained and motivated team to ensure superior Member and customer satisfaction.

Core Values

- Flexibility
- Integrity
- Teamwork
- Innovation
- Respect
- Excellence
- Enthusiasm

Table of Contents

The Victoria Mutual Building Society

Memeber Care: (876) 754-8627 | Toll Free:1-888-YES-VMBS (937-8627),
1-866-967-8627 (USA and Canada) | Free Phone (UK): 0-800-068-8627
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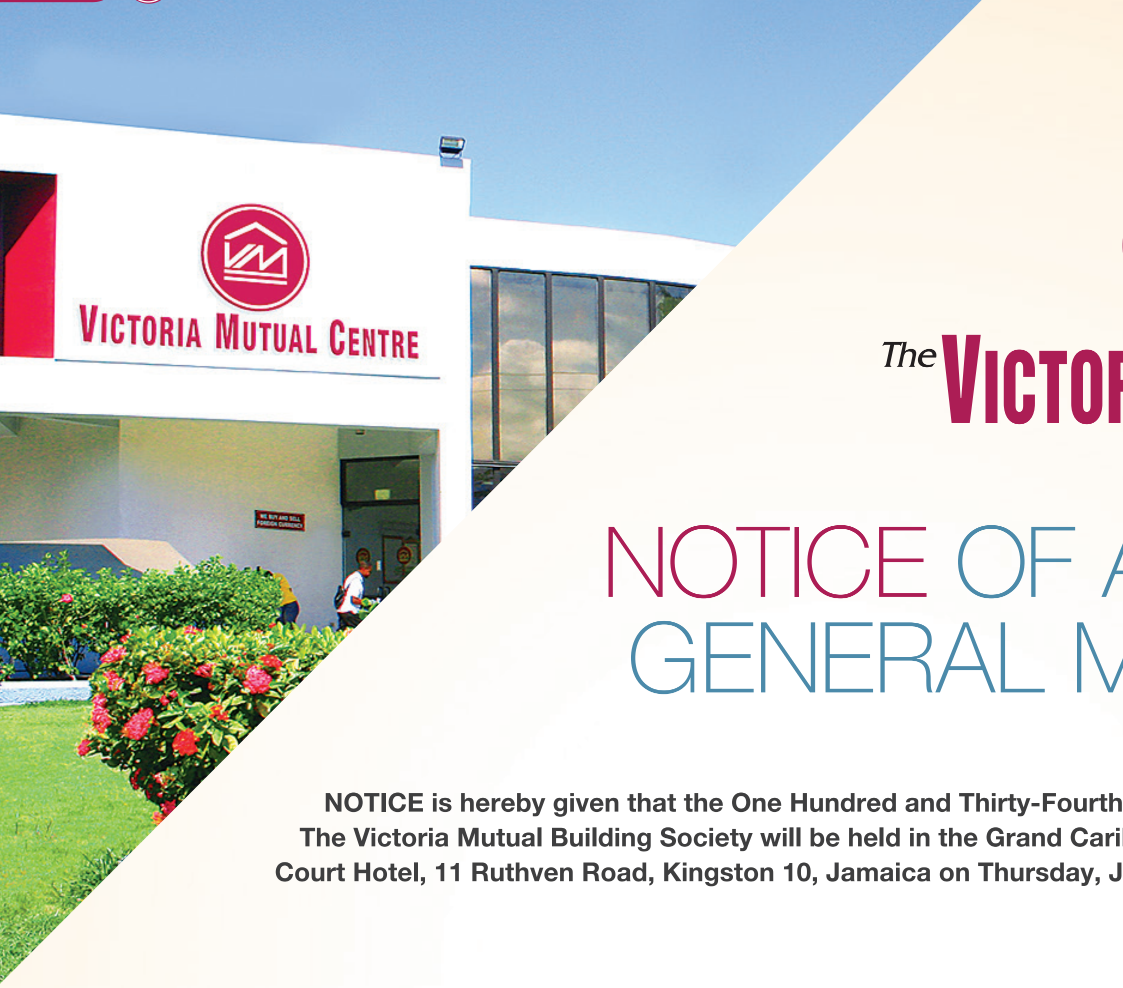


The Victoria Mutual Building Society

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the One Hundred and Thirty-Fourth Annual General Meeting of The Victoria Mutual Building Society will be held in the Grand Caribbean Suite, The Knutsford Court Hotel, 11 Ruthven Road, Kingston 10, Jamaica on Thursday, July 25, 2013 at 3.00 p.m. for the following purposes:-

1. **To receive the Audited Group Accounts for the year ended 31 December 2012 and the Reports of the Directors and Auditors.**
2. **To elect Directors.**
3. **To appoint Auditors and authorize the Directors to fix the remuneration of the Auditors.**
4. **To transact any other business permissible by the Society's rules at an Annual General Meeting.**

By Order of the Board

Keri-Gaye Brown
Secretary
Dated; 28th day of May 2012

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

DIRECTORS' REPORT

The Directors take pleasure in presenting the One Hundred and Thirty-fourth Annual Report and Statements of Revenue and Expenditure of the Group and the Society, for the year ended 31 December 2012, together with the Statements of Financial Position of the Group and the Society, as at that date.

SURPLUS

The Group Revenue and Expenditure Account shows Gross Revenue of $6.161billion (2011: $5.931 billion) and Net Surplus of $997.65 million (2011: $912.88 million).

DIRECTORS

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

Mr. Michael McMorris, Chairman
Dr. Judith Robinson, Deputy Chairman
Mr. Roy Hutchinson
Rear Admiral Peter Brady
Mr. Noel daCosta
Mr. Fernando DePeralto
Mr. George Dougall
Mr. Paul Pennicook
Mr. Richard K. Powell
Mr. Richard M. Powell
Mr. Maurice Robinson
Mrs. Jeanne Robinson-Foster
Miss Sandra Shirley
Mr. Matthew Wright

ROTATION

In accordance with Rule 61(1) of the Society's Rules, at the next Annual General Meeting, Mr. Fernando DePeralto and Mrs. Jeanne Robinson-Foster will retire by rotation and being eligible, will offer themselves for re-election.

In accordance with Rule Number 62 of the Society's Rules Mr. Brian Goldson, having been appointed to the Board since the last Annual General Meeting, will retire from office and, being eligible, offers himself for election.

RETIREMENT

Mr. Roy Hutchinson resigned from the Board effective August 1, 2012. The Board wishes to record its sincere gratitude and appreciation to him for his valuable contribution to the Society.

AUDITORS

Messrs. Patrick Chin and Linroy Marshall, Auditors of the Society, retire and, in accordance with Rule 71, being eligible, offer themselves for re-appointment.

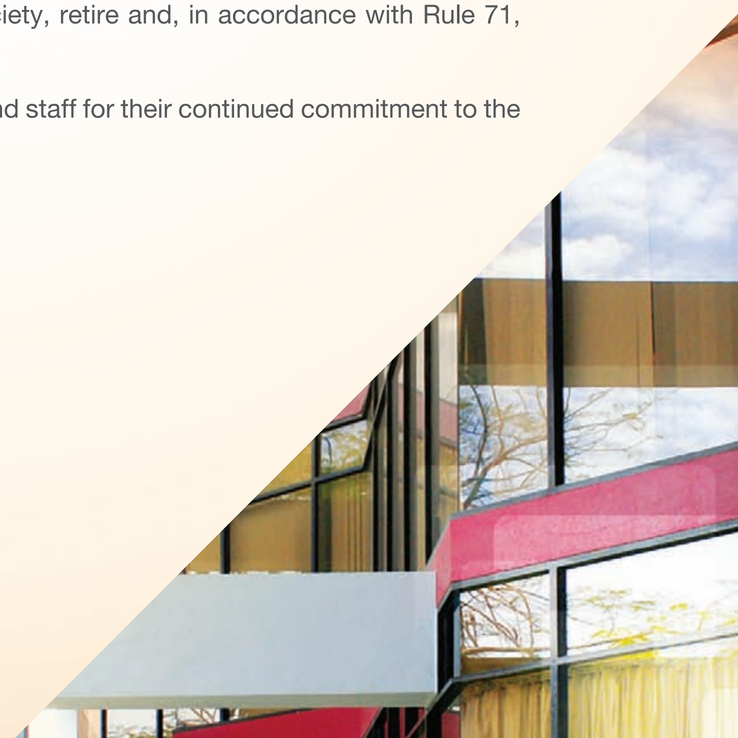
The Directors wish to record their thanks to the management and staff for their continued commitment to the Society and for their hard work during the year under review.

By Order of the Board
24 May 2013

KBrown

Keri-Gaye Brown
Secretary

8-10 Duke Street, Kingston
Jamaica, West Indies



Board of DIRECTORS

MICHAEL A. MCMORRIS
B.A.,
Chairman

Mr. Michael McMorris is the Chairman of the Board of Directors at Victoria Mutual Building Society and has been a member of the Board for over six years. He is also the Principal of the business management firm KRONOS Limited that specializes in new venture development, and includes among its areas of expertise, investment project feasibility & facilitation, debt and equity fundraising and corporate management outsourcing. Prior to KRONOS, Mr. McMorris has had a successful career in both the Private and Public sectors and was previously an Executive Director of Jamaica Promotions Corporation (JAMPRO) and has held the position of Managing Director with Trafalgar Commercial Bank (now First Global) and Knutsford Capital Merchant Bank, of which he is also a founder. He has been President of the Merchant Bankers Association, Chairman of the Finance Committee of the Airports Authority of Jamaica and a member of the Board of the National Export-Import Bank. Mr. McMorris also currently serves as Chairman of the Victoria Mutual Wealth Management Limited and Deputy Chairman of the Victoria Mutual Group's affiliate company, British Caribbean Insurance Company (BCIC).

JUDITH ROBINSON
Ph.D., F.C.C.A., F.C.A.,
Deputy Chairman

Dr. Judith Robinson is a Chartered Accountant and Management Consultant, who has extensive experience in the areas of organizational development, financial planning and control, strategic planning and performance monitoring and evaluation. A former partner in the management consulting practice of Price Waterhouse Jamaica, Dr. Robinson has held senior management and accounting positions at the Jamaica Telephone Company Ltd, the National Water Commission, and NCR (Jamaica) Commission, and NCR (Jamaica) Ltd. She currently serves as Chairman of NEPA's Advisoy Board, Director of the Caribbean Cement Company Limited, IGL Limited, National Water Commission and Finsac Limited, and is a member of the Public Sector Committee of the Institute of Chartered Accountants of Jamaica.NCR (Jamaica) Limited.

RICHARD K. POWELL
M.B.A., M.Sc., B.Sc.(Hons.),
President & CEO

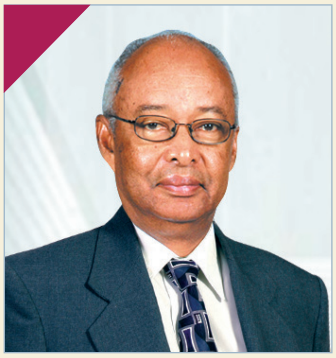
Mr. Richard Powell, President and Chief Executive Officer, joined The Victoria Mutual Building Society in July 2005 and is the first leader of the Society to have been appointed from outside of the organization. Mr. Powell is a highly qualified and respected executive, whose professional experience includes appointments as President and CEO of Life of Jamaica Limited and Blue Cross of Jamaica, as well as an executive management position at the Lascelles DeMercado Group of Companies.

He has also had a successful engineering career in the public sector and has a reputation for executing his responsibilities with unquestioned integrity, dedication and professionalism. Mr. Powell has led a drive to transform the Society and its subsidiaries into an integrated financial services provider. The new strategic approach is geared, not only towards improving financial and operational efficiency, but also repositioning the Group as a dynamic and customer-driven organization. Mr. Powell has served on the Boards of many Companies and Public Sector Agencies including Life of Jamaica Limited, Island Life Insurance Company Limited, Lascelles DeMercado & Company Limited, The National Resources Conservation Authority, the Environmental Foundation of Jamaica and the National Works Agency.

Board of Directors Cont'd

JEANNE P. ROBINSON-FOSTER
C.L.E., LL.B(Hons.), B.A.(Hons.),

Mrs. Jeanne Robinson-Foster, Attorney-at-Law and Notary Public, possesses over 20 years of experience in the Legal profession and was founding Partner of Watt, King & Robinson. In October 2011, she was conferred with the Order of Distinction (O.D.) in the Commander Class. A Past Director of the Montego Bay Chamber of Commerce, Mrs. Robinson-Foster is the Immediate Past President of the Cornwall Bar Association, a Past National President of the Soroptimists Club of Jamaica and has also held the post of Director of the Montego Co-Operative Credit Union, Montego Bay High School, Barracks Road Primary and the Cornwall Regional Hospital. Mrs. Robinson-Foster is presently Chairman of the Board of the Mutual Building Societies Foundation and Sam Sharpe Teachers College, represents the Building Societies Association on the Governor General's Achievement Awards Cornwall County Committee and is a Trustee and Chairman of the Good Shepherd Foundation. She is actively involved in the Calvary Baptist Church and many other organizations.



MR. NOEL dACOSTA
MA.Sc., M.B.A.,B.Sc., ACII

Mr. Noel daCosta was appointed to the Board of Directors in January 2006. He is currently a consultant with Diageo where he previously held the position of Corporate Relations Director for Central America and the Caribbean. He has also held senior management positions at Desnoes & Geddes Ltd., including Brewmaster and Technical Director. This Commonwealth Scholar and Fellow of the Institute of Chemical Engineers in the UK and the Jamaica Institute of Engineers, is qualified in Engineering, Management and Insurance. Mr. daCosta has served and continues to serve on many other boards, including Petroleum Corporation of Jamaica, Desnoes and Geddes Ltd, the the Jamaica Chamber of Commerce, United Way of Jamaica, Caribbean Association of Industry and Commerce, and the Caribbean Breweries Association. He currently heads the committee that is crafting the National Building Code for Jamaica.

PAUL PENNICOOK
B. Sc.

Mr. Paul Pennicook, an experienced hotelier, has held several executive management positions in the hotel and tourism industry including management positions at the Holiday Inn, Montego Bay before going on to work as General Manager at Couples, Ocho Rios, and Senior Vice President of Sales and Marketing for SuperClubs. Mr. Pennicook joined Unique Vacations, the Marketing arm of the Sandals Resorts chain, in 1995 as Executive Vice President. He was appointed to the position of President and Chief Executive Officer of Couples Resorts in 1997, served as First Vice President of The Jamaica Hotel and Tourist Association (JHTA) as well as Chairman of that organization's Marketing Committee. He was named Hotelier of the Year in 2001 by the JHTA. Mr. Pennicook previously held the position of Director of Tourism for Jamaica and has also served as Senior Vice-President at Air Jamaica. He now serves as President of International Lifestyles Inc, the Worldwide Representative for SuperClubs Resorts. He is a wine connoisseur who has visited Vineyards in California (USA), Australia and Europe studying blends indicative to these regions.

Board of Directors Cont'd

MAURICE ROBINSON
B. A.

Mr. Maurice Robinson is an attorney-at-law who was admitted to practice in 1959. He was the Senior and Managing Partner of the law firm Manton & Hart when that firm merged with the law firm Myers, Fletcher & Gordon in 1977. He retired from the partnership in 1997 and has been a consultant to the firm since then. He is the first graduate of University College of the West Indies (UCWI)to become an attorney-at-law and is a leading practitioner in the field of Trade Mark and Patent law in which he has specialized for morethan 50 years. Mr. Robinson was the first Secretary and Legal Officer of Air Jamaica (1968) Ltd., and was Chairman of the Public Utility Commission from 1972 to 1976. He has served on the Boards of many well-known Jamaican companies and is presently the Chairman of the Board of Security Advisory and Management Services Ltd., and a member of the Board of Restaurant Associates Ltd., owners of the Burger King Franchise in Jamaica.

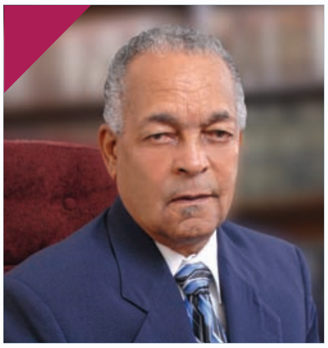
MATTHEW WRIGHT
M.Phil.,M.A.,B.A.

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

SANDRA M. SHIRLEY
M.B.A., B.Sc.(Hons.)

Ms. Sandra Shirley has extensive experience spanning over 20 years in wealth management, trust banking, strategic planning and implementation in the United States and the Caribbean. Ms. Shirley is Business Facilitator/Consultant of Sandra Shirley & Associates and is the Former President of First Global Financial Services Limited. Ms. Shirley is a 2006 Fellow of the Jamaican Institute of Management, Former Commissioner, Anti-Dumping & Subsidies Commission, a member of the Justice Reform Committee of the Private Sector Organization of Jamaica (PSOJ) and founding Finance Co-Chair of the Women's Leadership Initiative, The United Way of Jamaica. She has also served as Director and Vice-President of the Jamaica Chamber of Commerce, Deputy Chairman of the Jamaica Stock Exchange (2008) and Secretary of the Jamaica Securities Dealers Association (2006-2008).

Board of Directors Cont'd



FERNANDO DEPERALTO
F.C.A., M.Sc., B.Sc.

Mr. Fernando DePeralto has had a rewarding career in the field of finance. He gained a wealth of experience through his work with the International Monetary Fund (IMF), where he provided technical assistance to Central Banks in Africa and Asia for nine years. Additionally he has held the position of Director of Finance in the Bank of Zambia and Deputy Governor of the Bank of Jamaica. Mr. DePeralto has served on the board of several other companies including the Bank of Jamaica, EX-IM Bank and Petrojam, and has also held the position of Chairman of the Jamaica Stock Exchange. He currently provides services as a Financial Consultant.

REAR ADMIRAL PETER BRADY,
CD, CVO, MMM, J.P.

Rear Admiral Peter Brady has 34 years of military experience, having served at the highest capacity as Chief of Staff of the Jamaica Defence Force. He was awarded a post-graduate degree in Maritime Management from Dalhousie University, Canada, and lauded with several accolades including the Commander of the Royal Victorian Order, Commander of the Order of Distinction, and the Legion of Merit (Commander, USA).

Rear Admiral Brady has also served in academia as guest lecturer in Maritime Safety Administration and Maritime Security at the World Maritime University (WMU), Dalhousie University, Canada, and was recently appointed to the Board of Governors of the World Maritime University. In 2006, he was appointed Chairman of the National Hydrographic Committee and Honorary Consul of the Principality of Monaco. He currently holds the position of Director General at the Maritime Authority of Jamaica (MAJ) and is Chairman of the UN specialised agency's International Maritime Organization's body for global 'Standards of Training and Certification' for merchant marine officers, including masters and chief engineers. He was recently elected to the membership of the Nautical Institute as an Associate Fellow (AFNI).

RICHARD M. POWELL
B.A. (Hons.)

Mr. Richard M. Powell is a co-founder and Managing Partner of AP Capital Partners (APCP), a leading middle-market private equity firm. APCP's portfolio has grown to generate revenues of approximately $1 billion and employ over 6000 people around the globe. Mr. Powell's key strengths are in finance, management and e-business and he has worked on a variety of transactions. Mr. Powell was the co-founder and CEO of Fuxito Worldwide, a venture-backed technology firm serving the $300 billion global sports market. He has worked with, or consulted to, leading asset management, insurance and non-profit firms in the US and overseas.

Mr. Powell currently serves on the boards of Zero Chaos, eServices and The Victoria Mutual Building Society (VMBS). He is also a board member of the Orlando chapter of the Association for Corporate Growth (ACG) and the 1420 Foundation, a non-profit that leverages education to advance sustainable global economic development. He was named one of the "40 under 40 Leaders to Watch" by the Orlando Business Journal and selected by the World Economic Forum as one of 200 Young Global Leaders (2009). He is also co-author of the forthcoming book titled, 'The Buyout Game,' and was nominated in the Jamaica Observer Business Leader Awards in 2011.

Board of Directors Cont'd

GEORGE DOUGALL
M.B.A., B.Sc.

Mr. George Dougall, an entrepreneur and electrical engineer, is the proprietor and Managing Director of Dougall Flooring Ltd., a woodwork manufacturing organization based in Kingston. Mr. Dougall previously held the position of Managing Director of Jamaican Floral Exports and Wherry Wharf Ltd. and brings with him sound experience as an originator of business solutions and astute financial management to the

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KERI-GAYE BROWN
LL.B, Senior Vice-President, Group Legal, Compliance & Corporate Secretary

Ms. Keri-Gaye Brown joined the Victoria Mutualfamily in August 2010 as Senior Vice-President, Group Legal, Compliance and Corporate Services. Ms. Brown is an attorney-at-law, who has been practicing for over 12 years and has extensive knowledge in the areas of banking law, insurance law, securities laws, corporate secretarial and also in the development of compliance and corporate governance policies. Prior to joining Victoria Mutual, Ms. Brown was the Senior Vice-President General Counsel & Corporate Secretary for The Bank of Nova Scotia Jamaica Limited, where she served as the General Counsel and Chief Compliance Officer for the Scotia Group. She has also worked as an Associate Attorney for Livingston Alexander & Levy and Gifford Thompson & Bright Attorneys-at-Law.

