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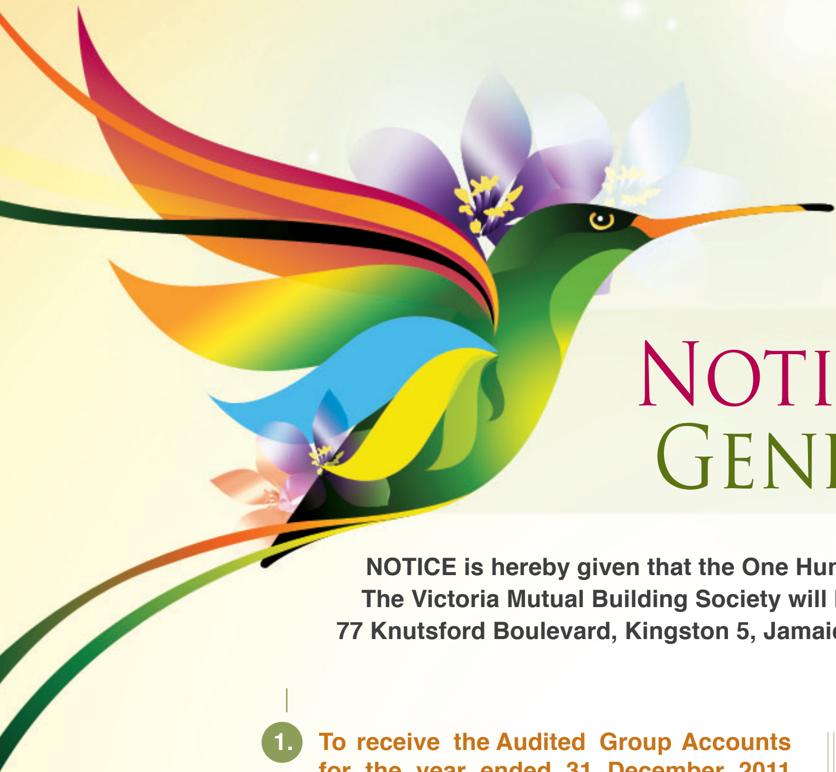
The Victoria Mutual Building Society

TELECARE: (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

WWW.VMBS.COM • MANAGER@VMBS.COM



The VICTORIA MUTUAL Building Society

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the One Hundred and Thirty-third Annual General Meeting of The Victoria Mutual Building Society will be held at Wyndham Kingston Hotel, Ballroom 3, 77 Knutsford Boulevard, Kingston 5, Jamaica on Thursday, July 26, 2012 at 3.00 p.m. for the following purposes:-

1. To receive the Audited Group Accounts for the year ended 31 December 2011 and the Reports of the Directors and Auditors circulated herewith.

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

Resolution No. 1

“THAT the Audited Group Accounts for the year ended 31 December 2011 and the Reports of the Directors and Auditors circulated with the Notice convening the meeting be and are hereby adopted.”

2. To elect Directors.

The Directors retiring from office by rotation pursuant to Rule Number 61(1) of the Society’s Rules are Messrs. Richard M. Powell and Michael McMorris and being eligible offer themselves for re-election.

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

Resolution No. 2 (a)

“THAT Mr. Richard M. Powell be and is hereby re-elected a Director of the Society”.

Resolution No. 2 (b)

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

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

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

Resolution No. 3

THAT Mr. Linroy Marshall and Mr. Patrick Chin, Chartered Accountants, of KPMG, having agreed to continue in office as Auditors, be and are hereby appointed Auditors of the Society pursuant to Rule 71 of the Society’s Rules to hold office until the next Annual General Meeting at a remuneration to be fixed by the Directors of the Society.

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-third Annual Report and Statements of Revenue and Expenditure of the Group and the Society, for the year ended 31 December 2011, 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 $5.498 billion (2010: $6.399 billion) and Net Surplus of $912.88 million (2010: $2.053 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

In accordance with Rule 61(2) of the Society's Rules, at the next Annual General Meeting, Messrs. Richard M. Powell and Michael McMorris will retire by rotation and being eligible, will offer themselves for re-election.