SENIOR MANAGEMENT TEAM

JANICE McKENLEY
F.C.C.A., F.C.A., MBA (Hons.) B.Sc. (Hons.)
Senior Vice-President &
Group Chief Financial Officer

ALLAN LEWIS
A.S.A., Ed. M., MBA, B.Sc.
Senior Vice-President,
Group Strategy

RICHARD K. POWELL
MBA, M.Sc, B.Sc. (Hons.)
President & Chief Executive Officer

KERI-GAYE BROWN
LL.B. (Hons.)
Senior Vice-President,
Group Legal Compliance &
Corporate Secretary

PETER REID
B. A. (Hons.)
Senior Vice-President &
Chief Operating Officer

MRS. LARAINE HARRISON
MBA., B.A. (Hons.)
Vice-President, Group
Human Resources Administration

VIVIENNE BAYLEY-HAY
B.Sc. (Hons.),
Vice-President,
Group Marketing &
Corporate Affairs

RICKARDO EBANKS
B.Sc. (Hons.)
Vice President, Group Information
& Communication Technology

JOAN WALTER
Dip. Mgmt.
Vice-President,
Branch Distribution

HORACE BRYAN
CA, M. Sc., B. Sc. (Hons.)
Vice-President,
Centralized Services

JOAN BROWN
DIFA, F.C.C.A., M.Fin., MBA,
Assistant Vice-President,
Risk Management

DENSEY DAVIS-LUMSDEN
PMP, M.Sc., B.Sc.(Hons.),
Head, Project Management
Office

GROUP EXECUTIVES

RICHARD K. POWELL
MBA, M.Sc., B.Sc. (Hons.),
President &
Chief Executive Officer

JANICE McKENLEY
F.C.C.A., F.C.A., M.B.A.
(Hons.), B.Sc. (Hons.),
Senior Vice-President &
Group Chief Financial Officer

ALLAN LEWIS
A.S.A., Ed. M., M.B.A., B.Sc.,
Senior Vice-President,
Group Strategy

KERI-GAYE BROWN
LL.B. (Hons.)
Senior Vice-President,
Group Legal Compliance &
Corporate Secretary

PETER REID
B. A. (Hons.)
Senior Vice-President &
Chief Operating Officer

Mrs. Laraine Harrison
MBA., B.A. (Hons.)
Vice-President, Group
Human Resources
Administration

RICKARDO EBANKS
B.Sc. (Hons.)
Vice President,
Group Information &
Communication Technology

VIVIENNE BAYLEY-HAY
B.Sc. (Hons.),
Vice-President,
Group Marketing &
Corporate Affairs

DEVON BARRETT
M.B.A., B.Sc.,
General Manager,
Victoria Mutual Wealth
Management

NATASHA SERVICE
B.Sc. (Hons.), Grad. Dip.
Actg. General Manager,
VM Money Transfer
Services

MICHAEL NEITA
MBA., B. Sc. (Hons), B Eng (Hons)
General Manager
Victoria Mutual Property
Services

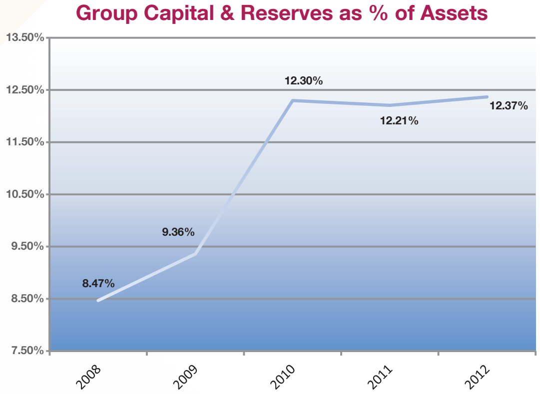
JOAN BROWN
DIFA, F.C.C.A., M.Fin., MBA,
Assistant Vice-President,
Risk Management

DENSEY DAVIS-LUMSDEN
PMP, M.Sc., B.Sc. (Hons.),
Head, Project Management
Office

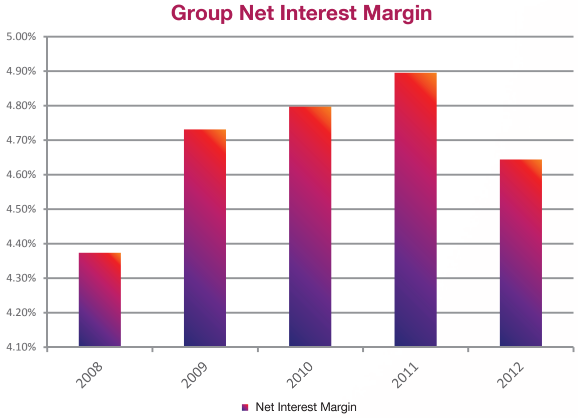
FINANCIAL HIGHLIGHTS

GROUP	2012	2011	2010	2009	2008
Balance Sheet ($'000)					
Earning Assets	74,831,724	69,107,757	61,570,208	61,632,495	56,787,538
Loans	26,667,330	27,541,585	29,452,959	30,739,802	28,766,351
Total Assets	78,422,181	72,220,966	64,147,628	63,293,787	58,397,431
Savings Fund	57,670,294	52,876,799	48,847,788	47,377,682	41,886,467
Capital and Reserves	9,697,894	8,815,040	7,888,237	5,923,837	4,944,991
Income Statement ($'000)					
Net Interest Income	3,342,321	3,198,557	2,955,025	2,801,347	2,336,159
Operating Revenue	4,256,040	3,926,777	3,788,146	4,128,103	3,830,774
Administration Expenses	3,018,773	2,748,687	2,234,069	3,187,305	2,810,400
Surplus before income tax	1,238,867	1,188,953	2,372,725	830,333	916,207
Surplus	997,648	912,882	2,053,013	576,006	743,773
Ratios					
Net Interest Margin	4.64%	4.90%	4.80%	4.73%	4.37%
Return on Capital	13.38%*	14.24%*	34.36%*	15.28%*	18.22%
Return on Assets	1.64%*	1.74%*	3.72%*	1.36%*	1.67%
Efficiency Ratio	4.01%*	4.03%*	3.51%*	5.24%*	5.11%
Capital & Reserves as a Percentage of Assets	12.37%	12.21%	12.30%	9.36%	8.47%

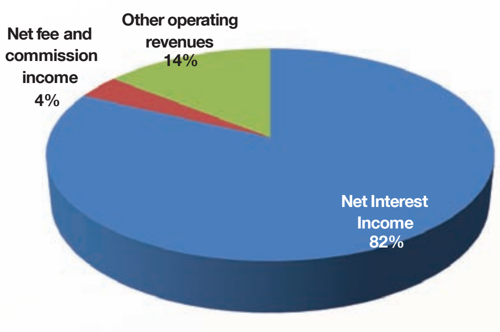
Group Capital & Reserves as % of Assets



Group Net Interest Margin



Group Operating Revenues 2012



DEFINITIONS USED

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

SOURCES

2003 -2012 Audited Financial Statements

GROUP FINANCIAL PERFORMANCE

The Victoria Mutual Building Society has been committed to the provision of exceptional financial services to its Members at home and overseas for over 130 years. With an asset base in excess of $78 billion, the Group provides a wide range of financial services that include savings, mortgages, security trading and brokerage, asset management, money transfer, and real estate services. These services are delivered and supported by over 600 employees, through its 15 branches, subsidiaries and representative offices in the United Kingdom, Canada, and the United States. In addition, the Society provides access for its Members and customers to general insurance products and services as well as pension fund management and administration through affiliated companies.

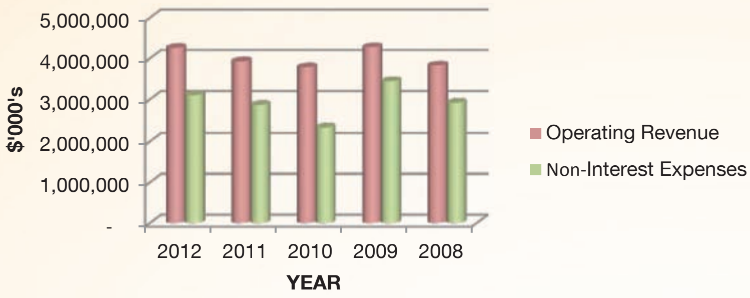
GROUP SUMMARY OF RESULTS

($'000's)	2012	2011	2010	2009	2008
Net Interest Income	3,342,321	3,198,557	2,955,025	2,801,347	2,336,159
Other Operating Revenue	913,719	728,220	833,121	1,472,453	1,494,615
Total Operating Revenue	4,256,040	3,926,777	3,788,146	4,273,800	3,830,774
Non-Interest Expenses	3,100,949	2,861,768	2,341,168	3,443,467	2,914,567
Operating Surplus	1,155,091	1,065,009	1,446,978	830,333	916,207
Gain on Sale of Subsidiary	-	74,621	925,601	-	-
Share of Profit of Associate	83,776	49,323	146	-	-
Surplus before Income Tax	1,238,867	1,188,953	2,372,725	830,333	916,207

The Group recorded an Operating Surplus of $1.155 billion for the year ended December 31, 2012, an increase of $90.082 million or 8% above that reported for 2011. The Society's 31.5% interest in BCIC resulted in share of profits for the year totaling $83.776 million.

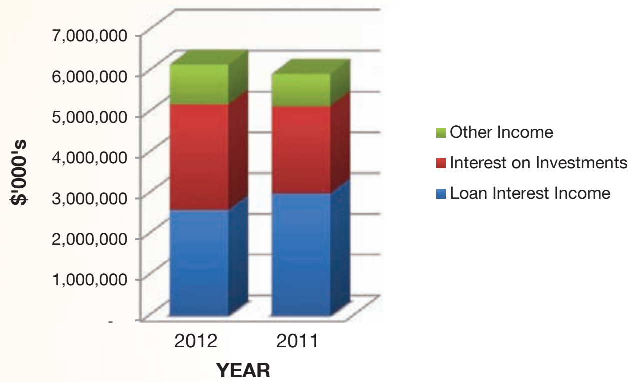
Operating Revenue, which includes Net Interest Income and Other Operating Revenue, was $4.256 billion for the year, reflecting an increase of $330 million or 8% over the 2011 results. This increase was primarily as a result of additional income generated from administrative and service fees from BCIC as well as net interest income for the year.

GROWTH IN OPERATING REVENUE & NON-INTEREST EXPENSE



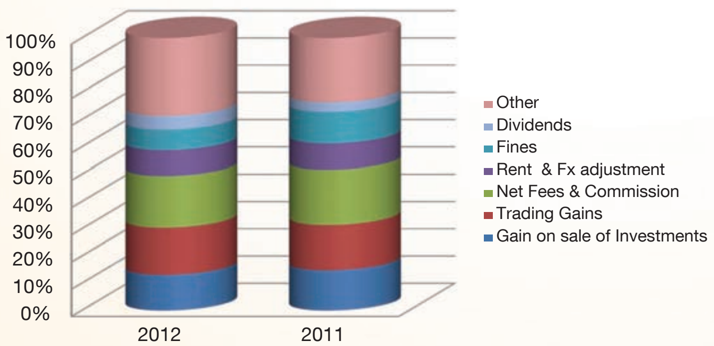
The Group incurred non-interest expenses of $3.101 billion, representing an increase of approximately $240 million or 8% year over year. This increase was mainly as a result of additional expenditure incurred for marketing and overseas business development activities throughout the year in recognition of the Jamaica 50 celebrations, as well as a 5% increase in staff related costs.

GROUP TOTAL REVENUE 2012/2011

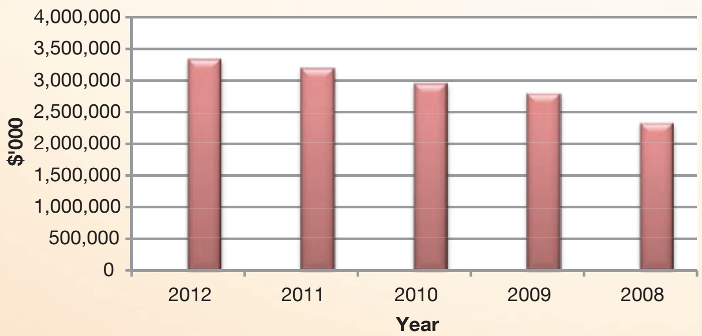


The Group's Total Revenue, defined as Interest Income from loans and investments, fees and commission income and Other Operating Revenue, which totaled $6.161 billion for 2012, reflects an increase of $0.230 billion or 4% when compared to that reported for the previous year. There was a $0.412 billion reduction in loan interest income in 2012, resulting from the Society's continued efforts to reduce interest rates on mortgages. On the other hand, investment income grew by $0.453 billion over that reported for 2011.

OTHER INCOME (%) 2011/2012



NET INTEREST INCOME



In 2012, the Group's Net Interest Income increased by 4%, to end the year at $3.342 billion. Total Interest Income was $5.196 billion, an increase of $41 million over that reported in 2011. This increase was a net result of additional revenues from investment securities of $453 million, an increase of 21% which was offset by a $412 million or 14% reduction in loan interest. Interest expense in 2012 was $1.853 billion, a reduction of $102 million or 5% below that reported for 2011.

GROWTH IN ASSETS

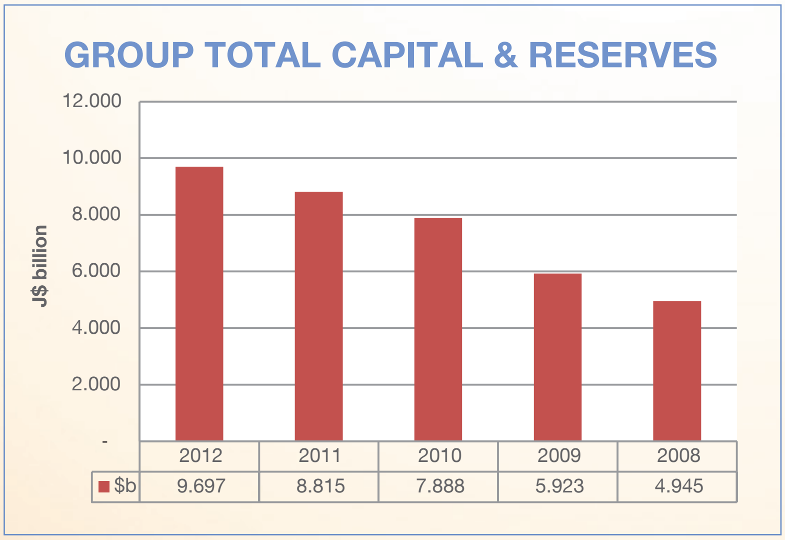
The Group's assets totaled $78.422 billion as at December 31, 2012, reflecting an increase of $6.202 billion or 9% over 2011. Loans amounted to $26.667 billion in 2012, which when compared to $27.541 billion in 2011, reflected a reduction of $0.874 billion or 3% year-on-year. The total mortgage and share loan disbursement for 2012 was $2.278 billion, which was lower than the $3.253 billion of principal repayments for the period. The Credit Facility Reserve, which represents the excess of the regulatory loan loss provisions over that of the IFRS loan impairment provision, was $0.982 billion as at December 31, 2012, a reduction of $65.576 million or 6% below that reported in 2011. The loan provisions are considered adequate and in compliance with IFRS standards and BOJ provisioning requirements.

FUNDING

Despite the challenging environment, our depositors continued to recognize the value of the Groups' services which resulted in the $4.793 billion or 9% increase in the savings portfolio. During the year, keen attention was placed on the macro-economic environment and the Society positioned itself to respond to changes in market interest rates. The Society continued to develop and implement strategies in an effort to retain and increase the portfolio of deposit liabilities. In recognition of the Jamaica Fifty celebrations, a savings promotion was embarked on and the competition offered three houses for the first, second and third prizes. This initiative facilitated the Net Savings Inflow (NSI) for 2012 of $2.018 billion.

The subsidiary, Victoria Mutual Wealth Management, continues its efforts to develop and launch new off-balance sheet products for which they act as agent and earn fees from managing clients' funds. The company has no legal or equitable right or interest in such clients' funds, and accordingly have been excluded from the financial statements. At 31 December 2012, these funds amounted to $3.873 billion compared to the prior year of $0.257 billion an increase of $3.616 billion or 1402%.

CAPITAL



The Group's total Capital & Reserves grew from $8.815 billion to $9.697 billion in 2012, primarily as a result of an 11% increase in the capital base of the Society. The Capital Base of the Society increased from $7.041 billion in 2011 to $7.797 billion in 2012, due to the increases in the Permanent Capital Fund and the Reserve Fund. The Society continues to transfer 100% of its available Net Surplus to Capital each year.

CHAIRMAN'S REPORT

Michael McMorris
Chairman

TO OUR MEMBERS:

In 2012, as Jamaica celebrated its fiftieth year of independence, Victoria Mutual celebrated its one hundred and thirty-fourth year of existence. Over these years, the Society has remained committed to the principles of mutuality, and 2012 was no different in this regard. The organization relentlessly pursued its prime objective of maximizing value to Members not by accumulating large surpluses, but by delivering superior value in its product and service offerings. We therefore continued our efforts to offer to our Members, the highest market rates on their savings deposits and the lowest effective mortgage interest rates on their residential mortgage loans. In addition, we continued to offer a wide range of services at fee rates that are significantly lower than those charged by commercial banks and other financial intermediaries.

OVERVIEW

The Victoria Mutual Group (The Victoria Mutual Building Society together with its subsidiaries) recorded a commendable performance in 2012. The savings base of the Society grew by 9.2% to $58.2 billion; mortgage disbursements rose by 83% to $1.41 billion; and the Group's After-Tax Net Surplus increased by 9.3% to $997.6 million.

These achievements occurred in spite of a continuing weak local economy. During the year:

a) The Jamaica economy contracted by 0.3%,
b) The local currency depreciated by 7.4% against the US dollar to end the year at JMD 92.98 to US$ 1.00,
c) Interest rates rose, with the 90-day Treasury Bill rate moving from 6.21% at the beginning of the year to 7.67% at the year end, and
d) The inflation rate increased to 8% from the level of 6% recorded in 2011.

In addition, the much anticipated agreement with the IMF was not signed in 2012, as originally expected. Anxiety about the length of time it would take to reach an agreement did nothing to calm the financial markets.

There was also little cushioning from overseas, as the United States and a number of countries within the European Union faced concerns about unemployment and high debt levels. In addition, there were concerns about slowing growth in China, and Japan fell into recession.

Richard K. Powell, M.B.A., M.Sc, B.Sc. (Hons.)
President & Chief Executive Officer

CORPORATE GOVERNANCE

The VM Group is unwavering in its commitment to achieving best practice in Corporate Governance, and has established principles, practices and processes to ensure that the organization is directed and managed well. The Group's Corporate Governance Framework is designed to ensure responsibility, accountability, fairness and transparency in the relationships among all stakeholders and is geared towards:

a) Promoting an understanding of Corporate Governance;
b) Reinforcing the Group's core values of integrity, respect, excellence, enthusiasm, teamwork, innovation and flexibility,
c) Ensuring that decision-making processes are transparent and clearly articulated,
d) Delineating the responsibilities and accountabilities of the Board and Management,
e) Providing incentives for Directors, Managers, and Team Members to act in the best interest of the Society, its Members and customers,
f) Establishing strong risk management systems, and
g) Ensuring that appropriate mechanisms are in place to identify and assess legal and regulatory developments that could have an impact on the compliance requirements of the organization.

Boards of Directors and Board Committees form an integral part of the framework used to achieve these objectives. The Society and each of its subsidiaries is directed by a Board of Directors, and there are Board Committees that provide oversight in the areas of Corporate Governance, Audit, Compliance, Finance, Investments, Loans, Risk Management, Nominations, and Compensation. The Board Committees are required to meet at least four times each year, and provide reports on their activities to their respective Boards.

FINANCIAL HIGHLIGHTS

Group

The Victoria Mutual Group provides its Members and customers with a wide range of products and services. These include a variety of savings products, mortgage loans, investment advisory services, asset management, securities trading, money transfer services, real estate brokerage, and property management. These products and services are all geared towards assisting Members and customers in achieving personal financial security.

Financial highlights of the Group's performance over the past three years are shown in the following table:

HIGHLIGHTS OF VM GROUP'S PERFORMANCE

	2010	2011	2012
Pre-Tax Surplus ($M)	2,372.7	1,189.0	1,238.9
After – Tax Surplus ($M)	2,053.0	912.9	997.6
Total Assets ($B)	64.1	72.2	78.4
Net Interest Margin (% of Mean Assets)	4.80	4.90	4.64
Operating Expenses (% of Mean Assets)	3.51	4.03	4.01
Capital and Reserves (% of Assets)	12.30	12.21	12.37

In 2012, total assets of the Victoria Mutual Group increased by $6.2 billion, or 8.6%, reaching $78.4 billion at the end of the year. Importantly, the growth in assets was supported by more than adequate levels of capital and all business units in the Group remained capitalised at levels well in excess of their statutory requirements.

The Group's after-tax surplus reflected a year over year increase of 9.3%, moving from $912.9 million in 2011 to $997.6 million in 2012. Your Directors regard this as a satisfactory result in light of the malaise in the domestic economy and the intense competition in the markets for all products and service offered by the Group.

The Society

In 2012, your Society continued on its mission to provide the best possible value to Members and customers, whilst ensuring the long-term viability of the organization. Interest rates on savings products continued to be among the highest available locally, and interest rates on mortgages continued to be among the lowest. In addition, fees for transactions were kept below the general market, and the Society continued to allow its debit cards to be used completely free of charge by its Members, whether they were used at a Victoria Mutual ATM, a competitor's ATM, or a vendor's point-of-sale.

The Society's financial results were sound, reporting an After-Tax surplus of $703.4 million. Although this figure is relatively unchanged when compared with the $702.9 million After-Tax surplus reported in 2011, it should be noted that the results for 2011 reflected a gain on sale of the Victoria Mutual Insurance Company Limited (VMIC) in the amount of $74.6 million, whereas the results for 2012 were not impacted by this sale, or any other comparable event. Eliminating the impact of the sale of VMIC on the 2011 results reveals an increase of 11.93% in After-Tax surplus in the outturn for 2012.

In 2012, Net Interest Income increased by $117.4 million, or 4.1%, as there were reductions in both interest income (by 0.5%) and interest expense (by 8.8%). Other Operating Revenue also rose by 26.8% reaching $622.0 million at the end of the year. Net Fee and Commission Income rose by 56.1% to $115.2 million, due to a substantial increase in fee income from associated companies. Significant increases were also recorded in net trading gains.

The increase in Administrative expenses was generally in line with the level of inflation experienced during the year. Expenses rose by 9.8% to end the year at $2.87 billion. Personnel costs increased by 4.3% and other operating expenses (including depreciation and amortisation) by 14.7%. The latter was attributable principally to increases in marketing, overseas business development and expenses incurred in implementing key initiatives geared towards improving efficiency. These additional expenditures have been made on initiatives designed to set the stage for the Society's continued growth and development.

The Society is pleased to report that it continued to grow in a responsible fashion and at a measured pace in 2012. Over the course of the year, Total Assets increased by 8.6% to $67.1 billion, and the Capital and Reserves rose by 8.0% to $7.4 billion.

Highlights of your Society's performance are shown in the table below:

HIGHLIGHTS OF THE SOCIETY'S PERFORMANCE

	2010	2011	2012
Pre -Tax Surplus ($M)	1,637.1	918.8	877.8
After -Tax Surplus ($M)	1,405.0	703.0	703.4
Total Assets ($B)	56.7	61.8	67.1
Total Loan ($B)	29.5	27.6	26.7
Deposit Liabilities ($B)	49.2	53.3	58.2
Net Interest Income as % of Mean Assets	5.12	5.15	4.94
Operating Expenses (% of Mean Assets)	3.67	4.23	4.34
Capital and Reserves (% of Assets)	10.79	11.13	11.08
Non -Performing Loans (% of Total Loans)	9.17	6.56	7.65

Savings

During the year, the Society's deposit liabilities rose by 9.2% to $58.2 billion. This creditable performance is in large measure attributable to the attractive products offered by the Society, and the continued push to improve customer service to world class standards.

The "WIN 50" promotion, which was held in 2012, was designed to reward savers for their loyalty and for increasing their savings balances. This campaign also played a significant role in increasing the Society's savings base. It was the chief means by which VMBS celebrated Jamaica's 50th year of independence, and was well received by the market.

Mortgage Loans

In 2012, the Society recorded a total of $1.41 billion in mortgage disbursements. This represented an 83% increase in mortgage loan disbursements over the previous year, and was the result of a drive that was embarked on to maintain a strong presence in the residential mortgage market. During the year $2.6 billion of principal repayments were made, the net effect being the reduction in our portfolio by 3.2%.

The ongoing drive is underpinned by a continuing commitment to low rates and fees and faster turnaround as well as to a more aggressive market presence, in order to provide potential mortgagors with compelling reasons to choose VM as their mortgage provider and lifetime financial partner. It is expected that by constantly striving to improve our value proposition and exposing this proposition to larger numbers of potential mortgagors, the Society will be able to grow its market share in the face of increased competition. It should be noted that while we are encouraged by the increased pace of mortgage disbursements in 2012, we are mindful of a slight decline in our loan quality ratio by year end, which is discussed in the section immediately below. We are confident, however, that our drive is indeed being undertaken with an enduring commitment to conservative credit standards and will be executed in a responsible manner, so as to ensure that the loan portfolio's quality is not sacrificed.

VMBS currently offers the lowest interest rates on mortgages locally, has the lowest processing fees, and has the lowest fees for other related services (such as property valuations). Furthermore, the team is competent, experienced and dedicated to promoting Members' and customers' financial security. These factors place your Society is in a good position to grow its share of the mortgage market and augurs well for all stakeholders.

Loan Portfolio Quality

There was deterioration in the quality of the Society's loan portfolio in 2012. The non-performing loans (loans greater than ninety days in arrears) as a percentage of total loans moved from 6.56% at the end of 2011 to 7.65% at the end of 2012. This represented the combined effect of a relatively small (4.4%) increase in the value of non-performing loans in the portfolio, and a decline (3.2%) in the size of the loan portfolio.

The deterioration in the non-performing loans occurred even as we improved our arrears management system and procedures, and worked closely with mortgagors who were experiencing difficulty in consistently meeting their monthly debt servicing obligations. This result was driven by the continuing adverse impact of the stagnant domestic economy on businesses, employment and household incomes.

Members should rest assured that the Society has made, and will continue to make, improvements in its arrears management processes and systems. In addition, the Society continues to adhere to prudent underwriting policies even as we intensify our efforts to grow the loan portfolio. Your Directors and Management are committed to ensuring that these initiatives will result in consistent improvement in the quality of the loan portfolio over the medium term.

Unfortunately, in 2012 the Society was again forced to resort to foreclosure proceedings in the case of certain loans that had fallen into chronic delinquency. This was the second year in the Society's one hundred and thirty-four year history that such measures were employed. In each case, this action was used as the last resort, after all measures to help the mortgagor were unsuccessful. Even so, foreclosures always evoke profound emotional responses because of the loss of ownership by the mortgagor. Whereas this is completely understandable, foreclosure relieves the defaulting borrower of any further liability to the Society. For 2012, the Society completed the foreclosure process in respect of thirty-seven properties. By comparison, in 2011 the Society foreclosed on twenty-two properties.

Efficiency

As reported in prior years, your Society has embarked on a drive to improve the efficiency of its operations. This drive continued in earnest in 2012 and will continue for several more years. The Directors and Management of the Society consider this push to be critical, as it is through improved efficiency and excellence in customer service that the Society will be able to fulfil its mission of maximizing value to its Members and other key stakeholders.

One of the key projects being undertaken to improve efficiency and customer experience is the implementation of an online banking system. The Society is pleased to report that implementation of the system, VM Express Online, is now complete and will be launched formally in the third quarter of 2013.

A number of other projects are in train that are geared toward generating higher levels of efficiency. Many of these relate to improving and automating processes in the organization. A key benefit of these projects is that they simultaneously improve efficiency and improve the level of service that can be offered to you, the Members and customers.

Of course, these projects require significant capital investments and invariably result in increases of the current expenses of the organization during the development phase of the project. It is largely as a result of this, that the ratio of Operating Expenses to Mean Assets for the VM Group remained relatively unchanged in 2012, moving from 4.03% for 2011, to 4.01% in 2012. The corresponding ratio for the Society moved from 4.23% to 4.34% for 2011 and 2012 respectively.

In addition to the incremental expenses associated with special projects, the Society also incurred additional costs in marketing, overseas business development and the celebration of Jamaica's 50th Anniversary of Independence.

Subsidiary Companies & Affiliates

Your Society owns and operates a number of subsidiaries and has significant investments in two affiliated companies. These entities help to enhance the range of products and services available to Members, and are all geared towards assisting Members and customers in their pursuit of financial security.

The financial results of the main operating subsidiaries are shown in the table below:

AFTER TAX PROFIT FOR SELECTED SUBSIDIARIES (In Millions of Jamaican Dollars)

	2010	2011	2012
VM Wealth Management Ltd.	115.22	114.48	143.51
VM Property Services Ltd.	-2.85	7.65	6.10
VM Money Transfer Services Ltd.	-4.46	-4.63	16.66

In 2012, the After-Tax profit of Victoria Mutual Wealth Management Limited (VMWM) rose by 25.4% to $143.5 million. This mainly stemmed from an increase in gains from trading activities and fee income derived from advisory and other services, when compared to the previous year. This commendable performance occurred in the face of higher expenditures on rent, maintenance and utilities, as well as advertising and public relations.

During the year, VMWM relocated its Head Office to the Victoria Mutual Building at 53 Knutsford Boulevard, Kingston 5. This location provides the office space and parking facilities that will allow for more pleasant experiences for customers and Team Members alike.

VMBS Money Transfer Services Limited experienced a solid year in 2012. After-Tax profits were $16.66 million, a turnaround from a loss of $4.63 million in 2011. Operationally, this occurred largely as a result of a significant increase in foreign exchange gains during the period due to increases in transaction volumes aided by the relatively rapid slide in the value of the Jamaican dollar relative to its US counterpart, and by extension to other foreign currencies in which remittances to Jamaica are made. In addition, the restructuring of the Company's Balance Sheet served to relieve the enterprise of debt servicing costs of approximately $6.0 million per annum.

Victoria Mutual Property Services' performance in 2012 was in line with its performance in 2011, with After-Tax Profits being $6.10 million in 2012 and $7.65 million the previous year. This Company continued to provide essential support for the core business of its parent, through the offering of real estate brokerage and valuation services to Members and prospective Members of the Society. It also provides essential support directly to the Society in the management of its real estate holdings.

Our two affiliated companies, British Caribbean Insurance Company Limited (BCIC) and Prime Asset Management Limited (PAM), also posted commendable performances in 2012. Both surpassed their profit projections and thereby enhanced the value of your Society's investments through dividend distributions as well as increases in net asset value.

We are pleased to report that in 2013, the VM Group completed the acquisition of 100% share ownership in Prime Asset Management, making PAM a wholly owned member of the Victoria Mutual Group with effect from May 17, 2013. This acquisition has boosted the Group's assets under management by $20 billion, and positions the VM Group to take advantage of many synergies. It also extends the range of products and services available directly from the Group to include Superannuation Plans and Approved Retirement Schemes, including Individual Retirement Accounts.

CONCLUSION AND OUTLOOK

The VM Group performed creditably in 2012, especially given the challenging economic climate that prevailed. Unfortunately, the landscape in 2013 is proving to be even more challenging. Early in the year, the Government of Jamaica introduced a new tax package, and there were two debt exchanges in which Government of Jamaica securities held by local investors were exchanged for new securities that had longer tenors and lower coupon rates. These actions paved the way for an agreement with the IMF to be signed, and for much-needed funding to be made available from multi-lateral agencies. However, the measures taken will only buoy the economy if the critical structural reforms that are necessary are carried out in a timely manner. It is hoped that this will occur, but it is unlikely that any of the potential benefits will be felt in 2013.

The asset tax imposed on selected financial institutions, which was announced by the Government last year, comes into effect in 2013 and is expected to add an expense burden of approximately $105 million to the Society and approximately $16 million for VMWM this year. The net surplus of both business units, and by extension the consolidated Group net surplus, will be adversely affected to the full extent of the tax, for the reason that it will not be allowed as a tax-deductible item of expense. In addition, the tax package announced by the Government in the first quarter of this year will also serve to impair, in varying degrees, the reported surpluses/profits of all enterprises in the Group.

Your Society and its subsidiary, Victoria Mutual Wealth Management Limited, reluctantly participated in the Government's National Debt Exchange in February 2013 and the Society again grudgingly participated in the further debt exchange called for by the Government in March 2013. Your Directors took the decision to co-operate with the wishes of the Government only after very careful consideration of the options indicated that it would, in the circumstances, be the least damaging of the available courses of action to the stakeholders of the Group, over the medium to long term.

The two debt exchanges resulted in an aggregate loss on exchange of approximately $380 million by the Society and $6.6 million by VMWM. These were booked in the accounts of both business units in February 2013 and March 2013. In addition to the immediate impact upon exchange of the affected bonds, both the Society and VMWM are expected to suffer reductions of $39 million and $3.0 million respectively in gross monthly investment income.

As one of only two Mutual Building Societies in Jamaica, which together represent over a million Jamaicans, the Victoria Mutual Group intends to do all in its power to ensure that the opportunity created by the austere measures included in the Government's medium term economic programme is not wasted. We have a vested interest in doing so, not only because failure to adhere to the programme would result in severe adverse impacts on our ability to provide Members with the desired benefits, but because we understand that your overall financial security is greatly affected by the state of the Jamaican economy. We therefore intend to use our influence to ensure that "Government's fiscal discipline" does not remain solely a nice catch phrase but rather becomes actual practice.

Your Society continues the tradition of providing services to non-resident Jamaicans in the United Kingdom, the United States of America and Canada through the representative offices located in those countries, supported by service delivery here in Jamaica. Your Directors regard the Diaspora markets in those jurisdictions in particular, as being potentially very important to the fortunes, not only of your Society, but also to the country as a whole. They provide opportunities for business expansion and income diversification beyond our shores and the inherent limitations of the local market. Your Directors and Management are actively looking for opportunities to enhance and diversify our presence in those and other markets.

In 2013, your Society will continue to implement projects that will improve efficiency and service delivery. We also continue to grow the business, and will do so in a prudent manner to ensure the long-term sustainability of the organization for its stakeholders.

I would like to take this opportunity to thank you, the Members and customers, for your continued support. I also wish to commend all Team Members in the Group who contributed to the successes of the past year. Finally, I would like to express my sincere gratitude to my fellow members of the Board of Directors of VMBS and its subsidiary companies as well as the members of the Advisory Councils, for their invaluable service.

Michael A. McMorris
Chairman

CORPORATE OUTREACH

Committed to Building a Better Society

Since inception, the Victoria Mutual Building Society (VMBS) has remained committed to the tenets of Mutuality which is at the centre of our Corporate Social Responsibility Programme.

The 32nd National Leadership Prayer Breakfast

Victoria Mutual was once again the main sponsor of the 32nd staging of the Annual National Leadership Prayer Breakfast, which was the first event on the Jamaica 50 Jubilee Celebration calendar. The Prayer Breakfast was held under the theme: 'Jamaica 50: Reconcile, Rebuild, Rejoice' and brought together our nation's leaders across the public and private sectors as well as civil society.

The Victoria Mutual Building Society is honoured to continue our association with the National Leadership Prayer Breakfast Committee. We believe that as a responsible corporate citizen, it is essential that we provide support for the leaders of our nation, churches and communities, as without collective effort we will not overcome the challenges that face us.

Pictorial Highlights

United Way of Jamaica's Donor Option Programme

The Victoria Mutual Building Society continues to share a meaningful and important partnership with the United Way of Jamaica, and we are honored to have been the recipient of the prestigious Jupiter award for the past few years. United Way, through its work in Jamaica over the last 26 years, has provided an excellent framework for individual, public and private sector partnership, effectively bringing together contributors, providers and users of social services in meeting the social and material needs of the less fortunate and vulnerable in Jamaica.

Each year, Victoria Mutual participates in the Donor Option Programme of the United Way of Jamaica which allows the Society to give to over 75 charities in several areas of national importance including health, education, sports, youth and community development. The Victoria Mutual Scholarship Programme is also administered through United Way's Donor Option Programme.

Janice McKenley, Senior Vice President and Chief Financial Officer proudly displays the 2012 Jupiter Award with Noel daCosta, Chairman of the Board of Govenors for and Winsome Wilkins, President and CEO, United Way of Jamaica.

Marriage & The Family 2012

- Journey to Independence

The Annual Marriage & the Family Series represents one of the signature highlights of Victoria Mutual's Corporate Outreach calendar and is aimed at promoting healthy relationships, family life and values. At VMBS, we believe whole-heartedly in fostering good relationships and therefore lend our support to initiatives which help to create healthy families and stable homes, and by extension a better society. Presented over two days July 8th and 9th, the 26th staging was presented under the theme 'The Journey to Independence' and showcased Jamaica's Independence as well as the Victoria Mutual Win 50 promotion. One lucky young man received the opportunity to propose to the love of his life during day one of the event. Topics explored included, 'Loving the Skin you're in - Developing a Mindset of Independence', 'Choosing the Correct Mate' and 'Companionship versus Sex in a Relationship' and they were well received by those in attendance.

The happy couple embracing after a surprise engagement facilitated by VMBS. They received numerous prizes including an engagement ring and a VMBS Gift Certificate, presented by Richard Kidd – Manager Financial Services.

The colourful and talented Tivoli Dancers take Patrons on a journey of through Jamaican dance forms celebrating Jamaica 50.

VMBS Head Start Scholarship Programme

The VMBS Head Start Scholarship Programme forms part of the organisation's Schools Savings programme, which seeks to help primary and secondary school students develop the important habit of savings. A total of 60 students received a well-needed financial boost from the Victoria Mutual Building Society 27th annual scholarship 'Head Start' programme. Both new and returning students at the primary, secondary and tertiary levels were presented with scholarships and bursaries totaling over $2 million at the awards ceremony held on August 24, at the Knutsford Court Hotel in Kingston. In commemoration of Jamaica's 50th Anniversary of Independence, two special Jamaica 50 bursaries were also presented to two students who were pursuing studies at the Norman Manley Law School. Education Minister, Rev. the Hon. Ronald Thwaites, in his remarks at the function, congratulated the students on their achievements, while also commending VMBS for its continued investment in education.

2012 Scholarship and Bursary awardees, pose with Senior Members of the VMBS Team.

Senior Vice-President, Group Strategy, Allan Lewis (2nd left) and Vice-President, Group Marketing & Corporate Affairs, Vivienne Bayley-Hay (right) congratulate VMBS Jamaica 50 Bursary Awardees, Robert Moore and Keri-Ann Mew.

Minister of Education, Rev. the Hon. Ronald Thwaites converses with some of the award recipients at the 27th Annual VMBS Scholarship & Awards Presentation Ceremony.

Victoria Mutual's Senior Vice-President, Group Strategy, Allan Lewis (right) and Vice-President, Group Marketing & Corporate Affairs, Vivienne Bayley-Hay (left) congratulate Matthew McKenzie, Nicole Johnson and Shamir Ibar, VMBS Junior Plan "Head Start Scholarship Awardees. The students savers received the award for being the top performing GSAT student in their county and were given 5 year scholarships to complete their high school studies.

Mutual Building Societies Foundation

In 2008, The Victoria Mutual Building Society (VMBS) and Jamaica National Building Society (JNBS) joined forces to create the Mutual Building Societies Foundation (MBSF), a 5-year project aimed at supporting the Government's transformation of education initiative by establishing the Centres of Excellence Programme. MBSF continued its intervention at Mile Gully High, Seaforth High, Porus High, Godfrey Stewart High, Green Pond High and McGrath High School.

The Centres of Excellence Programme is a holistic approach to transforming the education system in each school and as such, engaged the participation of the administration, teachers, students and the community in various workshops and seminars with a view to improving the academic performance of the students.

Drusilla Porter-Marriot, (right) Vice-Principal, Seaforth High School has a special word of thanks for Richard Powell, President & CEO, Victoria Mutual, as his company donated twelve computers to the participating schools in the Mutual Building Societies Foundation's Centres of Excellence Programme. Also sharing in the occasion are the Principals and Vice-Principals of the other schools in the programme.

Peter Reid, Senior Vice President and Chief Operating Officer in deep discussion with the Honorable Julian Robinson, Minister of State, Ministry of Science, Technology, Energy and Mining at a Science and Technology Workshop hosted by Mutual Building Societies Foundation.

The Governor General's Achievement Awards Programme

As a good corporate citizen, we have the responsibility to preserve our heritage, maximize our resources and celebrate our achievements, all in a bid to ensure and safeguard a prosperous and sustainable future. This partnership with the Governor General's Achievement Awards Scheme allows us the opportunity to discharge this responsibility, as we celebrate and honour the recipients. The efforts of those who contribute to nation building through their various undertakings, must undoubtedly be recognized; our heroes must be honoured as they consistently make sacrifices for the benefit of others. Each year since 1991, the Governor-General's Achievement Awards has annually identified fourteen persons, one from each parish, who from modest social and economic circumstances, have uplifted themselves and shown substantial social and economic upward improvement.

Their Excellencies, the Most Honourable Patrick Allen and Lady Allen along with Richard Powell, VMBS President and CEO share a light moment with two 2012 GGAA recipients.