AUDITORS

Messrs. Patrick Chin and Linroy Marshall, of KPMG, Chartered Accountants, 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
28 May 2012

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

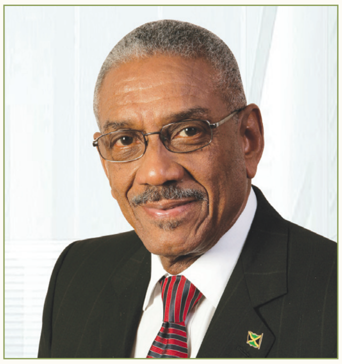
Dr. Judith Robinson is a Chartered Accountant and Management Consultant with extensive experience in the areas of organizational development, financial planning and control, strategic planning and performance monitoring and evaluation. A former partner in the management consulting practice of PriceWaterhouse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

Board of Directors Cont'd

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.



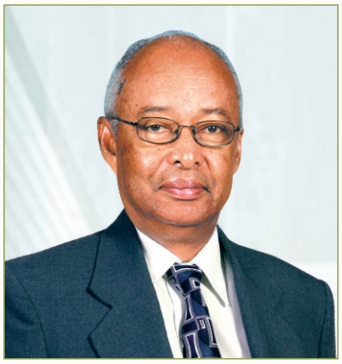
Roy N. Hutchinson
O.D., J.P.

Mr. Roy Hutchinson, former Chairman of the Victoria Mutual Building Society Board of Directors, has owned and operated Hutchinson's Motors Ltd., a successful motor company since 1965. He was also the proprietor of Hutchinson's Texaco Service Stations and Starmart in Savanna-La-Mar and Negril, and is the Managing Director of Southwest Development Company Limited. This past student of Munro College is a Justice of the Peace, and in 1993 was the worthy recipient of the Prime Minister of Jamaica's Medal of Appreciation. He was also awarded the Order of Distinction (O.D.) by the Government of Jamaica in 1999. Mr. Hutchinson is The Charter President of The Savanna-La-Mar Rotary Club, serving as President between 1969 and 1971. He was also the Chairman of the Board of Governors of Munro College between 1976 and 1991, Chairman of the Negril Green Island Planning Authority between 1972 and 1980, a Director of the Board of the Urban Development Corporation between 1990 and 2006, a member of the Jamaica Gasoline Retailers' Association, member of the St. George's Anglican Church Committee and Rector's Warden.

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.

Board of Directors Cont'd



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 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.

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 more than 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.

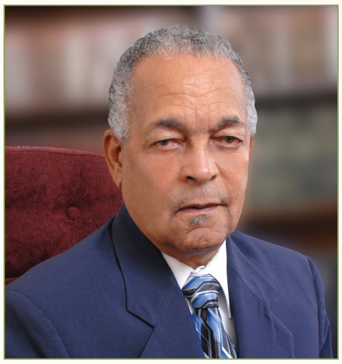
Board of Directors Cont'd

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.)

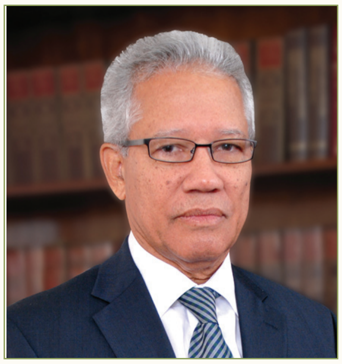
Ms. Sandra Shirley has extensive experience spanning over 20 years in wealth management, trust banking, strategic planning and implementation in the United States and the Caribbean. Ms. Shirley is Business Facilitator/Consultant of Sandra Shirley & Associates and is the Former President of First Global 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).



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.

Board of Directors Cont'd



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 recently 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 recently nominated in the Jamaica Observer Business Leader Awards.

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 Victoria Mutual Board. He is married with four children and loves a good game of squash and bridge.

Board of Directors Cont'd

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

Ms. Keri-Gaye Brown joined the Victoria Mutual family 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.