Sports

Sport is an important area of support for Victoria Mutual, as it contributes significantly to social development at the community and national level. It builds character, inspires heroism and facilitates the creation of bonds between fans and players alike, all of which are important tenets as we aspire towards establishing a desirable future for generations to come. In 2012, Victoria Mutual partnered with a number of sporting groups and associations, providing sponsorship support across various sporting disciplines and age brackets.

The much anticipated Annual VMBS/St. James Under-13 Football Competition again served as a catalyst for future stars from the Western end of the island, with young boys and girls relishing the opportunity to display their skills while representing their schools. Support was also extended to local track and field development events, chief among them being the Annual Gibson Relay Carnival and the Camperdown Track & Field Classics. VMBS had the privilege of serving as the title sponsor of the Intercollegiate Track & Field Championship for the second year, as we continue to engage the local university and college community, recognizing the need for corporate support at this important level of athletics.

VMBS/St. James Under -13 Football Competition

The VMBS/St. James U-13 Football Competition was a community project initiated by the Montego Bay Branch back in 1990, with the intention of encouraging students to further their education after completing primary/preparatory school, as well as to support the further development of their sporting abilities. Since inception, participants and the public have given a favourable response to the tournament, which can claim responsibility for honing various local stars, including former Reggae Boyz player and coach, Theodore 'Tappa' Whitmore, who still lends his expertise to the competition. Over two decades later, it remains a premier event, not just on the Society's Corporate Calendar, but also in the world of local football, as it provides one of the few opportunities for youngsters to showcase their talent and kick start their goal of representing our nation on the world stage in later years.

In addressing those in attendance at the launch of the 2012 competition, guest speaker, FIFA Referees Instructor, Peter Prendergast, commended the organisers for the inclusion of girls on the teams and encouraged them to see how "they can get more young ladies in the sport because they have a right to be there."

Victoria Mutual remains committed to this initiative and will continue to encourage the participation by the youngsters, attend their games, celebrate their efforts and reward their victories.

Members of the VMBS St. James Family, along with keynote speaker, Peter Prendergast, FIFA Referee at the launch and opening match of the 2012 season of the VMBS Under 13 Football Competition at the UDC Playfield in Montego Bay.

Members of the Corinaldi Primary School U-13 Football Team pose for the camera as they attend the opening match of the 2012 VMBS-Under-13 Football Competition.

VMBS Intercollegiate Track & Field Championship

For the second year, we continued to enrich the relationship between Victoria Mutual and the local university/college community as well as our support of sports at the highest scholastic level, by taking up the mantle as title sponsor for the Intercollegiate Track & Field Championship. In recent years, increased numbers of our track and field stars have found it a more appealing option to train and study in Jamaica. It is therefore essential that these athletes are provided with much-needed sponsorship support, as we seek to increase the appeal of local training programmes and foster the development of athletics at the highest level.

The event was hosted at the UWI Usain Bolt Track, over a two day period, March 23-24, 2012. In addition to the excitement provided by the athletes, which included 25 national representatives, there were additions such as a surprise guest DJ, cheerleading, various prize giveaways as well as a sponsors' village.

Delia Burke, VMBS Regional Business Development Manager, presenting awards at the 2012 VMBS Intercollegiate Track and Field Championship.

Labour Day

- Step Forward... Make Jamaica Beautiful

Victoria Mutual Team Members once again demonstrated their commitment to nation building, eagerly participating in National Labour Day projects across the island, under the national theme 'Step Forward…Make Jamaica Beautiful'. Team members showed overwhelming support of the four major projects, turning up at the various locations with brooms, paintbrushes, shovels and various tools, ready to work. Projects were undertaken in Mandeville at the Mandeville Infant School; Santa Cruz at the Black River Hospital; St Andrew at Sandhurst Basic School and in St Ann, where they undertook the cleaning up of the town of Ocho Rios.

Administrators at the Sandhurst Early Childhood Development Centre in St Andrew were extremely appreciative of Victoria Mutual's support in facilitating what they indicated was a well needed improvement of the schools facilities. The school building, which houses four classrooms and caters to 120 students between the ages of three to six years, was freshly painted and concrete was poured to cover the area underneath the benches at the front of the building, to allay the dust which was the cause of respiratory problems for many of the children. Colourful plants, such as hibiscus were also planted to beautify the surroundings and brighten the schoolyard.

VMBS volunteers at Labour Day Projects.

FINANCIAL STATEMENTS

DECEMBER 31, 2012

KPMG
Chartered Accountants
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Kingston
Jamaica, W. I.

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INDEPENDENT AUDITORS' REPORT

To the Members of
THE VICTORIA MUTUAL BUILDING SOCIETY

Report on the Financial Statements

We have audited the financial statements of The Victoria Mutual Building Society ("the Society") and the consolidated financial statements of the Society and its subsidiaries ("the Group"), set out on pages 30 to 104, which comprise the Group's and Society's statement of financial position as at December 31, 2012, the Group's and Society's income statements, and statements of comprehensive income, changes in capital and reserves and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS), 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether or not the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence relating to the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for qualified opinion

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the Bank of Jamaica Building Societies Regulations (1995) ("BOJ Regulations") stipulate that interest should be taken into account on the cash basis. IFRS requires that when loans become doubtful of collection, i.e., impaired, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Future interest receipts are taken into account in estimating future cash flows from the instrument; if no contractual interest payments will be collected, then the only interest income recognised is the unwinding of the discount on those cash flows expected to be received. The Group has complied with the BOJ Regulations. For the Group and the Society, had interest income been recognised on past-due loans in accordance with IFRS, profit for the year would have been less by an estimated amount of $66.8 million (2011: $127 million).

Qualified opinion

In our opinion, except for the effects of the non-compliance with IFRS referred to in the immediately preceding paragraph, the financial statements give a true and fair view of the financial position of the Group and the Society as at December 31, 2012, and of the Group's and Society's financial performance, changes in capital and reserves and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Report on other matters as required by the Building Societies Act

We have examined the mortgage deeds and other securities belonging to the Society. Title deeds numbering 8,083 were produced to us and actually inspected by us, and we are satisfied that the remaining 217 deeds not inspected by us were in the hands of attorneys, or elsewhere in the ordinary course of business of the Society.

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

Linroy J. Marshall

Patrick A. Chin

Chartered Accountants
Kingston, Jamaica

March 25, 2013

STATEMENTS OF FINANCIAL POSITION as at December 31, 2012

		Group		Society	
	Notes	2012 $'000	2011 $'000	2012 $'000	2011 $'000
ASSETS					
Cash and cash equivalents	7	8,301,182	7,727,753	7,901,508	7,631,709
Investments - Jamaica Government securities	8	23,776,587	22,859,502	15,062,890	13,843,548
- Other	9	3,667,632	1,919,182	3,360,681	1,833,103
Resale agreements	10	10,448,675	7,467,036	9,001,983	6,629,121
Loans	11	26,667,330	27,541,585	26,684,989	27,557,142
Other assets	12	1,970,318	1,592,699	1,283,602	882,712
Deferred tax assets	13(a)	27,514	8,351	-	-
Employee benefit asset	14	1,369,900	1,260,200	1,369,900	1,260,200
Interest in subsidiaries	15	-	-	318,538	306,627
Interest in associates	16	807,922	729,729	659,200	659,200
Intangible assets	17	158,212	104,429	126,270	90,947
Investment properties	18	675,319	561,667	792,639	678,987
Property, plant and equipment	19	551,590	448,833	515,844	421,239
Total assets		**78,422,181**	**72,220,966**	**67,078,044**	**61,794,535**
LIABILITIES					
Savings fund:					
Shareholders' savings	20	56,593,929	52,106,103	57,151,103	52,563,489
Depositors' savings	21	1,076,365	770,696	1,076,365	770,696
		57,670,294	52,876,799	58,227,468	53,334,185
Income tax payable		61,942	131,452	50,996	131,357
Other liabilities	22	501,731	521,288	289,774	452,138
Repurchase agreements	23	9,384,057	8,858,855	-	-
Insurance underwriting provisions	24	426	495	-	-
Loans payable	25	466,588	435,313	466,588	435,313
Deferred tax liabilities	13(b)	322,649	333,924	322,316	333,901
Employee benefit obligation	14	316,600	247,800	291,700	228,800
Total liabilities		**68,724,287**	**63,405,926**	**59,648,842**	**54,915,694**
CAPITAL AND RESERVES					
Permanent capital fund	26	5,215,864	4,523,824	5,215,864	4,523,824
Reserve fund	27(i)	610,812	533,919	610,812	533,919
Retained earnings reserve	27(ii)	504,268	504,268	504,268	504,268
Capital reserve on consolidation	27(iii)	82	82	-	-
Credit facility reserve	27(iv)	982,303	1,047,879	982,303	1,047,879
Investment revaluation reserve	27(v)	84,223	261,628	105,955	258,951
General reserve		10,000	10,000	10,000	10,000
Currency translation reserve	27(vi)	117,286	54,675	-	-
Retained earnings		2,173,056	1,878,765	-	-
Total capital and reserves		9,697,894	8,815,040	7,429,202	6,878,841
Total liabilities and capital and reserves		**78,422,181**	**72,220,966**	**67,078,044**	**61,794,535**

The financial statements on pages 30 to 104 were approved for issue by the Board of Directors on March 25, 2013, and signed on its behalf by:

Director
M. A. McMorris

Director
R. K. Powell

Countersigned:

Corporate Secretary
K. Brown

To be read in conjunction with the accompanying notes to the financial statements.

INCOME STATEMENTS
Year ended December 31, 2012

	Notes	Group 2012 $'000	Group 2011 $'000	Society 2012 $'000	Society 2011 $'000
Interest income	30	5,196,254	5,155,077	4,440,036	4,460,444
Interest expense	30	(1,853,933)	(1,956,520)	(1,434,115)	(1,571,899)
Net interest income		3,342,321	3,198,557	3,005,921	2,888,545
Fee and commission income	31	224,434	195,377	166,058	121,531
Fee and commission expenses	31	(50,886)	(47,760)	(50,886)	(47,760)
Net fee and commission income		173,548	147,617	115,172	73,771
Other operating revenue	32	740,171	580,603	622,026	490,639
Net interest income and other revenue		4,256,040	3,926,777	3,743,119	3,452,955
Personnel costs	33	(1,524,269)	(1,447,733)	(1,277,818)	(1,225,100)
Depreciation and amortisation	17,18,19	(82,176)	(113,081)	(68,522)	(102,891)
Other operating expenses	34	(1,494,504)	(1,300,954)	(1,518,954)	(1,280,775)
		(3,100,949)	(2,861,768)	(2,865,294)	(2,608,766)
Gain on sale of subsidiary – Victoria Mutual Insurance Company Limited		-	74,621	-	74,621
Share of profits of associates		83,776	49,323	-	-
Surplus before income tax		1,238,867	1,188,953	877,825	918,810
Income tax charge	35	(241,219)	(276,071)	(174,468)	(215,813)
Surplus for the year, all attributable to members of the Society	36	997,648	912,882	703,357	702,997

To be read in conjunction with the accompanying notes to the financial statements.

STATEMENTS OF COMPREHENSIVE INCOME Year ended December 31, 2012

	Notes	Group 2012 $'000	Group 2011 $'000	Society 2012 $'000	Society 2011 $'000
Surplus for the year	36	997,648	912,882	703,357	702,997
Other comprehensive income					
Foreign currency translation difference for foreign operations		62,611	(48,771)	-	-
Change in fair value of available-for-sale investments		(181,237)	27,422	(152,996)	57,427
Deferred income tax on available-for-sale investments		9,414	23,916	-	-
Other comprehensive income for the year, net of deferred income tax		(109,212)	2,567	(152,996)	57,427
Total comprehensive income for the year		888,436	915,449	550,361	760,424

To be read in conjunction with the accompanying notes to the financial statements.

GROUP STATEMENT OF CHANGES IN CAPITAL AND RESERVES Year ended December 31, 2012

	Permanent capital fund $'000	Reserve fund $'000	Retained earnings reserve $'000	Capital reserve on consolidation $'000	Credit facility reserve $'000	Investment revaluation reserve $'000	General reserve $'000	Currency translation reserve $'000	Retained earnings $000	Total capital and reserves $000
Balances at December 31, 2010	**3,940,285**	**469,081**	**504,268**	**82**	**993,259**	**198,936**	**10,000**	**103,446**	**1,668,880**	**7,888,237**
Total comprehensive income for the year										
Surplus for the year	-	-	-	-	-	-	-	-	912,882	912,882
Other comprehensive income:										
Foreign currency translation differences on foreign subsidiaries' balances	-	-	-	-	-	-	-	(48,771)	-	(48,771)
Change in fair value of available-for-sale investments	-	-	-	-	-	27,422	-	-	-	27,422
Deferred tax on available-for-sale- investments	-	-	-	-	-	23,916	-	-	-	23,916
Total other comprehensive income, net of deferred tax	-	-	-	-	-	51,338	-	(48,771)	-	2,567
Total comprehensive income for the year	-	-	-	-	-	51,338	-	(48,771)	912,882	915,449
Movement between reserves										
Credit facility reserve transfer	-	-	-	-	54,620	-	-	-	(54,620)	-
Other transfers [notes 26 and 27(i)]	583,539	64,838	-	-	-	-	-	-	(648,377)	-
Total movement between reserves	583,539	64,838	-	-	54,620	-	-	-	(702,997)	-
Share of investment revaluation reserve of associate	-	-	-	-	-	11,354	-	-	-	11,354
Balances at December 31, 2011	**4,523,824**	**533,919**	**504,268**	**82**	**1,047,879**	**261,628**	**10,000**	**54,675**	**1,878,765**	**8,815,040**
Total comprehensive income for the year										
Surplus for the year	-	-	-	-	-	-	-	-	997,648	997,648
Other comprehensive income:										
Foreign currency translation differences on foreign subsidiaries' balances	-	-	-	-	-	-		62,611	-	62,611
Change in fair value of available-for-sale investments	-	-	-	-	-	(181,237)	-	-	-	(181,237)
Deferred tax on available-for-sale- investments	-	-	-	-	-	9,414	-	-	-	9,414
Total other comprehensive income, net of deferred tax	-	-	-	-	-	(171,823)	-	62,611	-	(109,212)
Total comprehensive income for the year	-	-	-	-	-	(171,823)	-	62,611	997,648	888,436
Movement between reserves										
Credit facility reserve transfer	-	-	-	-	(65,576)	-	-	-	65,576	-
Other transfers [notes 26 and 27(i)]	692,040	76,893	-	-	-	-	-	-	(768,933)	-
Total movement between reserves	692,040	76,893	-	-	(65,576)	-	-	-	(703,357)	-
Share of investment revaluation reserve of associate	-	-	-	-	-	(5,582)	-	-	-	(5,582)
Balances at December 31, 2012	**5,215,864**	**610,812**	**504,268**	**82**	**982,303**	**84,223**	**10,000**	**117,286**	**2,173,056**	**9,697,894**

To be read in conjunction with the accompanying notes to the financial statements.

SOCIETY STATEMENT OF CHANGES IN CAPITAL AND RESERVES Year ended December 31, 2012

	Permanent capital fund $'000	Reserve fund $'000	Retained earnings reserve $'000	Credit facility reserve $'000	Investment revaluation reserve $'000	General reserve $'000	Retained earnings $000	Total $000
Balances at December 31, 2010	**3,940,285**	**469,081**	**504,268**	**993,259**	**201,524**	**10,000**	**-**	**6,118,417**
Total comprehensive income for the year								
Surplus for the year	-	-	-	-	-	-	702,997	702,997
Other comprehensive income:								
Change in fair value of available-for-sale investments	-	-	-	-	57,427	-	-	57,427
Total other comprehensive income	-	-	-	-	57,427	-	-	57,427
Total comprehensive income for the year	-	-	-	-	57,427	-	702,997	760,424
Movements between reserves								
Credit facility reserve transfer	-	-	-	54,620	-	-	(54,620)	-
Other transfers [notes 26 and 27(i)]	583,539	64,838	-	-	-	-	(648,377)	-
Total movement between reserves	583,539	64,838	-	54,620	-	-	(702,997)	-
Balances at December 31, 2011	**4,523,824**	**533,919**	**504,268**	**1,047,879**	**258,951**	**10,000**	**-**	**6,878,841**
Total comprehensive income for the year								
Surplus for the year	-	-	-	-	-	-	703,357	703,357
Other comprehensive income:								
Change in fair value of available-for-sale investments	-	-	-	-	(152,996)	-	-	(152,996)
Total other comprehensive income	-	-	-	-	(152,996)	-	-	(152,996)
Total comprehensive income for the year	-	-	-	-	(152,996)	-	703,357	550,361
Movements between reserves								
Credit facility reserve transfer	-	-	-	(65,576)	-	-	65,576	-
Other transfers [notes 26 and 27(i)]	692,040	76,893	-	-	-	-	(768,933)	-
Total movement between reserves	-	-	-	-	-	-	(703,357)	-
Balances at December 31, 2012	**5,215,864**	**610,812**	**504,268**	**982,303**	**105,955**	**10,000**	**-**	**7,429,202**

To be read in conjunction with the accompanying notes to the financial statements.

GROUP STATEMENT OF CASH FLOWS Year ended December 31, 2012

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Surplus for the year		997,648	912,882
Adjustments for:			
Depreciation	17,18,19	82,176	113,081
Employee benefit obligation		68,800	31,600
Interest income	30	(5,196,254)	(5,155,077)
Interest expense	30	1,853,933	1,956,520
Income tax expense	35	241,219	276,071
		(1,952,478)	(1,864,923)
Gain on disposal of property, plant and equipment		(9,146)	(490)
Gain on sale of subsidiary		-	(74,621)
Share of profits of associates		(83,776)	(49,323)
Change in provision for loan losses		(35,532)	(26,743)
Insurance underwriting provisions		(69)	(91)
Unrealised exchange (losses)/gains on foreign currency balances		(54,377)	(39,905)
Loan advances, net of repayments		729,969	1,604,098
Change in other assets		(289,916)	(343,593)
Change in employee benefit assets		(109,700)	(51,700)
Net receipts from shareholders and depositors		4,770,175	4,051,035
Change in other liabilities		43,054	219,671
		3,008,204	3,423,415
Interest and dividends received		5,108,551	5,108,423
Interest paid		(1,845,718)	(1,949,762)
Income taxes paid		(341,170)	(270,050)
Net cash provided by operating activities		5,929,867	6,312,026
Cash flows from investing activities			
Government of Jamaica securities		(1,116,759)	(7,009,608)
Other investments		(1,748,450)	(1,841,760)
Resale agreements		(2,976,127)	85,088
Purchase of intangible asset	17(a)	(73,196)	(60,688)
Additions to investment properties	18	(5,695)	(8,071)
Purchase of property, plant and equipment	19	(147,274)	(60,573)
Proceeds of disposal of property, plant and equipment		65,451	3,336
Repurchase agreements		525,202	2,803,108
Net cash used by investing activities		(5,476,848)	(6,089,168)
Cash flows from financing activities			
Loans payable, being cash provided by financing activities		31,275	3,835
Net increase in cash and cash equivalents for year		484,294	226,693
Cash and cash equivalents at beginning of year		7,727,753	7,489,481
Effect of exchange rate fluctuations on cash and cash equivalents		89,135	11,579
Cash and cash equivalents at end of year	7	8,301,182	7,727,753

To be read in conjunction with the accompanying notes to the financial statements.

SOCIETY STATEMENT OF CASH FLOWS

Year ended December 31, 2012

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Surplus for the year		703,357	702,997
Adjustments for:			
Depreciation	17,18,19	68,522	102,891
Unrealized exchange (gains)/losses on foreign currency balances		(13,598)	(29,218)
Employee benefit obligation		62,900	28,500
Interest income	30	(4,440,036)	(4,460,444)
Interest expense	30	1,434,115	1,571,899
Income tax expense	35	174,468	215,813
		(2,010,272)	(1,867,562)
Gain on disposal of property, plant and equipment		(9,146)	(490)
Gain on sale of investments		(120,134)	(108,071)
Gain on sale of subsidiary		-	(74,621)
Change in provision for loan losses		(35,532)	(26,743)
Loan advances, net of repayments		717,570	1,603,687
Interest in subsidiaries			
Change in other assets		(310,011)	(111,553)
Change in employee benefit assets		(109,700)	(51,700)
Net receipts from shareholders and depositors		4,873,423	4,219,250
Change in other liabilities		(162,364)	65,442
		2,833,834	3,647,639
Interest and dividends received		4,349,157	4,383,618
Interest paid		(1,430,680)	(1,583,767)
Income taxes paid		(266,414)	(176,317)
Net cash provided by operating activities		5,485,897	6,271,173
Cash flows from investing activities			
Government of Jamaica securities		(1,252,204)	(5,874,366)
Other investments		(1,527,578)	(1,759,576)
Resale agreements		(2,372,862)	1,713,786
Purchase of intangible asset	17(a)	(48,807)	(57,894)
Additions to investment properties	18	(5,695)	(10,050)
Purchase of property, plant and equipment	19	(134,087)	(57,680)
Proceeds of disposal of property, plant and equipment		65,450	-
Net cash used by investing activities		(5,275,783)	(6,045,780)
Cash flows from financing activities			
Loans payable, being cash provided by financing activities		30,979	3,835
Net increase in cash and cash equivalents for year		241,093	229,228
Cash and cash equivalents at beginning of year		7,631,709	7,394,448
Effect of exchange rate fluctuations on cash and cash equivalents		28,706	8,033
Cash and cash equivalents at end of year	7	7,901,508	7,631,709

To be read in conjunction with the accompanying notes to the financial statements.