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

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

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

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

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

BEVERLY STRACHAN
M.B.A., B.Sc. (Hons.),
Dip. Ed., Vice-President, Group
Human Resources Administration

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

SENIOR MANAGEMENT TEAM

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

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

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

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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

GROUP EXECUTIVES

BEVERLY STRACHAN
M.B.A., B.Sc. (Hons.), Dip. Ed.,
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

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

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

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

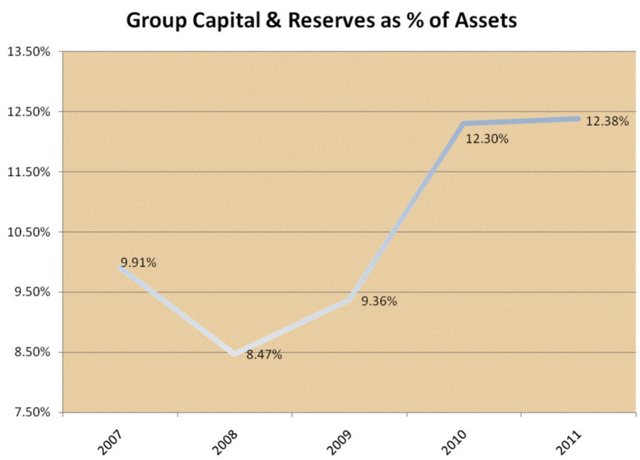
JOAN LATTY
B.Sc (Hons.)
Dip. Mgmt. Studies
Actg. General Manager,
Victoria Mutual
(Property Services)

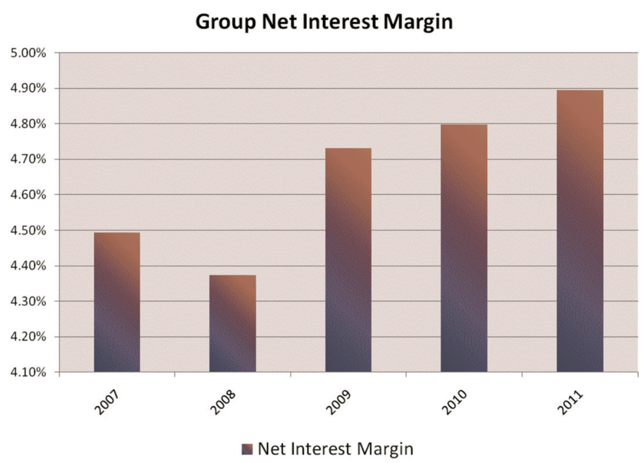
JOAN BROWN
DIFA, F.C.C.A., M.Fin., MBA,
Assistant Vice-President,
Risk Management

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

FINANCIAL HIGHLIGHTS

GROUP	2011	2010	2009	2008	2007	2006
Balance Sheet ($'000)						
Earning Assets	69,107,757	61,570,208	61,632,495	56,787,538	50,040,308	44,797,807
Loans	27,541,585	29,452,959	30,739,802	28,766,351	20,541,520	14,336,010
Total Assets	72,220,966	64,147,628	63,293,787	58,397,431	51,604,597	46,213,878
Savings Fund	52,106,103	48,190,338	47,377,682	41,886,467	37,799,335	33,694,348
Capital and Reserves	8,815,040	7,888,237	5,923,837	4,944,991	5,111,753	4,257,146
Income Statement ($'000)						
Net Interest Income	3,198,557	2,955,025	2,801,347	2,336,159	2,130,852	2,096,719
Operating Revenue	3,926,777	3,788,146	4,128,103	3,830,774	3,418,587	3,069,569
Administration Expenses	2,748,687	2,234,069	3,187,305	2,810,400	2,509,802	2,327,416
Surplus before income tax	1,188,953	2,372,725	830,333	916,207	819,680	657,419
Surplus	912,882	2,053,013	576,006	743,773	651,442	543,854
Ratios						
Net Interest Margin	4.90%	4.80%	4.73%	4.37%	4.49%	4.91%
Return on Capital	14.24%	34.36%	15.28%	18.22%	17.50%	16.66%
Return on Assets	1.76%	3.72%	1.36%	1.67%	1.68%	1.49%
Efficiency Ratio	4.06%	3.51%	5.24%	5.11%	5.13%	5.28%
Capital & Reserves as a Percentage of Assets	12.21%	12.30%	9.36%	8.47%	9.91%	9.21%



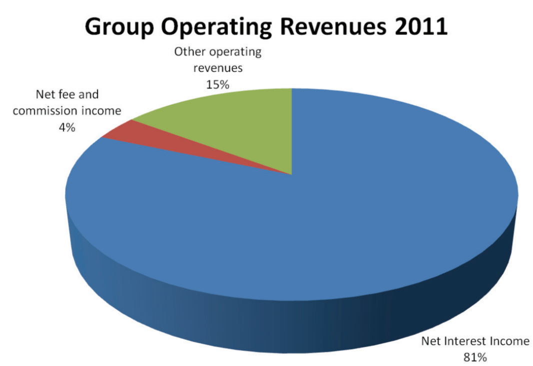


DEFINITIONS USED

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

2009 Audited Financial Statements =	2009 Balance Sheet & Income Statement Amounts
2008 Audited Financial Statements =	2008 Balance Sheet & Income Statement Amounts
2007 Audited Financial Statements =	2007 Balance Sheet & Income Statement Amounts
2006 Audited Financial Statements =	2006 Balance Sheet & Income Statement Amounts
2005 Audited Financial Statements =	2005 Balance Sheet & Income Statement Amounts
2004 Audited Financial Statements =	2004 Balance Sheet & Income Statement Amounts
2003 Audited Financial Statements =	2003 Balance Sheet & Income Statement Amounts
Mortgage Daily Statement	Total Number of Mortgages & Net Mortgage Disbursements



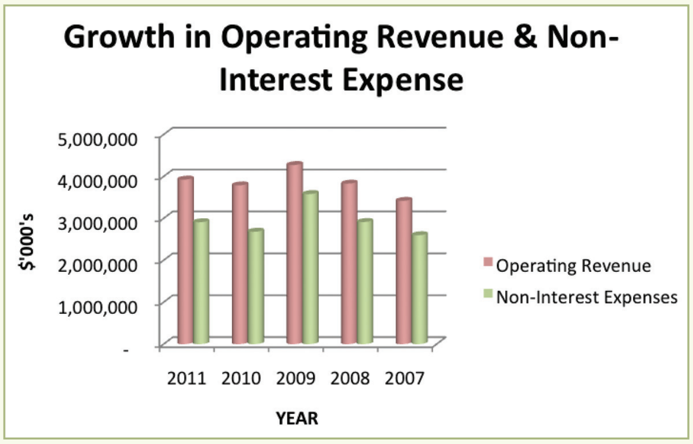
Group Financial Performance

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 $72 billion, the Group provides a wide range of financial services that include savings, mortgages, securities 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.

($'000's)	2011	2010	2009	2008	2007
Net Interest Income	3,198,557	2,955,025	2,801,347	2,336,159	2,130,852
Other Operating Revenue	728,220	833,121	1,472,453	1,494,615	1,287,735
Total Operating Revenue	3,926,777	3,788,146	4,273,800	3,830,774	3,418,587
Non-Interest Expenses	2,861,768	2,341,168	3,443,467	2,914,567	2,598,907
Operating Surplus	1,065,009	1,446,978	830,333	916,207	819,680
Gain on Sale of Subsidiary	74,621	925,601	-	-	-
Share of Profit of Associate	49,323	146	-	-	-
Surplus before Income Tax	1,188,953	2,372,725	830,333	916,207	819,680

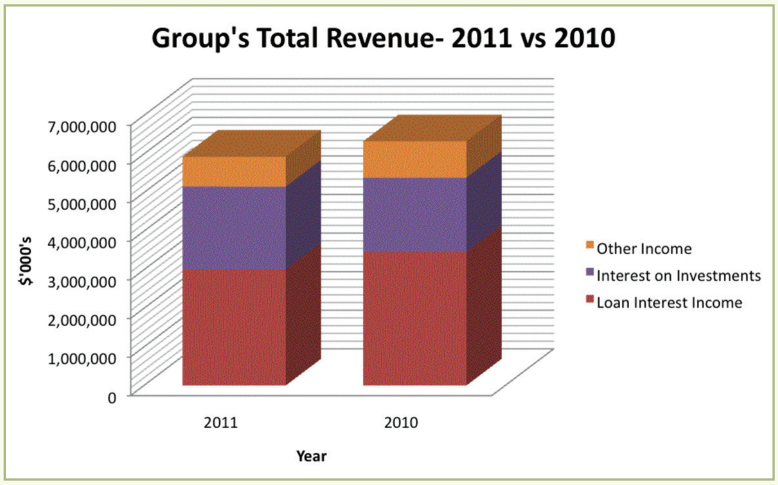
The Group recorded an Operating Surplus of $1.065 billion for 2011, a decline of $381 million or 26% below that reported for 2010. The difference is largely attributable to the year-on-year change in the actuarial valuation of the Group's net pension fund assets, moving from a favourable adjustment of $342 million in 2010 to $48 million in 2011. The merger between Victoria Mutual Insurance Company (VMIC) and British Caribbean Insurance Company (BCIC) in May 2010 resulted in gains to the Group of $925 million in 2010 and $75 million in 2011. The Society's 31.5% interest in BCIC resulted in a share of profits for the year 2010 totaling $49.323 million.