1. IDENTIFICATION

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

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

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

Associates	Country of incorporation	Nature of Business	Percentage equity held by: The Society	Subsidiaries
Victoria Mutual Investments Limited and its wholly-owned subsidiary:	Jamaica	Insurance premium financing and investment holding	100	-
Victoria Mutual Wealth Management Limited	Jamaica	Stockbroking and securities trading	-	100
Victoria Mutual Properties Limited *and its wholly-owned subsidiaries:	Jamaica	Development and letting of real property	100	-
VMBS Realty Inc.*	Delaware, USA	Property holding and rental	-	100
Victoria Mutual (Property Services) Limited	Jamaica	Housing development and property management and sales	-	100
Victoria Mutual Finance Limited	United Kingdom	Provision of management services to the Society, money transfer and cheque cashing services	100	-
VMBS Money Transfer Services Limited	Jamaica	Management of the money transfer services of the Society	99 (2011: 85)	-
VMBS Overseas (UK) Limited	United Kingdom	Promotion of the business of the Society	100	-
VMBS Overseas (Canada) Inc*	Canada	Money transfer	100	-
Westin International Insurance Company Limited	The Cayman Islands	General insurance	100	-

* Inactive subsidiaries, which, except for VMBS Overseas (Canada) Inc., are the subject of an undertaking, given to Bank of Jamaica, for their winding up.

1. IDENTIFICATION (CONT'D)

(c) Interest in associated companies:

The Group has the following interests in associated companies:

Associates	Country of incorporation	Nature of Business	Percentage equity held by: The Society	Percentage equity held by: Associate
Prime Pensions St. Lucia Limited, and its wholly owned subsidiary:	St. Lucia	Holding Company	18	-
Prime Asset Management Limited	Jamaica	Pension management	-	100
British Caribbean Insurance Company Limited	Jamaica	General insurance	31.5	-

(d) The Society is an authorised foreign currency dealer.

2. REGULATIONS AND LICENCE

The Society is licensed, and the financial statements as of and for the year ended December 31, 2012 are delivered, under the Building Societies Act and the Bank of Jamaica (Building Societies) Regulations, 1995 ("BOJ Regulations").

3. BASIS OF PREPARATION

(a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board, except as set out in note 4(r) where, in relation to the accrual of interest income on past-due loans, the Group has complied with the BOJ Regulations instead of with the requirements of IFRS.

New, revised and amended standards and interpretations that became effective during the year

Certain new, revised and amended standards and interpretations came into effect during the financial year. The Group has adopted those which are relevant to its operations, none of which resulted in any change in accounting policies or in material changes to the content or presentation of amounts or disclosures in these financial statements.

New, revised and amended standards and interpretations that are not yet effective

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

3. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (cont'd):

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

- IAS 1, *Presentation of Financial Statements*, has been amended by the issue of a document entitled *Presentation of Items of Other Comprehensive Income*, effective for annual reporting periods beginning on or after July 1, 2012, to require a reporting entity to present separately the items of other comprehensive income (OCI) that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these sections. The existing option to present the profit or loss and other comprehensive income in two statements has not changed. The title of the statement has changed from 'Statement of Comprehensive Income' to 'Statement of Profit or Loss and Other Comprehensive Income'. However, an entity is still allowed to use other titles.

- IAS 19, *Employee Benefits*, has been amended, effective for annual reporting periods beginning on or after January 1, 2013, to require all actuarial gains and losses to be recognised immediately in other comprehensive income. This change will remove the corridor method and eliminate the ability of entities to recognise all changes in the defined-benefit obligation and in plan assets in profit or loss. The expected return on plan assets recognised in profit or loss is to be calculated based on the rate used to discount the defined-benefit obligation. The amendment also includes changes to the definitions and disclosure requirements in the current standard.

- IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2015 (previously January 1, 2013), retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. It also includes guidance on classification and measurement of financial liabilities designated as at fair value through profit or loss and incorporates certain existing requirements of IAS 39, *Financial Instruments: Recognition and Measurement,* on the recognition and de-recognition of financial assets and financial liabilities.

- IFRS 10, *Consolidated Financial Statements,* which is effective for annual reporting periods beginning on or after January 1, 2013, introduces a new approach to determining which investees should be consolidated. It was issued as part of a suite of consolidation and related standards, also replacing existing requirements for joint ventures (now Joint Arrangements) and making limited amendments in relation to associates. IFRS 10 supersedes IAS 27, *Consolidated and Separate Financial Statements,* and SIC-12, *Consolidation – Special Purpose Entities,* and provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. An investor controls an investee when (i) it is exposed, or has rights, to variable returns from its involvement with the investee, (ii) has the ability to affect those returns through its power over the investee and (iii) there is a link between power and returns.

3. **BASIS OF PREPARATION (cont'd):**

(a) Statement of compliance (cont'd):

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

- IFRS 11, *Joint Arrangements*, which is effective for annual reporting periods beginning on or after January 1, 2013, identifies two main types of joint arrangements – joint operations and joint ventures: (i) Those cases in which although there is a separate vehicle created by the venturers, that separation is ineffective in certain ways, are now called *joint operations*. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31. (ii) All other joint arrangements, now called *joint ventures,* are required to be accounted for using the equity method (thus prohibiting the use of proportionate consolidation). The application of the equity method is subject to two exemptions carried forward from IAS 28 (2008) and IAS 31.

- IFRS 12, *Disclosure of Interest in Other Entities,* which is effective for annual reporting periods beginning on or after January 1, 2013, contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e., joint operations or joint ventures), associates and/or unconsolidated structured entities. *Interests* are widely defined as contractual and non-contractual involvement that expose an entity to variability of returns from the performance of the other entity. *Structured entities* are entities that are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. The disclosure requirements encompass risk exposures for the sponsor of such an entity even if it no longer has any contractual involvement. These required disclosures aim to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows.

  The Group is expected to understand what a structured entity is in the context of its operations; apply judgement in assessing whether it is 'involved' with a structured entity, which has the potential to broaden the transactions and relationships to which the disclosures may apply, particularly for those who sponsor, or perhaps even transact with, but do not consolidate structured entities; and assess the level of disclosure that it believes will be meaningful to users of the financial statements.

- IFRS 13, *Fair Value Measurement,* which is effective for annual reporting periods beginning on or after January 1, 2013, defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value and is applicable to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair values is provided. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

3. BASIS OF PREPARATION (CONT'D)

(a) Statement of compliance (cont'd):

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

- Amendments to IAS 32, *Financial Instruments: Presentation,* which is effective for annual reporting periods beginning on or after January 1, 2014, clarifies those conditions needed to meet the criteria specified for offsetting financial assets and liabilities. It requires the entity to prove that there is a legally enforceable right to set off the recognised amounts. Conditions such as whether the set off is contingent on a future event and the nature and right of set-off and laws applicable to the relationships between the parties involved should be examined. Additionally, to meet the criteria, an entity should intend to either settle on a net basis or to realise the asset and settle the liability simultaneously.

- *Improvements to IFRS 2009-2011* contains amendments to certain standards and interpretations and are effective for annual reporting periods beginning on or after January 1, 2013. The main amendments applicable to the Group are as follows:

  (i) IAS 1, *Presentation of Financial Statements*, has been amended to clarify that only one comparative period, which is the preceding period, is required for a complete set of financial statements. IAS 1 requires the presentation of an opening statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification. IAS 1 has been amended to clarify that (a) the opening statement of financial position is required only if a change in accounting policy, a retrospective restatement or a reclassification has a material effect upon the information in that statement of financial position; (b) except for the disclosures required under IAS 8, notes related to the opening statement of financial position are no longer required; and (c) the appropriate date for the opening statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented.

  (ii) IAS 16, *Property, Plant and Equipment*, has been amended to clarify that the definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether spare parts, standby-by equipment and servicing equipment should be accounted for under the standard. If these items do not meet the definition, then they are accounted for using IAS 2, *Inventories*.

  (iii) IAS 32, *Financial Instruments: Presentation*, has been amended to clarify that IAS 12, *Income Taxes*, applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction.

The Group is assessing the impact, if any, that these new, revised and amended standards and interpretations will have on its future financial statements.

3. BASIS OF PREPARATION (CONT'D)

(b) Basis of measurement:

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

- the defined-benefit asset is recognised as plan assets, plus unrecognised past service cost, less the present value of the defined-benefit obligation, and is limited as explained in note 4(h); and

- the defined-benefit liability is the present value of the funded obligation minus unrecognised past service cost.

(c) Functional and presentation currency:

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

(d) Use of judgements and estimates:

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions, and critical judgements in applying accounting policies. These estimates, assumptions and judgements 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 revenue and expenses for the year then ended. Actual results could differ from those estimates.

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

The significant assumptions about the future and key areas of estimation uncertainty, and the critical judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements, are as follows:

(i) Key sources of estimation uncertainty:

- Pension and other post-employment benefits:

  The amounts recognised in the statement of financial position and income statement for pension and other post-employment benefits are determined actuarially using several assumptions. The primary assumptions used in determining the amounts recognised include expected long-term return on plan assets, the discount rate used to determine the present value of estimated future cash flows required to settle the pension and other post-employment obligations and the expected rate of increase in medical costs for post-employment medical benefits.

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

(d) Use of judgements and estimates (cont'd):

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

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

  The assumed expected return on plan assets considers the long-term historical returns, asset allocation and future estimates of long-term investment returns. The discount rate is determined based on the estimate of yield on long-term government securities that have maturity dates approximating the terms of the Society's obligation. In the absence of such instruments in Jamaica, the rate is estimated by extrapolating from the longest-tenor security on the market. The estimate of the 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.

- Allowance for impairment losses on loans and receivables:

  In determining amounts recorded for impairment of loans and receivables in the financial statements, management makes judgements regarding indicators of impairment, that is, whether there are indicators that suggest there may be a measurable decrease in the estimated future cash flows from loans and receivables, for example, repayment default and adverse economic conditions. Management also makes estimates of the likely estimated future cash flows from impaired loans and receivables, as well as the timing of such cash flows. Historical loss experience is applied where indicators of impairment are not observable on individually significant loans and on a loan portfolio with similar characteristics, such as credit risks.

- Fair value of financial instruments

  In the absence of quoted market prices, the fair value of a significant portion of the Group's financial instruments is determined using a generally accepted alternative to quoted market prices. Considerable judgement is required in interpreting market data to arrive at estimates of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instrument in an arm's length transaction.

- Goodwill:

  Goodwill is stated at cost or deemed cost, less any accumulated amortisation up to December 31, 2004, and impairment losses. Goodwill is no longer amortised but is tested annually for impairment. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

3. BASIS OF PREPARATION (CONT'D)

(d) Use of judgements and estimates (cont'd):

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

- Residual values and useful lives of property, plant and equipment:

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

- Income taxes

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

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

  The potential additional income tax that may arise for the Group and the Society from judgements on certain matters included in these financial statements being exercised differently by the tax authorities from the way they were exercised by the Group's management is approximately $95,000,000 (2011: $95,000,000).

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

The Group's accounting policies provide scope for financial assets and liabilities to be designated on inception into different accounting categories in certain circumstances.

The following are relevant to these financial statements:

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

- 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 4(c).

- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 4(c).

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation:

The Group's financial statements include the audited financial statements of the Society and its subsidiaries as at and for the year ended December 31, 2012, after eliminating intra-group amount and the Group's interest in its associates. Investments in associates are accounted for using the equity method, and are initially recognised at cost; the cost of the investment includes transaction costs.

Subsidiaries are those enterprises controlled by the Society [note 1(b)]. Control exists when the Society has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

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

(b) Cash and cash equivalents:

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with the central bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are held for the purpose of meeting short-term cash commitments, rather than for investment or other purposes.

Cash and cash equivalents are carried at amortised cost.

(c) Investments:

Investments are classified as *loans and receivables*, *held-to-maturity*, *at fair value through profit or loss* and *available-for-sale*. Management determines the appropriate classification of investments at the time of purchase.

Government of Jamaica or other 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* and are initially measured at cost and subsequently at amortised cost, using the effective interest rate method, less impairment losses. 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Investments (cont'd):

Government of Jamaica or other securities with fixed or determinable payment and fixed maturity that the Group has the positive intent and ability to hold to maturity are classified as *held-to-maturity* and are initially measured at cost and subsequently at amortised cost, using the effective interest rate method, less impairment losses. Any sale or reclassification of a significant amount of held-to-maturity investments 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.

Investments classified as *at fair value through profit or loss* are those investments that the Group acquires for the purpose of selling or repurchasing in the near term, or hold as part of a portfolio that is managed together for short-term profit or position taking. Fair value through profit or loss investments are carried at fair value with transaction costs taken directly to profit or loss.

Other investments, including certain securities, are classified as *available-for-sale* and are initially measured at cost and subsequently at fair value, with unrealised gains and losses arising from changes in fair value recognised in other comprehensive income and included in investment revaluation reserve, except for impairment losses and, in the case of debt securities, foreign exchange gains and losses. Where fair value cannot be reliably determined, available-for-sale investments are stated at cost. Where the securities are disposed of, or impaired, the related accumulated unrealised gains or losses are included in profit or loss.

The fair values of financial assets at *fair value through profit or loss*, as well as available-for-sale investments are based on their quoted market bid price at the reporting date, if available. Where a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on an externally derived yield curve and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the reporting date.

(d) Resale and repurchase agreements:

Resale and repurchase agreements, which are described in more detail in notes 10 and 23, respectively, are accounted for as short-term collateralised lending and borrowing, respectively. Resale agreements are classified as loans and are carried at amortised cost. Securities sold under repurchase agreements 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.

Interest earned on resale agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense, respectively, over the life of each agreement using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Loans:

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Loans and advances are initially measured at fair value, plus incremental direct transaction costs, and subsequently measured at their amortised cost, using the effective interest method.

(f) Other assets:

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

(g) Income tax:

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

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

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

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 realised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax is not recognised for:

(i) temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

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

(h) Employee benefits:

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Employee benefits (cont'd):

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

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

(ii) Defined-contribution pension plan:

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

(iii) Defined-benefit pension plan:

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

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

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

(h) Employee benefits (cont'd):

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

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

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on the straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

In calculating the Group's and the Society's obligation in respect of the plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 percent of the greater of the present value of the defined-benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(iv) Other post-employment benefits:

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

(i) Interest in subsidiaries:

Interest in subsidiaries is stated at cost, less impairment losses.

(j) Intangible assets:

(i) Goodwill arising on consolidation:

Goodwill is recognised as stated in note 3(d)(i).

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(j) Intangible assets (cont'd):

(ii) Computer software:

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. These assets are stated at cost, less accumulated amortisation and, if any, impairment losses. The assets are amortised using the straight-line method over their expected useful lives, estimated at five years. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

(k) Investment properties:

Investment properties are properties held to earn rental income and/or for capital appreciation. Investment properties are stated at cost, less accumulated depreciation and impairment losses. Each year's lease income from investment property is accounted for on the straight-line basis over the year.

(l) Property, plant and equipment and depreciation:

(i) Owned assets:

(a) Recognition and measurement:

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

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

(b) Subsequent costs:

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Property, plant and equipment and depreciation (cont'd):

(ii) Depreciation:

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

The depreciation rates are as follows:-

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

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

(m) Other liabilities:

Other liabilities are stated at cost or amortised cost.

(n) Loans payable:

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

(o) Impairment:

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

(i) Calculation of recoverable amount:

The recoverable amount of the Group's held-to-maturity securities, loans and other 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 net selling price and value in use. 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.

For collateralised loans where foreclosure is probable, the recoverable amount is measured based on net realisable value of the collateral.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Impairment (cont'd):

(ii) Reversals of impairment:

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

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

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

(p) Allowance for impairment:

The allowance to cover specific credit losses is maintained at a level considered adequate to provide for potential loan losses and is based on management's evaluation of individual loans in the loan portfolio, and the requirements of the regulator, Bank of Jamaica.

A specific provision is made on the basis of recoverable amount.

The evaluation takes all relevant matters into consideration, including prevailing and anticipated business and economic conditions, the collateral held, the debtors ability to repay the loan and guidance provided by Bank of Jamaica, which requires that appropriate provisions be made for all loans on which interest payments and principal repayments are ninety or more days in arrears or which are characterised by one or more other performance of documentation deficiency. Amounts are written-off from the provision whenever management has concluded that such amounts will not be recovered.

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

IFRS permits only specific loan loss provisions, based on impairment of individual loans and/or impairment of a portfolio of loans with similar risk characteristics, and requires that the future cash flows of impaired loans be discounted and, thereafter, the increase in the present value be reported as interest income. The loan loss provision required under the Bank of Jamaica Building Societies Regulations (1995), which is in excess of the requirements of IFRS, is treated as an appropriation of retained earnings and included in a non-distributable reserve, called the "credit facility reserve" [note 27(iv)].

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Foreign currency translation:

(i) Transactions and balances

Foreign currency transactions are converted at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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

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

(ii) Foreign subsidiaries

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

(r) Interest income:

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Interest income (cont'd):

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the Bank of Jamaica Building Societies Regulations (1995) ("BOJ Regulations") stipulate that interest should be taken into account on the cash basis. IFRS requires that when loans become doubtful of collection, i.e., impaired, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. Future interest receipts are taken into account in estimating future cash flows from the instrument; if no contractual interest payments will be collected, then the only interest income recognised is the unwinding of the discount on those cash flows expected to be received. The Group has elected to comply with the BOJ Regulations. For the Group and the Society, had interest income been recognised on past-due loans in accordance with IFRS, the interest income for the year would have been less by an estimated amount of $66.8 million. (2011: $127 million).

(s) Interest expense:

Interest expense is recognised in profit or loss on the accrual basis 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.

(t) Commissions and other income:

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

(u) Fee and commission expenses:

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

(v) Financial assets and liabilities:

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of the financial statements, financial assets have been determined to include cash and cash equivalents, investments, resale agreements, loans and other assets. Financial liabilities include savings fund, other liabilities, repurchase agreements and loans payable. The fair values of financial instruments are discussed in note 29.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(v) Financial assets and liabilities (cont'd):

(i) Recognition:

The Group initially recognises loans and advances on the date that they are disbursed and deposits on the dates amounts are received. All other financial assets and liabilities (including assets and liabilities designated as at fair value through profit or loss) are initially recognised on the trade date, that is, the date at which the Group becomes a party to the contractual provisions of the instrument.

(ii) Derecognition:

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 on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retain 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 from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

(w) Related parties:

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

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

i) has control or joint control over the Group;

ii) has significant influence over the Group; or

iii) is a member of the key management personnel of the Group.

(2) An entity is related to the Group if any of the following conditions applies:

i) 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).

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(w) Related parties (cont'd):

(2) An entity is related to the Group if any of the following conditions applies (cont'd):

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

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

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

vi) The entity is controlled, or jointly controlled by a person identified in (1).

vii) A person identified in (2)(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).

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

5. FINANCIAL RISK MANAGEMENT

Introduction and overview

The disclosures provided in this note are based on the Group's investment portfolio as at December 31, 2012 (see note 40).

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

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

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

Risk management framework

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

(i) Risk Management Committee
(ii) Finance, Investment & Loan Committee ("Finance Committee"),
(iii) Audit Committee

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

5. FINANCIAL RISK MANAGEMENT (CONT'D)

Introduction and overview (cont'd)

Risk management framework (cont'd)

The risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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

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

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

(a) Credit risk:

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

(i) Exposure to credit risk:

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

(1) For financial assets recognised at the reporting date:

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

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd):

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

(2) For financial assets not recognised at the reporting date:

	Group		Society	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Loan commitments	637,886	239,792	637,886	239,792

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

The way in which management manages the credit risk exposure attaching to its financial assets is described in notes (1) to (5) following:

(1) Loans receivable:

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

Quality of loans receivable

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

Definition of impaired loans

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

The following tables summarise the quality of loans receivable:

Past due but not impaired loans:

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

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd):

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

(1) Loans receivable (cont'd):

Past due but not impaired loans (cont'd):

	Group and Society	
	2012	2011
	$'000	$'000
Past due but not impaired loans	6,446,342	10,030,873
Aging analysis of past due but not impaired loans		
Under 3 months	4,877,054	8,645,206
3 months – 6 months	689,787	558,791
Over 6 months – 12 months	493,585	345,781
Over 12 months	385,916	481,195
Total carrying amount	6,446,342	10,030,973

Past due and impaired loans:

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

	Group and Society	
	2012	2011
	$'000	$'000
Past due and impaired loans	569,307	512,528
Aging analysis of past due and impaired loans		
3 months – 6 months	132,828	86,822
Over 6 months – 12 months	61,011	9,010
Over 12 months	375,468	416,696
Total carrying amount	569,307	512,528

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd):

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

(1) Loans receivable (cont'd):

Loans with renegotiated terms:

Loans with renegotiated terms are loans that have been restructured due to deterioration in the member's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category irrespective of satisfactory performance after restructuring. The main restructuring activities for 2009 to 2012 were granting moratoria and rescheduling repayments. At December 31, 2012, the outstanding principal balances on loans that were restructured amounted to $513,211,351 (2011: $505,761,789).

Allowances for impairment:

The Group has established an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio in the manner described in note 4(p). Information on impairment charge is provided in note 11(b).

Write-off policy:

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

Collateral:

Collateral held in respect of loans is in the form of mortgages over property, liens over motor vehicles and hypothecation of deposits held. The fair value of collateral that the Group held for loans past due was $41,902,838,000 (2011: $47,039,320,000). For details refer to note 5(a)(iii) below.

Foreclosure:

During the current and previous years, the Group acquired real properties by way of foreclosure. At the reporting date the carrying amount of these assets was $456,959,000 (2011: $334,018,000). The Group's policy is, in accordance with regulatory requirements, to pursue realisation of the collateral in a timely manner, that is, it intends to dispose of these properties within three years of acquisition. No financial or other assets (other than real property mentioned herein) were obtained during the year by taking possession of collateral.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd):

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

(2) 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.

(3) Investment securities:

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

No investment securities were considered impaired at the reporting date.

(4) Resale agreements and certificates of deposit:

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

(5) Accounts receivable:

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

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

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

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(a) Credit risk (cont'd):

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

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

	The Group				The Society			
	Loans and advances		Resale agreements		Loans and advances		Resale agreements	
	2012	2011	2012	2011	2012	2011	2012	2011
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Against neither past due nor impaired financial assets:								
Property	199,654,536	185,030,647	-	-	199,654,536	185,030,647	-	-
Debt securities	-	-	12,156,692	8,556,755	-	-	10,074,210	6,668,525
Liens on motor vehicles	578	29,978	-	-	578	29,978	-	-
Hypothecation of deposits	230,871	230,871	-	-	230,871	230,871	-	-
Subtotal	199,885,985	185,291,496	12,156,692	8,556,755	199,885,985	185,291,496	10,074,210	6,668,525
Against past due but not impaired finanical assets:								
Property	40,715,764	45,395,590	-	-	40,715,764	45,395,590	-	-
Hypothecation of deposits	88,263	56,396	-	-	88,263	56,396	-	-
Subtotal	40,804,027	45,451,986	-	-	40,804,027	45,451,986	-	-
Against past due and impaired financial assets:								
Property	1,098,811	1,587,334	-	-	1,098,811	1,587,334	-	-
Total	241,788,823	232,330,816	12,156,692	8,556,755	241,788,823	232,330,816	10,074,210	6,668,525

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

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks:

Market risk is the risk that the fair value or future cash flows of 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 exchange rates, credit spreads and equity prices and will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

Management of market risks

The Group separates its exposure to market risks between trading and non-trading portfolios. The market risks from trading activities are concentrated in the securities dealing subsidiary, Victoria Mutual Wealth Management Limited, and are monitored by ALCO. ALCO monitors the price movement of securities on both the local and international markets. Market risks are managed through risk limits approved by the Board of Directors of Victoria Mutual Wealth Management Limited.

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

(i) Interest rate risk:

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

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

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

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(i) Interest rate risk (cont'd):

A summary of the interest rate gap, using historical data as a basis, at December 31, is as follows:

	Group 2012					
	Immediately rate sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 12 months $'000	Non-rate sensitive $'000	Total $'000
Cash and cash equivalents	3,070,425	2,724,632	1,681,939	192,836	631,350	8,301,182
Investments	612,741	17,891,859	5,334,876	3,461,661	143,082	27,444,219
Resale agreements	322,092	4,328,431	5,798,152	-	-	10,448,675
Loans	-	26,667,330	-	-	-	26,667,330
Other assets	-	367	-	-	1,969,951	1,970,318
Total financial assets	4,005,258	51,612,619	12,814,967	3,654,497	2,744,383	74,831,724
Savings fund	-	42,044,634	6,047,376	9,578,284	-	57,670,294
Other liabilities	32,588	-	-	-	469,143	501,731
Repurchase agreements		7,008,101	2,375,956	-	-	9,384,057
Loans payable	3,769	-	462,819	-	-	466,588
Total financial liabilities	36,357	49,052,735	8,886,151	9,578,284	469,143	68,022,670
Total interest rate sensitivity gap *	3,968,901	2,559,884	3,928,816	(5,923,787)	2,275,240	6,809,054
Cumulative gap	3,968,901	6,528,785	10,457,601	4,533,814	6,809,054	

* The gap is in relation to items recognised in the statement of financial position; there are no items not so recognised.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(i) Interest rate risk (cont'd):

	Group					
	2011					
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	2,623,341	992,267	3,366,979	161,901	583,265	7,727,753
Investments	1,084,029	6,669,430	7,081,185	9,835,063	108,977	24,778,684
Resale agreements	827,272	3,246,053	3,393,711	-	-	7,467,036
Loans	-	27,541,433	-	-	152	27,541,585
Other assets	-	314	-	-	1,592,385	1,592,699
Total financial assets	4,534,642	38,449,497	13,841,875	9,996,964	2,284,779	69,107,757
Savings fund		37,730,751	5,231,701	9,914,347	-	52,876,799
Other liabilities	-	-	-	-	521,288	521,288
Repurchase agreements	-	7,454,091	1,404,764	-	-	8,858,855
Loans payable	3,473	-	431,840	-	-	435,313
Total financial liabilities	3,473	45,184,842	7,068,305	9,914,347	521,288	62,692,255
Total interest rate sensitivity gap *	4,531,169	(6,735,345)	6,773,570	82,617	1,763,491	6,415,502
Cumulative gap	4,531,169	(2,204,176)	4,569,394	4,652,011	6,415,502	

* The gap is in relation to items recognised in the statement of financial position; there are no items not so recognised.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(i) Interest rate risk (cont'd):

	Society					
	2012					
	Immediately rate sensitive $'000	Within 3 months $'000	Three to 12 months $'000	Over 12 months $'000	Non-rate sensitive $'000	Total $'000
Cash and cash equivalents	2,690,621	2,724,632	1,681,939	192,836	611,480	7,901,508
Investments	612,742	12,282,120	5,409,876	-	118,833	18,423,571
Resale agreements	1,057,333	2,424,189	5,520,461	-	-	9,001,983
Loans	-	26,684,989	-	-	-	26,684,989
Other assets	-	-	-	-	1,283,602	1,283,602
Total financial assets	4,360,696	44,115,930	12,612,276	192,836	2,013,915	63,295,653
Savings fund	-	42,601,809	6,047,376	9,578,283	-	58,227,468
Other liabilities	-	-	-	-	289,774	289,774
Loans payable	3,769	-	462,819	-	-	466,588
Total financial liabilities	3,769	42,601,809	6,510,195	9,578,283	289,774	58,983,830
Total interest rate sensitivity gap *	4,356,927	1,514,121	6,102,081	(9,385,447)	1,724,141	4,311,823
Cumulative gap	4,356,927	5,871,048	11,973,129	2,587,682	4,311,823	-

* The gap is in relation to items recognised in the statement of financial position; there are no items not so recognised.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(i) Interest rate risk (cont'd):

	Society					
	2011					
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	2,624,579	905,328	3,366,979	161,901	572,922	7,631,709
Investments	1,084,029	320,052	5,894,424	8,287,846	90,300	15,676,651
Resale agreements	1,641,398	1,594,012	3,393,711	-	-	6,629,121
Loans	-	27,557,142	-	-	-	27,557,142
Other assets	-	-	-	-	882,712	882,712
Total financial assets	5,350,006	30,376,534	12,655,114	8,449,747	1,545,934	58,377,335
Savings fund	-	37,730,751	5,231,701	10,371,733	-	53,334,185
Other liabilities	-	-	-	-	452,138	452,138
Loans payable	3,473	-	431,840	-	-	435,313
Total financial liabilities, capital and reserves	3,473	37,730,751	5,663,541	10,371,733	452,138	54,221,636
Total interest rate sensitivity gap *	5,346,533	(7,354,217)	6,991,573	(1,921,986)	1,093,796	4,155,699
Cumulative gap	5,346,533	(2,007,684)	4,983,889	3,061,903	4,155,699	

* The gap is in relation to items recognised in the statement of financial position; there are no items not so recognised.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(i) Interest rate risk (cont'd):

Sensitivity to interest rate movements

The following table shows the effect on profit and reserves of a reasonably possible change in interest rates of the amount indicated. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant. The analysis is performed on the same basis as for 2011.

	Group		Society	
	$'000 Increase	$'000 (Decrease)	$'000 Increase	$'000 (Decrease)
2012				
Jamaica dollar	400 bps	100 bps	400 bps	100 bps
Foreign currency	250 bps	50 bps	250 bps	50 bps
Effect on profit or loss	357,061	(85,716)	311,708	(77,927)
Effect on equity	660,926	(154,991)	307,548	(78,489)
2011				
Jamaican dollar	100 bps	100 bps	100 bps	100 bps
Foreign currency	50 bps	50 bps	50 bps	50 bps
Effect on profit or loss	65,668	(65,688)	60,550	(60,550)
Effect on equity	(134,672)	135,383	(90,082)	93,790

(ii) 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 in respect of transactions and balances that are denominated in currencies other than the Jamaica dollar. The main currencies giving rise to this risk are the United States dollar, Canadian dollar, Euro and the British pound.

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

	Group						
	2012			2011			
	US$ $'000	£ $'000	CDN$ $000	€ $'000	US$ $'000	£ $'000	CDN$ $'000
Foreign currency assets	204,870	58,750	6,853	11,785	136,347	57,871	5,423
Foreign currency liabilities	(198,862)	(58,077)	(6,495)	-	(162,798)	(57,084)	(5,452)
Net foreign currency asset/(liability)	6,008	673	358	11,785	(26,451)	787	(29)

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(ii) Foreign currency risk (cont'd):

	Society					
	2012			2011		
	US$ $'000	£ $'000	CDN$ $'000	US$ $'000	£ $'000	CDN$ $'000
Foreign currency assets	151,008	58,795	6,852	122,994	6,007	59,078
Foreign currency liabilities	(145,983)	(58,349)	(6,495)	(122,528)	(5,813)	(58,655)
Net foreign currency asset	5,025	446	357	466	194	423

Sensitivity to foreign exchange rate movements

A one percent (1%) [2011: one percent (1%)] strengthening of the Jamaica dollar against the following currencies at December 31, 2012 would have (decreased)/increased profit by the amounts shown below. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis for 2011.

	Group		Society	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Euro	-	(66,087)	-	-
United States	(5,561)	65,230	(4,705)	(402)
Pounds Sterling	(1,012)	(1,219)	(659)	(566)
Canadian Dollar	(330)	(1,777)	(332)	(163)
	(6,903)	(3,853)	(5,696)	(1,131)

A ten percent (10%) [2011: one percent (1%)] weakening of the Jamaica dollar against the following currencies at December 31, 2012 would have (decreased)/increased profit by the amounts shown. The analysis assumes that all other variables, in particular, interest rates, remain constant. The analysis is performed on the same basis as for 2011.

	Group		Society	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Euro	-	118,956	-	-
United States	55,609	(117,415)	47,048	402
Pounds Sterling	10,116	2,195	6,591	566
Canadian Dollar	3,303	3,199	3,322	163
	69,028	6,935	56,961	1,131

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

(iii) Equity price risk

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

The equity securities which the Group holds are listed on the Jamaica Stock Exchange. An increase or decrease of 10% (2011: 20%) in share prices would result in an increase or an equal decrease, respectively, in reserves of $13,471,265 (2011: $20,197,894) for the Group and $11,046,237 (2011: $16,464,090) for the Society.

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

(c) Liquidity risk:

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

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

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

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

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

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd):

(i) (Cont'd)

	Ratio of net liquid assets to deposits from customers 2012	2011
Regulator's minimum requirement	5.00%	5.00%
Actuals:		
As at December 31	14.23%	10.92%
Average for the year	7.97%	11.93%
Maximum for the year	14.90%	16.81%
Minimum for the year	4.29%	7.67%

(ii) The stockbroking subsidiary, Victoria Mutual Wealth Management Limited, manages liquidity risk by keeping a pre-determined portion of its financial assets in liquid form. The key measure used for monitoring liquidity risk is the ninety day liquidity gap ratio. The numerator is calculated by subtracting the total assets maturing within ninety days from the total liabilities which fall due in ninety days. The denominator is total liabilities. The ninety day liquidity gap ratio at the end of the year was 65.37% (2011: 74.61%). The ratio stipulated by the regulator is 25% (2011: 25%).

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

	Group						
	2012						
	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	Over 5 years $'000	Contractual cash flows $'000	Carrying amount $'000
Other liabilities	29,583	228,734	243,414	-	-	501,731	501,731
Due to savers	44,331	42,757,789	6,749,285	13,253,920	-	62,805,325	57,670,294
Repurchase agreements	-	6,975,852	2,474,451	-	-	9,450,303	9,384,057
Loans payable	26,007	-	466,848	-	-	492,855	466,588
	2011						
	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	Over 5 years $'000	Contractual cash flows $'000	Carrying amount $'000
Other liabilities	3,510	236,469	281,309	-	-	521,288	521,288
Due to savers	94,449	37,919,688	6,081,919	15,005,675	-	59,101,731	52,876,799
Bank overdrafts	2,127	-	-	-	-	2,127	2,127
Repurchase agreements	-	7,523,337	1,335,518	-	-	8,858,855	8,858,855
Loans payable	-	-	439,340	-	-	439,340	435,313

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd):

	Society						
	2012						
	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	Over 5 years $'000	Contractual cash flows $'000	Carrying amount $'000
Other liabilities	-	289,774	-	-	-	289,774	289,774
Due to savers	44,330	42,757,789	6,749,285	13,253,920	-	62,805,324	58,227,468
Loans payable	-	-	466,588	-	-	466,588	466,588
	2011						
	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	Over 5 years $'000	Contractual cash flows $'000	Carrying amount $'000
Other liabilities	-	452,138	-	-	-	452,138	452,138
Due to savers	95,468	37,919,688	6,081,911	15,017,831	-	59,114,898	53,334,185
Bank overdrafts	2,127	-	-	-	-	2,127	2,127
Loans payable	-	-	439,340	-	-	439,340	435,313

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

(d) Operational risk:

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

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

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

- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(d) Operational risk (cont'd):

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

6. CAPITAL MANAGEMENT

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

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

(a) The Financial Services Commission monitors compliance with the capital requirements established for entities involved in non-deposit taking financial services. The Regulations require that Victoria Mutual Wealth Management Limited maintain a minimum total capital to risk weighted assets of 10% (2011: 10%).

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

	2012 $'000	2011 $'000
Tier 1 Capital		
Ordinary share capital	115,000	115,000
Retained earnings	765,848	651,370
Current year-to- date profit	143,507	114,478
	1,024,355	880,848
Less: Revaluation reserves	(37,210)	(18,383)
Total Tier 1 Capital	987,145	862,465
Tier 2 Capital		
Preference shares	50,000	50,000
Total qualifying capital	1,037,145	912,465
Risk weighted assets		
Deposits & other amounts due from local banks	88,496	28,118
Equity investments	24,250	18,674
Property, plant and equipment	43,560	10,129
Other assets	4,050,578	2,491,704
Foreign exchange exposure	82,429	1,321,794
	4,289,313	3,870,419
Capital ratios:		
Total regulatory qualifying capital expressed as a percentage of total risk weighted assets	24.18%	23.58%
Total Tier 1 Capital expressed as a percentage of total risk weighted assets	23.01%	22.28%

6. CAPITAL MANAGEMENT (CONT'D)

(b) Bank of Jamaica requires that building societies maintain a minimum of 10% (2011: 10%) of their risk weighted assets in capital.

	Society	
	2012	2011
	$'000	$'000
Capital base (note 28)	7,797,587	7,041,156
Qualifying capital	6,968,986	6,363,370
On balance sheet risk weighted assets	32,227,494	27,514,078
Off balance sheet risk weighted assets – Loan commitments	3,455,380	1,813,403
Foreign exchange exposure	825,030	309,590
Total risk assessed assets	36,507,904	29,637,071
Risk based capital adequacy ratio	19.09%	21.47%
Regulatory requirement	10.00%	10.00%

7. CASH AND CASH EQUIVALENTS

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Cash in hand and at banks and other financial institutions	2,912,134	1,732,910	2,512,461	1,636,866
Statutory reserves held at Bank of Jamaica	553,769	503,346	553,769	503,346
Term deposits at banks [see note 25(a)]	4,835,279	5,491,497	4,835,278	5,491,497
	8,301,182	7,727,753	7,901,508	7,631,709

Statutory reserves, required by regulation to be held at Bank of Jamaica, comprise cash reserves. They are not available for use by the Society in the ordinary course of business. The amounts are determined by the percentage of specified liabilities stipulated by Bank of Jamaica (see note 2). For the rate to remain at no more than one percent of specified liabilities, as defined, the Society must have qualifying assets of a stipulated percentage of the specified liabilities, currently 40%.

8. INVESTMENTS - JAMAICA GOVERNMENT SECURITIES

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

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Held-to-maturity securities:				
Securities denominated in United States dollars:				
Bonds	477,966	449,153	-	-
Available-for-sale securities:				
Securities denominated in United States dollars:				
Bonds	4,956,122	2,207,277	2,076,667	1,346,347
Securities denominated in Jamaica dollars:				
Bonds	9,784,559	8,594,565	9,784,559	8,594,565
Certificates of deposit	5,322,234	6,410,368	-	-
	15,106,793	15,004,933	9,784,559	8,594,565
	20,062,915	17,212,210	11,861,226	9,940,912
Loans and receivables:				
Securities denominated in United States dollars:				
Bonds	2,581,972	4,114,110	2,547,930	2,818,607
Securities denominated in Jamaica dollars:				
Certificates of deposit	653,734	1,084,029	653,734	1,084,029
	3,235,706	5,198,139	3,201,664	3,902,636
	23,776,587	22,859,502	15,062,890	13,843,548

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

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

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Within 3 months	1,374,669	1,180,019	1,223,982	1,179,478
From 3 months to 1 year	3,919,108	1,341,172	3,637,565	40,182
From 1 year to 5 years	7,919,730	5,397,897	3,922,321	3,128,075
Thereafter	10,563,080	14,940,414	6,279,022	9,495,813
	23,776,587	22,859,502	15,062,890	13,843,548

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

Reclassification of financial assets

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

	Carrying value 2012	Fair value 2012	Carrying value 2011	Fair value 2011
	$'000	$'000	$'000	$'000
Group				
US$ denominated GOJ Global bonds	125,978	130,413	426,563	440,798
EURO denominated GOJ Global bonds	-	-	1,261,763	1,259,646
Society				
US$ denominated GOJ Global bonds	91,935	94,970	392,823	406,836

(a) Fair value gain/(losses) of $1,901,764 (2011: 11,864,091) for the Group and $3,034,764 (2011: 14,013,091) for the Society, excluding deferred taxation, would have been included in reserves for the year had the investments not been reclassified as loans and receivables. This amount was estimated on the basis of the bid-price of the securities as at December 31, 2012. Management believes that this price is indicative of the active market for the securities at that date.

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

(b) The annual weighted average effective interest rate on the investment securities at the date of reclassification was 9.76% for US$ denominated securities and 10.50% for EURO denominated securities, for the Group, and 11.625% for US$ denominated securities for the Society. The undiscounted cash flows to be recovered from the investment securities reclassified are $176,446,440 (2011: $740,556,012) for the Group and $148,039,440 (2011: $630,454,012) for the Society.

9. INVESTMENTS – OTHER

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Loans and receivables:				
Bank deposits	282,701	67,405	-	-
Bonds	2,953,884	1,578,470	2,953,884	1,578,470
Held to maturity securities:				
Bonds	98,150	-	98,150	-
Available-for-sale:				
Bonds	189,815	164,334	189,815	164,334
Ordinary shares - quoted	134,712	100,989	110,462	82,315
Ordinary shares - unquoted	39	39	39	39
Units in unit trusts	8,331	7,945	8,331	7,945
	3,667,632	1,919,182	3,360,681	1,833,103

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

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

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
No maturity	143,083	108,974	118,833	90,300
Within 3 months	272,623	67,405	-	-
From 3 months to 1 year	10,078	-	-	-
From 1 year to 5 years	1,011,417	518,021	1,011,417	518,021
Thereafter	2,230,431	1,224,782	2,230,431	1,224,782
	3,667,632	1,919,182	3,360,681	1,833,103

10. RESALE AGREEMENTS

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

10. RESALE AGREEMENTS (CONT'D)

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Denominated in Jamaica dollars	3,403,723	2,267,463	3,991,964	3,044,289
Denominated in Sterling	952,569	762,957	952,569	762,957
Denominated in United States dollars	6,092,383	4,436,616	4,057,450	2,821,875
	10,448,675	7,467,036	9,001,983	6,629,121

Under resale agreements, the securities obtained as collateral may themselves be sold under repurchase agreements (see note 23). At December 31, 2012, securities with such permission that the Group and the Society held had a fair value of $12,156,692,000 (2011: $8,556,755,000) and $10,074,210,696 (2011: $6,668,525,000), respectively.

11. LOANS

(a) Composition of loans:

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Conventional mortgage loans	25,128,547	26,299,048	25,128,547	26,299,048
Mortgage escrow (see below)	669,339	681,798	669,339	681,798
Allowance for impairment	(291,442)	(326,973)	(291,442)	(326,973)
Net conventional mortgage loans	25,506,444	26,653,873	25,506,444	26,653,873
Share loans	850,142	590,218	850,142	590,218
Commercial loans	230,902	231,055	248,561	246,612
Staff loans	79,842	66,439	79,842	66,439
Total loans, net	26,667,330	27,541,585	26,684,989	27,557,142

Mortgage escrow

This represents insurance premiums paid by the Society on behalf of mortgagors. These amounts are recoverable over one year and are collected as part of monthly mortgage instalments.

(b) Allowance for impairment:

	Group and Society	
	2012	2011
	$'000	$'000
Balances at the beginning of the year	326,973	353,716
Charged against income during the year	26,394	70,970
Allowance no longer required	(61,925)	(97,713)
Balances at the end of the year per IAS 39 [see (c) below]	291,442	326,973

11. LOANS (CONT'D)

(c) Credit facility reserve:

	Group and Society	
	2012	2011
	$'000	$'000
Regulatory impairment allowance	1,273,745	1,374,852
Less: Impairment allowance based on IAS 39 [see (b) above]	(291,442)	(326,973)
Credit facility reserve at end of year	982,303	1,047,879

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

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

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Within three months	408,859	391,123	408,859	391,123
3 months to 1 year	141,791	100,926	159,450	116,483
From 1 year to 5 years	1,892,902	1,537,304	1,892,902	1,537,304
Thereafter	24,223,778	25,512,232	24,223,778	25,512,232
	26,667,330	27,541,585	26,684,989	27,557,142

12. OTHER ASSETS

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Interest receivable	646,381	600,127	585,561	501,952
Income tax recoverable	314,600	166,131	262,397	91,396
Late fees	179,781	169,587	179,781	169,587
Sundry receivables, deferrals and prepayments	829,556	656,854	255,863	119,777
	1,970,318	1,592,699	1,283,602	882,712

13. DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets:

Deferred tax assets are attributable to the following:

	Group 2012 $'000	Group 2011 $'000
Investments	26,230	13,768
Other receivables	(27,509)	(42,345)
Property, plant and equipment	(2,792)	155
Other liabilities	25,981	30,051
Employee benefit obligation	6,400	6,162
Unrealised foreign exchange (losses)/gains	(1,572)	37
Accrued vacation leave	776	523
	27,514	8,351

Movement in temporary differences during the year for the Group:

	Balance at Jan 1, 2012 $'000	Recognised in income $'000	Recognised in equity $'000	Balance at Dec 31, 2012 $'000
Investments	13,768	3,048	9,414	26,230
Other receivables	(42,345)	14,836	-	(27,509)
Property, plant and equipment	155	(2,947)	-	(2,792)
Other liabilities	30,051	(4,070)	-	25,981
Employee benefit obligation	6,162	238	-	6,400
Unrealised foreign exchange (loss)/gain	37	(1,609)	-	(1,572)
Provision for vacation leave	523	253	-	776
	8,351	9,749	9,414	27,514

Deferred tax assets of approximately $11,107,756 (2011: $21,000,000) have not been recognised in respect of tax losses of certain subsidiaries [note 35(b)], as, at this time, management does not consider that, in the foreseeable future, it is probable that taxable profits will be available against which the asset will be realised.

13. DEFERRED TAX ASSETS AND LIABILITIES (CONT'D)

(b) Deferred tax liabilities:

Deferred tax liabilities are attributable to the following:

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Other receivables	(316)	(6)	-	-
Employee benefit asset	(410,970)	(378,060)	(410,970)	(378,060)
Property, plant and equipment	1,127	(24,498)	1,144	(24,481)
Employee benefit obligation	87,510	68,640	87,510	68,640
	(322,649)	(333,924)	(322,316)	(333,901)

Movement in temporary differences during the year:

	Group			
	Balance at Jan 1, 2012	Recognised in income	Recognised in equity	Balance at Dec 31, 2012
	$'000	$'000	$'000	$'000
Other receivables	(6)	(310)	-	(316)
Employee benefit asset	(378,060)	(32,910)	-	(410,970)
Property, plant and equipment	(24,498)	25,625	-	1,127
Employee benefit obligation	68,640	18,870	-	87,510
	(333,924)	11,275	-	(322,649)

	Society			
	Balance at Jan 1, 2012	Recognised in income	Recognised in equity	Balance at Dec 31, 2012
	$'000	$'000	$'000	$'000
Employee benefit asset	(378,060)	(32,910)	-	(410,970)
Property, plant and equipment	(24,481)	25,625	-	1,144
Employee benefit obligation	68,640	18,870	-	87,510
	(333,901)	11,585	-	(322,316)

14. EMPLOYEE BENEFIT ASSET/OBLIGATION

The Group provides for post-employment pension benefits through a defined-contribution pension plan and defined-benefit pension plan, both administered by trustees.

The defined-contribution plan is closed to new entrants and there are no further contributions. The defined-benefit plan is funded by contributions from the Group and employees in accordance with the rules of the plan. Under the defined-contribution plan, retirement benefits are based on the Group's and employees' accumulated contributions plus interest and, therefore, the Group has no further liability to fund benefits.

The defined-benefit plan, under which retirement benefits are calculated by reference to, *inter alia,* final salary, is subject to a triennial actuarial funding valuation, the most recent being as at December 31, 2010. For purposes of determining the employee benefit or obligation included in the financial statements at the end of the period and the costs for the period an IAS 19 actuarial valuation is done each year.

The Group also provides post-employment medical benefits to retirees.

The amounts in the statement of financial position in respect of the defined-benefit pension plans and post-employment medical benefits are as follows:

	Group		Society	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Employee benefit asset (i)	1,369,900	1,260,200	1,369,900	1,260,200
Post-employment medical benefit obligation (ii)	316,600	247,800	291,700	228,800

(i) Employee benefit asset:

	Group and Society	
	2012 $'000	2011 $'000
(a) Amount recognised in the statement of financial position:		
Present value of funded obligations	(2,031,600)	(1,975,300)
Fair value of plan assets	3,920,800	3,801,300
	1,889,200	1,826,000
Unrecognised actuarial gains	(519,300)	(565,800)
	1,369,900	1,260,200
Plan assets consist of the following:		
Equity securities	834,800	933,800
Government securities	2,045,100	2,133,200
Resale agreements	489,900	223,300
Investments properties	99,800	92,600
Other assets	451,200	418,400
	3,920,800	3,801,300

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

(i) Employee benefit asset (cont'd):

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

	Group and Society	
	2012	2011
	$'000	$'000
Balance at beginning of year	1,975,300	1,886,100
Benefits paid	(120,600)	(104,800)
Service and interest costs	292,900	310,800
Actuarial loss	(116,000)	(116,800)
Balance at end of year	2,031,600	1,975,300

(c) Movement in plan assets:

Fair value of plan assets at January 1	3,801,300	3,351,800
Contributions paid into the plan	52,600	46,900
Benefits paid by the plan	(120,600)	(104,800)
Expected return on plan assets	339,100	315,700
Actuarial (loss)/gain on plan assets	(151,600)	191,700
Fair value of plan assets at December 31	3,920,800	3,801,300

(d) Income recognised in profit or loss:

	Group and Society	
	2012	2011
	$'000	$'000
Current service costs	43,700	55,700
Interest on obligation	200,000	211,900
Expected return on plan assets	(339,000)	(315,700)
Net actuarial gain recognised	(10,900)	-
	(106,200)	(48,100)
Actual return on plan assets	4.80%	13.30%

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

	2012	2011
	%	%
Discount rate at December 31	10.5	10.0
Expected return on plan assets at December 31	9.0	9.0
Future salary increases	7.0	6.5
Future pension increases	5.0	5.0

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

(i) Employee benefit asset (cont'd):

(e) Historical information:

Defined-benefit pension plan:

	2012 $'000	2011 $'000	2010 $'000	2009 $'000	2008 $'000
Present value of the defined benefit	(2,031,600)	(1,975,300)	(1,886,100)	(1,279,600)	(1,120,400)
Fair value of plan assets	3,920,800	3,801,300	3,351,800	2,943,500	2,463,400
	1,889,200	1,826,000	1,465,700	1,663,900	1,343,000
Experience adjustments arising on plan liabilities	21,000	181,300	80,100	28,400	26,700
Experience adjustments arising on plan assets	(151,600)	191,700	76,900	291,200	(141,300)

(ii) Other post employment benefits:

The employee benefit obligation represents the present value of the constructive obligation to provide medical and other benefits.

(a) Obligation recognised in the statement of financial position:

	Group		Society	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Present value of obligations	274,400	406,200	257,400	381,600
Unrecognised actuarial gain	42,200	(158,400)	34,300	(152,800)
	316,600	247,800	291,700	228,800

(b) Movement in present value of defined benefit obligation:

	Group		Society	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Balance at beginning of year	406,200	204,700	381,600	192,500
Interest cost	42,800	23,800	40,000	22,100
Current service cost	23,000	11,500	20,400	10,100
Benefits paid	(4,300)	(3,700)	(4,300)	(3,700)
Actuarial (gains)/losses	(193,300)	169,900	(180,300)	160,600
Balance at end of year	274,400	406,200	257,400	381,600

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

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

(c) Expense recognised in the profit or loss:

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Actuarial losses/(gains)	6,900	-	6,700	-
Current service costs	23,000	11,500	20,400	10,100
Interest on obligations	42,800	23,800	40,000	22,100
	72,700	35,300	67,100	32,200

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

	2012	2011
	%	%
Discount rate	10.5	10.0
Medical claims growth	9.5	9.0

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 65 is 21 years for males and 26 years for females.

The overall expected long-term rate of return on assets is nine percent (9%). The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

The Group expects to pay $7,566,102 in contributions to the defined-benefit plan in 2013.

(e) Historical information

Post-employment medical and other benefits:

	2012	2011	2010	2009	2008
	$'000	$'000	$'000	$'000	$'000
Present value of the defined benefit obligation:					
Group medical	274,400	406,800	220,700	187,800	131,400
Experience adjustments arising on plan liabilities:					
Group medical	(193,900)	(168,100)	6,000	(29,100)	13,400

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

(ii) Employee benefit obligation (cont'd):

(e) Historical information (cont'd)

Post-employment medical and other benefits (cont'd):

Assumed health care cost trends have a significant effect on the amounts recognised in profit or loss. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

	Group		Society	
	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the aggregate service and interest cost	19,700	(14,300)	17,900	(13,100)
Effect on the defined benefit obligation	67,700	(51,300)	62,800	(47,600)

15. INTEREST IN SUBSIDIARIES

	Society	
	2012 $'000	2011 $'000
Shares, at cost [see note 1(b)]	287,751	222,566
Current accounts	30,787	84,061
	318,538	306,627

16. INTEREST IN ASSOCIATES

The carrying amount of interest in associated companies represents the cost of shares acquired and the Group's share of post acquisition reserves, viz:

	Group		Society	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Shares, at cost	659,200	659,200	659,200	659,200
Share of post-acquisition profits	132,950	49,175	-	-
Share of investment revaluation reserve	15,772	21,354	-	-
	807,922	729,729	659,200	659,200

16. INTEREST IN ASSOCIATES (CONT'D)

	Group and Society 2012 $'000	Group and Society 2011 $'000
Assets	6,366,881	5,624,555
Liabilities	4,025,191	3,518,897
Revenue	4,147,505	3,737,239
Profit	376,338	208,728

17. INTANGIBLE ASSETS

	Group 2012 $'000	Group 2011 $'000	Society 2012 $'000	Society 2011 $'000
Goodwill arising on consolidation	7,940	7,940	-	-
Computer software (a)	150,272	96,489	126,270	90,947
	158,212	104,429	126,270	90,947

(a) Computer software:

	Group			Society		
	Computer software $'000	Improvements in progress $'000	Total $'000	Computer software $'000	Improvements in progress $'000	Total $'000
Cost:						
December 31, 2010	249,575	-	249,575	226,844	-	226,844
Additions	4,107	56,581	60,688	1,313	56,581	57,894
December 31, 2011	253,682	56,581	310,263	228,157	56,581	284,738
Additions	24,389	48,807	73,196	-	48,807	48,807
Transfers	33,323	(33,323)	-	33,323	(33,323)	-
December 31, 2012	311,394	72,065	383,459	261,480	72,065	333,545
Depreciation:						
December 31, 2010	181,902	-	181,902	166,280	-	166,280
Charge for year	31,872	-	31,872	27,511	-	27,511
December 31, 2011	213,774	-	213,774	193,791	-	193,791
Charge for year	19,413	-	19,413	13,484	-	13,484
December 31, 2012	233,187	-	233,187	207,275	-	207,275
Carrying value						
December 31, 2012	78,207	72,065	150,272	54,205	72,065	126,270
December 31, 2011	39,908	56,581	96,489	34,366	56,581	90,947
December 31, 2010	67,673	-	67,673	60,564	-	60,564

18. INVESTMENT PROPERTIES

	Group $'000	Society $'000
Cost:		
December 31, 2010	274,968	392,288
Additions:		
Improvements	8,071	10,050
Properties acquired by way of foreclosure	334,018	334,018
	342,089	344,068
December 31, 2011	617,057	736,356
Additions:		
Improvements	5,695	5,695
Properties acquired by way of foreclosure	179,818	179,818
Disposals	(56,877)	(56,877)
	128,636	128,636
December 31, 2012	745,693	864,992
Depreciation:		
December 31, 2010	49,447	49,447
Charge for the year	5,943	7,922
December 31, 2011	55,390	57,369
Charge for the year	16,133	16,133
Disposal	(1,149)	(1,149)
December 31, 2012	70,374	72,353
Net book values:		
December 31, 2012	675,319	792,639
December 31, 2011	561,667	678,987
December 31, 2010	225,521	342,841

The fair value of investment properties, as determined by Victoria Mutual (Property Services) Limited (note 1), on the open-market value basis in the current and prior years, was as follows:

	Group and Society	
	2012 $'000	2011 $'000
Properties acquired by way of foreclosure	886,647	598,894
Other	1,640,400	1,537,000
	2,527,047	2,135,894

19. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold and freehold land and buildings $'000	Office furniture and equipment $'000	Motor vehicles $'000	Improvements in progress $'000	Total $'000
Cost:					
December 31, 2010	248,472	998,497	13,613	19,161	1,279,743
Translation adjustment*	970	597	-	-	1,567
Revaluation adjustment	(2,635)	-	-	-	(2,635)
Additions	1,560	56,837	2,176	-	60,573
Transfer from work in progress	-	18,509	-	(18,509)	-
Disposals	-	(1,982)	(1,354)	-	(3,336)
December 31, 2011	248,367	1,072,458	14,435	652	1,335,912
Translation adjustment*	565	5,898	-	-	6,463
Additions	2,758	13,220	9,950	121,346	147,274
Transfer from work in progress	3,426	60,016	-	(63,442)	-
Disposals	(5,413)	(6,616)	(5,900)	-	(17,929)
December 31, 2012	249,703	1,144,976	18,485	58,556	1,471,720
Depreciation:					
December 31, 2010	70,126	735,966	10,072	-	816,164
Translation adjustment *	-	552	-	-	552
Transfer of accumulated depreciation arising from revaluation	(1,948)	-	-	-	(1,948)
Charge for year	7,050	67,105	1,111	-	75,266
Eliminated on disposals	-	(1,600)	(1,355)	-	(2,955)
December 31, 2011	75,228	802,023	9,828	-	887,079
Translation adjustment *	-	3,765	-	-	3,765
Charge for year	8,266	35,674	2,690		46,630
Eliminated on disposals	(5,409)	(6,035)	(5,900)	-	(17,344)
December 31, 2012	78,085	835,427	6,618	-	920,130
Net book values:					
December 31, 2012	171,618	309,549	11,867	58,556	551,590
December 31, 2011	173,139	270,435	4,607	652	448,833
December 31, 2010	178,346	262,531	3,541	19,161	463,579

* The translation adjustment arises from translation of the opening balances of the fixed assets of a foreign subsidiary at exchange rates prevailing at the reporting date which differed from those prevailing at the end of the previous year.

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

	Society				
	Leasehold and freehold land and buildings $'000	Office furniture & equipment $'000	Motor vehicles $'000	Improvement in progress $'000	Total $'000
Cost:					
December 31, 2010	212,947	913,551	13,498	19,161	1,159,157
Additions	4,482	51,022	2,176	-	57,680
Transfer from work in progress	-	18,509	-	(18,509)	-
Disposals	-	(698)	(1,354)	-	(2,052)
December 31, 2011	217,429	982,384	14,320	652	1,214,785
Additions		2,791	9,950	121,346	134,087
Transfer from work in progress	3,426	60,016	-	(63,442)	-
Disposals	-	(2,208)	(5,900)	-	(8,108)
December 31, 2012	220,855	1,042,983	18,370	58,556	1,340,764
Depreciation:					
December 31, 2010	55,835	662,135	10,003	-	727,973
Charge for year	4,774	61,597	1,087	-	67,458
Disposals	-	(530)	(1,355)	-	(1,885)
December 31, 2011	60,609	723,202	9,735	-	793,546
Charge for year	4,848	31,389	2,667	-	38,904
Disposals	-	(1,630)	(5,900)	-	(7,530)
December 31, 2012	65,457	752,961	6,502	-	824,920
Net book values:					
December 31, 2012	155,398	290,022	11,868	58,556	515,844
December 31, 2011	156,820	259,182	4,585	652	421,239
December 31, 2010	157,112	251,416	3,495	19,161	431,184

20. SHAREHOLDERS' SAVINGS

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
General investment ("B") shares	1,357,097	1,428,794	1,357,097	1,428,794
Paid up investment ("C") shares	53,770,189	49,198,164	54,327,363	49,655,550
	55,127,286	50,626,958	55,684,460	51,084,344
Deferred shares [notes 27(i) and 28]	1,466,643	1,479,145	1,466,643	1,479,145
	56,593,929	52,106,103	57,151,103	52,563,489

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

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

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
On demand to 3 months	41,403,106	36,648,590	41,525,444	36,960,055
Three to 12 months	5,934,508	5,231,701	6,047,376	5,231,701
Over 12 months	9,256,315	10,225,812	9,578,283	10,371,733
	56,593,929	52,106,103	57,151,103	52,563,489

21. DEPOSITORS' SAVINGS

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Due to depositors	1,076,365	770,696	1,076,365	770,696
Percentage of the Society's mortgage loan balances *	4.23%	2.90%	4.23%	2.90%

* See section 27(B) of the Building Society's Act

22. OTHER LIABILITIES

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Deposits – private treaty sales	31,435	77,642	31,435	77,642
Accrued expenses and other payables	470,296	444,646	258,339	374,496
	501,731	521,288	289,774	452,138

23. REPURCHASE AGREEMENTS

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

	Group	
	2012	2011
	$'000	$'000
Denominated in Jamaica dollars	4,132,957	4,924,358
Denominated in United States dollars	5,251,100	3,934,497
	9,384,057	8,858,855

At December 31, 2012, securities obtained under resale agreements and certain investments (see notes 8 and 10) and interest accrued thereon are pledged as collateral for repurchase agreements. These financial instruments have a carrying value of $11,189,921,000 (2011: $10,538,962,000) for the Group.

24. INSURANCE UNDERWRITING PROVISIONS

	Group	
	2012	2011
	$'000	$'000
Outstanding claims	426	495

25. LOANS PAYABLE

	Group and Society	
	2012	2011
	$'000	$'000
United States dollar loan [see (a) below]	462,819	431,840
Interest payable	3,769	3,473
	466,588	435,313

(a) This is the Jamaican dollar equivalent of the balance on a loan of US$5 million, which bears interest at 1.903% per annum. The loan will mature on March 7, 2013. It is secured by term deposits amounting to £4,820,146 (2011: £4,764,920) (note 7).

26. PERMANENT CAPITAL FUND

The regulations (see note 2) require that every building society maintain a minimum subscribed capital of $25,000,000. At least four-fifths of such subscribed capital is to be paid up in cash. In view of the non-applicability of "subscribed capital" to a mutual society, and in accordance with an agreement with the Bank of Jamaica, pending passage of appropriate legislation, a "Permanent Capital Fund" has been established in lieu of subscribed capital [see note 27(i)].

27. RESERVES

(i) Reserve fund:

The regulations (see note 2) require the Society to transfer at least 10% of its net surplus after income tax each year to the reserve fund until the amount of the reserve fund is equal to the amount paid up on its Permanent Capital Fund [which, though not formally recognised, is the fund substituted for the capital shares referred to in the regulations (see notes 26 and 28)] and its deferred shares (note 20).

(ii) Retained earnings reserve:

The regulations (see note 2) permit the Society to transfer a portion of its profits to a retained earnings reserve, which constitutes a part of the capital base (see note 28). Transfers of profits to the retained earnings reserve are made at the discretion of the Directors, but must be notified to Bank of Jamaica to be effective.

(iii) Capital reserve on consolidation:

Capital reserve on consolidation represents primarily subsidiaries' post acquisition retained earnings capitalised by the issue of bonus shares.

(iv) Credit facility reserve:

Credit facility reserve represents provisions for loan loss required under the Building Societies Act in excess of the requirements of IFRS [see notes 4(p) and 11(c)].

(v) Investment revaluation reserve:

Investment revaluation reserve represents cumulative unrealised gains, net of losses, arising from the changes in fair value of available-for-sale investments until the investment is derecognised or impaired.

(vi) Currency translation reserve:

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Society's net investment in foreign operations.

28. CAPITAL BASE

	Group and Society	
	2012	2011
	$'000	$'000
Permanent capital fund (note 26)	5,215,864	4,523,824
Reserve fund [note 27(i)]	610,812	533,919
Retained earnings reserve [note 27(ii)]	504,268	504,268
Deferred shares (note 20)	1,466,643	1,479,145
Total capital base [note 6(b)]	7,797,587	7,041,156

Capital base has the meaning ascribed in the regulations (see note 2).

29. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Many of the Group's financial instruments lack an available trading market. Therefore, these instruments have been valued using present value or other valuation techniques and the fair values may not necessarily be indicative of the amounts realisable in an immediate settlement of the instruments.

The fair values of cash and cash equivalents, resale agreements, other assets, repurchase agreements, and other liabilities are assumed to approximate their carrying values in view of their short-term nature.

The fair value of fixed rate loans is estimated by computing the present value of the future cash flows from the loans using the market interest rates on similar loans at the reporting date as the discount rate. Changes in the credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the provisions for credit losses from both book and fair values.

The fair value of savings fund, which are substantially payable on demand, or after notice, are assumed to be equal to their carrying values.

The fair value of loans payable is assumed to approximate its carrying value as the loans are due within the short-term and bear interest at rates at or close to market (note 25).

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

The fair values of investments are as follows:

(i) Investments – Jamaica Government securities:

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Held-to-maturity securities:				
Securities denominated in United States dollars:				
Bonds	477,966	449,153	-	-
Available-for-sale securities:				
Securities denominated in United States dollars:				
Bonds	4,956,122	2,207,277	2,076,667	1,346,347
Securities denominated in Jamaica dollars:				
Bonds	9,784,559	8,594,565	9,784,559	8,594,565
Certificates of deposit	5,322,234	6,410,368	-	-
	15,106,793	15,004,933	9,784,559	8,594,565
	20,062,915	17,212,210	11,861,226	9,940,912
Loans and receivables:				
Securities denominated in United States dollars:				
Bonds	2,727,179	4,005,714	2,394,113	2,712,106
Securities denominated in Jamaica dollars:				
Certificates of deposit	653,734	1,084,029	653,734	1,084,029
	3,380,913	5,089,743	3,047,847	3,796,135
	23,921,794	22,751,106	14,909,073	13,737,047

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

(ii) Investments – Other

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Loans and receivables:				
Bank deposits	-	67,405	-	-
Bonds	2,416,180	1,333,494	2,416,180	1,333,494
Held to Maturity :				
Bonds	98,150	-	98,150	-
Available-for-sale:				
Bonds	189,815	164,334	189,815	164,334
Ordinary shares - quoted	134,712	100,989	110,462	82,315
Ordinary shares - unquoted	39	39	39	39
Units in unit trusts	8,331	7,945	8,331	7,945
	2,847,227	1,674,206	2,822,977	1,588,127

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Group

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
December 31, 2012				
Available-for-sale financial assets	118,793	22,791,349	-	22,910,142
December 31, 2011				
Available-for-sale financial assets	90,261	18,710,612	-	18,800,873

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

(ii) Investments – Other (cont'd)

Society

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
December 31, 2012				
Available-for-sale financial assets	118,793	14,565,410	-	14,684,203
December 31, 2011				
Available-for-sale financial assets	90,261	11,439,314	-	11,529,575

30. NET INTEREST INCOME

	Group		Society	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Interest income				
Investment securities	2,599,876	2,146,496	1,837,916	1,449,671
Loans to customers	2,596,378	3,008,581	2,602,120	3,010,773
	5,196,254	5,155,077	4,440,036	4,460,444
Interest expense				
On borrowings	3,281	3,802	8,464	8,857
To shareholders	1,814,241	1,919,973	1,389,241	1,530,297
To depositors	36,411	32,745	36,410	32,745
	1,853,933	1,956,520	1,434,115	1,571,899
Net interest income	3,342,321	3,198,557	3,005,921	2,888,545

31. NET FEE AND COMMISSION INCOME

	Group		Society	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Fee and commission income				
Customers	115,703	114,864	57,328	41,018
Associated company	102,051	69,742	102,051	69,742
Other	6,680	10,771	6,679	10,771
Carried forward	224,434	195,377	166,058	121,531

31. NET FEE AND COMMISSION INCOME (CONT'D)

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Brought forward	224,434	195,377	166,058	121,531
Fee and commission expenses				
Inter-bank transaction fees	30,523	30,043	30,523	30,043
Other	20,363	17,717	20,363	17,717
	50,886	47,760	50,886	47,760
Net fee and commission income	173,548	147,617	115,172	73,771

32. OTHER OPERATING REVENUE

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Insurance premiums	100	95	-	-
Other income	167,367	171,081	87,282	89,380
Trading gains	157,829	120,667	157,829	120,667
Maintenance income – investment properties	84,565	-	84,565	-
Fines for late payments	69,008	84,283	69,008	84,283
Unrealised foreign exchange difference	54,377	39,905	13,598	29,218
Rent	31,323	30,150	34,142	32,669
Dividends	46,322	25,862	46,322	25,862
Gain on sale of investments	120,134	108,070	120,134	108,070
Gain on disposal of property, plant and equipment	9,146	490	9,146	490
	740,171	580,603	622,026	490,639

33. PERSONNEL COSTS

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Salaries	1,038,157	950,373	836,519	763,682
Statutory payroll contributions	122,069	108,960	102,845	91,943
Reduction in liability for deferred benefit plan	(46,468)	(48,100)	(46,800)	(48,100)
Other staff benefits	410,511	436,500	385,254	417,575
	1,524,269	1,447,733	1,277,818	1,225,100

34. OTHER OPERATING EXPENSES

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Direct operating expenses for investment property that generated rental income	103,409	1,686	103,409	1,686
Administration	121,717	212,635	280,124	227,507
Marketing	260,889	153,539	215,159	140,509
Postage	26,673	40,624	22,549	37,526
Courier	35,976	32,544	35,976	30,257
Travelling	40,447	38,866	39,549	38,043
Maintenance – buildings, furniture and fixtures	186,962	194,075	169,573	181,125
Computer maintenance	80,753	56,138	69,791	56,138
Consultancy and other professional fees	55,421	32,726	47,988	28,139
Service contracts	28,981	22,654	24,284	22,654
Overseas business development	235,231	190,695	235,231	190,695
Telephone	47,353	30,861	40,387	39,764
Insurance	88,100	85,082	87,696	105,285
Utilities	41,109	38,787	37,671	36,701
Stationery	27,048	26,912	22,610	23,371
Security	24,488	23,743	23,479	22,916
Audit fees	30,081	31,404	16,525	19,264
Directors' fees [note 37(d)]	34,272	17,013	20,560	8,225
Specific provision for loan losses	25,594	70,970	26,393	70,970
	1,494,504	1,300,954	1,518,954	1,280,775

35. INCOME TAX EXPENSE

(a) Income tax expense is based on the surplus for the year, as adjusted for tax purposes, and is computed at statutory rates of 30% for the Society, 33⅓% for local subsidiaries and 25% for certain foreign subsidiaries [note 35(c)]. In computing taxable income of the Society, transfers to general reserves (as defined in the Income Tax Act) are exempt from income tax if the general reserves after such transfers do not exceed 5% of assets. The charge is made up as follows:

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
(i) Current tax expense:				
Current tax at 30%	186,053	184,109	186,053	184,109
Current tax at 25% and 33⅓%				
- current year	73,081	69,048	-	-
- prior years	3,109	4,559	-	4,179
	262,243	257,716	186,053	188,288
(ii) Deferred tax expense:				
Origination and reversal of temporary differences [notes 13(a) and (b)]	(21,024)	18,355	(11,585)	27,525
Actual tax expense recognised	241,219	276,071	174,468	215,813

35. INCOME TAX EXPENSE (CONT'D)

(b) At the reporting date, taxation losses of certain subsidiaries, subject to agreement by the Commissioner, Tax Administration Jamaica, available for relief against future taxable income, amounted to approximately $41,236,870 (2011: $38,839,000).

(c) Reconciliation of effective tax charge:

The effective tax rate, that is, the income tax expense as a percentage of the reported surplus, is different from the statutory rates [note 35(a)] and is 23.49% (2011: 13.47%) for the Group and 25.0% (2011: 24%) for the Society. The actual income tax expense differs from the expected income tax expense for the year, as follows:

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Surplus before income tax	1,238,867	1,188,953	877,825	918,810
Computed "expected" income tax using statutory tax rates	371,660	356,685	263,347	275,643
Tax effect of treating the following items differently for income tax than for financial statement purposes:				
Depreciation charge and capital allowances	(24,754)	(30,370)	(26,278)	7,468
Disallowed expenses	(56,976)	69		
Unrealised exchange gain	(5,428)	(8,851)	(4,079)	(8,765)
Other	(46,392)	(46,021)	(58,522)	(62,712)
	238,110	271,512	174,468	211,634
Adjustment for prior year underprovision	3,109	4,559	-	4,179
Actual tax expense recognised	241,219	276,071	174,468	215,813

36. SURPLUS FOR THE YEAR

	Group	
	2012	2011
	$'000	$'000
Dealt with in the financial statements of:		
The Society	703,357	702,997
Subsidiaries	294,291	209,885
	997,648	912,882

37. RELATED PARTY TRANSACTIONS

(a) Identity of related parties:

The Society has a related party relationship with its subsidiaries, with its Directors, executives and senior officers, as well as those of subsidiaries, and with its associated company [note 1(c)], which manages its defined-benefit pension plan (note 14). The Directors, senior officers and executives are collectively referred to as "key management personnel".

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

	2012 $'000	2011 $'000
Subsidiaries:		
Resale agreements	1,171,629	1,291,089
Shareholders' savings	(555,480)	(474,936)
Net lease payable	(258)	13,421
Key management personnel:		
Mortgage loans	43,496	44,744
Other loans	3,121	7,832
Shareholders' savings	(48,380)	(32,279)
Non-executive directors - mortgage loans	34,909	37,023

Average interest rates charged on balances outstanding are lower than the rates that would be charged in an arm's length transaction.

The mortgages and secured loans granted are secured on property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the year with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel or their immediate relatives at the year end.

(c) The Society's income statement includes income earned/(expenses incurred) from transactions with related parties, as follows:

	2012 $'000	2011 $'000
Directors:		
Interest from loans	3,388	3,970
Key management personnel:		
Interest from loans	3,935	6,010
Interest expense	(1,628)	(873)
Subsidiaries:		
Interest and dividends from investments	67,127	193,824
Interest on loans	1,984	8,019
Other operating revenue	12,364	3,832
Interest expense	(17,195)	(15,417)
Other operating expenses	(248,631)	(195,234)

37. RELATED PARTY TRANSACTIONS (CONT"D)

(d) Key management personnel compensation:

In addition to Directors' fees paid to Non-executive Directors (note 34), compensation of key management personnel, included in personnel costs (note 33), is as follows:

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Short-term employee benefits	140,383	112,859	85,557	76,957
Post employment benefits	200	100	200	100
	140,583	112,959	85,757	77,057

In addition to their salaries, key management personnel are provided with non-cash benefits, as well as post-employment benefits under a defined-benefit pension plan (note14). In accordance with the rules of the plan, key management personnel retire at age 62 (or 65 if joining after January 1, 2006) and may continue to receive medical benefits, at the discretion and approval of the Board of Directors. In the case of preferential staff rates on loans, this benefit continues to age 65 when the rate is adjusted with reference to market.

Non-executive Directors who have served the Board continuously for at least five years and attained the age of 65 receive a pension at a specified percentage of the gross annual average director's fee received during the five years immediately preceding retirement, or alternatively, a gratuity in lieu of pension, based on a multiple of a percentage of the annual pensions.

38. COMMITMENTS

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

	Group		Society	
	2012	2011	2012	2011
	$'000	$'000	$'000	$'000
Within one year after that date	26,171	19,933	23,050	17,035
Subsequent years	44,701	19,048	39,585	14,898

(b) Commitments for capital expenditure for the Group and the Society amount to approximately $40,600,000 (2011: $34,000,000) at the reporting date.

The Group leases a number of branch and office premises under operating leases. The leases typically run for a period of 3 years, with an option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals.

39. FOREIGN EXCHANGE RATES

The Group uses the average of Bank of Jamaica's buying and selling rates (2011: buying and selling rates) for balances denominated in foreign currencies [see policy 4(s)]; the rates are as follows:

	2012 J$	2011 J$
United States Dollar	92.56	86.37
Canadian Dollar	92.35	83.60
Pound Sterling	150.46	133.85

40. SUBSEQUENT EVENTS

In February 2013, the Group participated in the National Debt Exchange ("NDX") transaction. The NDX involved a par for par exchange of domestic debt instruments ("Old Notes") issued by the Government of Jamaica for new debt instruments ("New Notes") having lower interest rates and longer maturities. While the Old Notes were callable by the Government of Jamaica, a majority of New Notes are non-callable. Participation in the NDX was voluntary. Interest accrued on the Old Notes up to but excluding February 22, 2013 (the Final Settlement Date) was paid in cash, net of applicable withholding taxes.

Impact on investment portfolio

The table below summarises the impact of the exchange on coupon rates and maturities.

	Group		The Society	
	PRE NDX	POST NDX	PRE NDX	POST NDX
Denominated in Jamaican dollars:				
Total face value exchanged (J$'000)	14,814,236	14,814,236	9,133,793	9,133,793
Weighted average coupon rate	9.28%	7.08%	10.15%	7.82%
Weighted average tenor to maturity	4.42	9.36	4	8.2
Denominated in United States dollars:				
Total face value exchange (US$'000)	17,285	17,285	14,285	14,285
Weighted average coupon rate	6.84%	5.25%	6.93%	5.25%
Weighted average tenor to maturity (years)	2.00	7.25	1.30	7.30

In March 2013 the Society participated in a further Debt Exchange (Exchange #2). This arrangement involved an exchange of domestic debt instruments for new debt instruments with a yield of 5% and extended term to maturity.

40. SUBSEQUENT EVENTS (CONT'D)

	Group & Society	
	PRE Exchange #2	POST Exchange #2
Denominated in Jamaican dollars:		
Total face value exchanged (J$'000)	1,485,293,367	1,485,293,367
Weighted average coupon rate	9.28%	5.0%
Weighted average tenor to maturity	4.42	9.36

Both exchanges (February and March) will adversely affect expected future cash flows from the Group's investment portfolio. The Group is in the process of instituting measures to mitigate the impact of reduced investment earnings.

Out & ABOUT

The Victoria Mutual Group joined Jamaicans at home and in the Diaspora to celebrate the milestone of Jamaica's 50th year of independence. All planned activities for the year had a Jamaica 50 theme and celebrated our numerous achievements over the years.

The Victoria Mutual Win 50 promotion was the highlight of the organisations activities, as it emphasised our tradition of helping Jamaicans to realise the goal of homeownership, by giving our Members the chance to a win one of three brand new houses in sought after housing developments across the island. These included:

- **1st prize – The Palms, Richmond, St. Ann**
- **2nd prize – Caymanas Golf and Country Club Estates, St. Catherine**
- **3rd prize – Florence Hall Village, Trelawny**

As a Family, we celebrated excellence, gave back to our community, joined hands and gave thanks for 134 years of service to our Members at home and in the Diaspora.


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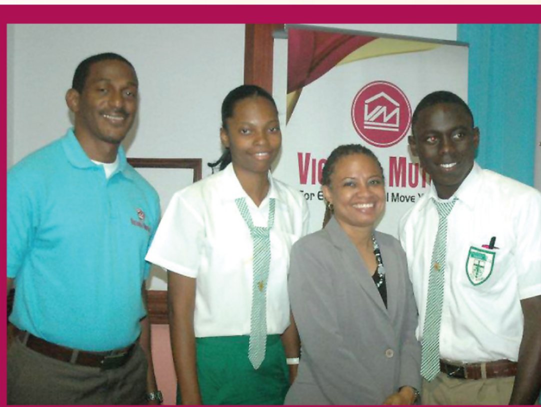

134

134






VICTORIA MUTUAL

CORPORATE DATA

SENIOR MANAGEMENT TEAM

Richard K. Powell, MBA, M.Sc., B.Sc. (Hons.)
President & Chief Executive Officer

Peter Reid, B. A. (Hons.)
Senior Vice-President & Chief Operating Officer

Allan Lewis, A.S.A, Ed. M., MBA, B.Sc.
Senior Vice-President, Group Strategy

Janice E. McKenley, F.C.C.A., F.C.A., MBA (Hons.), B.Sc. (Hons.)
Senior Vice-President & Group Chief Financial Officer

Keri-Gaye Brown, LL.B. (Hons.)
Senior Vice-President Group Legal, Compliance & Corporate Secretary

Laraine Harrison, MBA, B.A. (Hons.)
Vice-President, Group Human Resource Administration

Vivienne Bayley-Hay, B.Sc. (Hons.)
Vice-President, Group Marketing & Corporate Affairs

Rickardo Ebanks, B. Sc. (Hons.)
Vice-President, Information Technology

Joan Walter, Dip. Mgmt.
Vice-President, Branch Distribution

Horace Bryan, CA, M. Sc., B. Sc. (Hons.)
Vice-President, Centralized Services

Joan Brown, DIFA, MBA, F.C.C.A., M. Fin.
Assistant Vice-President, Risk Management

Densey Davis-Lumsden, PMP, M.Sc., B. Sc. (Hons.)
Head, Programme Management

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- Michael Neita
  MBA, B. Sc. (Hons.), B Eng (Hons.)
  General Manager
  Victoria Mutual Property Services
- Natasha Service
  B. Sc. (Hons.), Grad. Dip.
  General Manager,
  VM Money Transfer Services
- Devon Barrett, MBA, B.Sc.
  General Manager,
  Victoria Mutual Wealth Management

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Linroy Marshall, F.C.A.
Chartered Accountants, KPMG

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- Richard L. Donaldson
- Rudolph L. Jobson, J.P.
- Joyce Tweedie
- John Ffrench, J.P.
- Pauline Haughton, M.B.A., B. Sc., J.P.

ARBITRATORS

- Honourable Justice Ian Forte,
  President of the Court of Appeal (retired)
- Honourable Justice Clarence Walker, C.D.
  Justice of the Court of Appeal (retired)
- Mr. Karl P. Wright, C.D., MBA, B.Sc (Hons)
- Miss Megan Dean, MBA, B.Sc (Hons)

PANEL OF ATTORNEYS-AT-LAW

- Delroy Chuck & Company
- DunnCox
- Phillips, Malcolm, Morgan & Matthies
- M.N. Hamaty & Company
- O.G. Harding & Company
- G. Anthony Levy & Company
- Livingston, Alexander & Levy
- Murray & Tucker
- Myers, Fletcher & Gordon
- Nunes, Scholefield, DeLeon & Company
- Rattray, Patterson, Rattray
- Clarke, Robb & Company
- Robertson, Smith, Ledgister & Company
- Robinson, Phillips & Whitehourne
- Tenn, Russell, Chin-Sang, Hamilton & Ramsey
- Watt, King & Robinson

BANKERS

Bank of Nova Scotia

Bank of Nova Scotia Jamaica Ltd.

Barclays Bank PLC

CIBC First Caribbean International Bank of Jamaica Ltd.

Citibank N.A.

First Global Bank

National Commercial Bank Jamaica Ltd.

RBC Royal Bank Jamaica Ltd.

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Assistant Vice President, Sales & Service Southern Region

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0-800-068-VMBS (8627)

Monday-Friday: 7:00 a.m. - 8:00 p.m.
Saturday: 10:00 a.m. - 6:00 p.m.
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VICTORIA MUTUAL CENTRE

The VICTORIA MUTUAL
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