Operating Revenue, which includes Net Interest Income and Other Operating Revenue, amounted to $3.927 billion, reflecting an increase of $138 million over the 2010 results. This increase was primarily as a result of administrative and service fees received from BCIC.

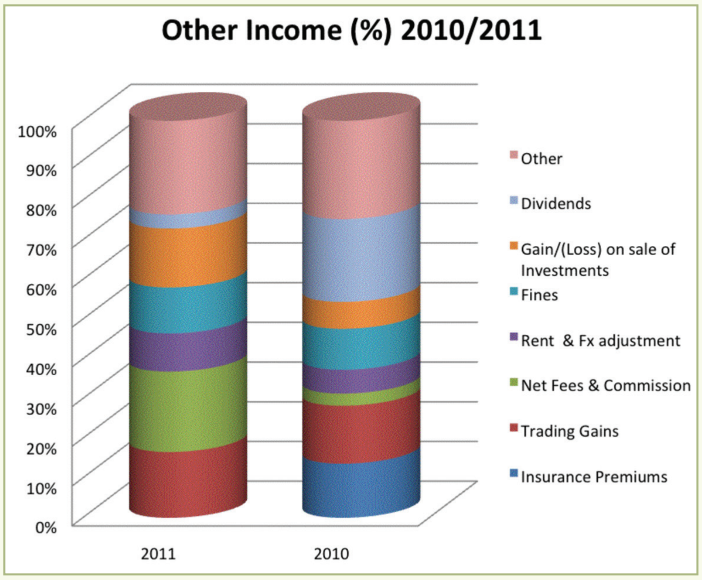


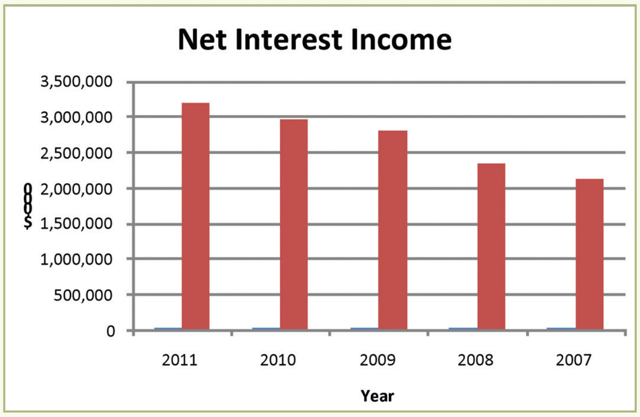
The Group incurred non-interest expenses of $2.862 billion, up from $2.341 billion in 2010. This increase was primarily the result of an increase in personnel costs amounting to $588 million, relating to adjustments arising from the actuarial assessment of net pension assets. A credit of $48.1 million was booked for 2011, compared to the $341.5 million credit adjustment in 2010. Total core operating expenses for the Group, excluding the actuarial assessment adjustment mentioned above, increased by $227.2 million or 8.5% year over year.

GROUP REVENUE



The Group's Total Revenue, defined as Interest Income from loans and investments and Other Operating Revenue, which totaled $5.931 billion for 2011, reflects a decrease of $0.399 billion or 6% when compared to that reported for the previous year. There was a $0.453 billion reduction in loan interest income in 2011, resulting from the Society's efforts to reduce interest rates on mortgages. On the other hand, investment income grew by $0.222 billion over that reported for 2010.





In 2011, the Group's Net Interest Income increased by 8%, to end the year at $3.19 billion. However, both interest income and expense declined as a consequence of declining interest rates. The Group's revenues from loan interest fell by $454 million or 13% when compared to the results for 2010. There was a $222 million or 11% increase in investment income for 2011, over that reported for the previous year. Interest expense in 2011 was $1.96 billion, a reduction of $475 million or 19% below that reported for 2010.

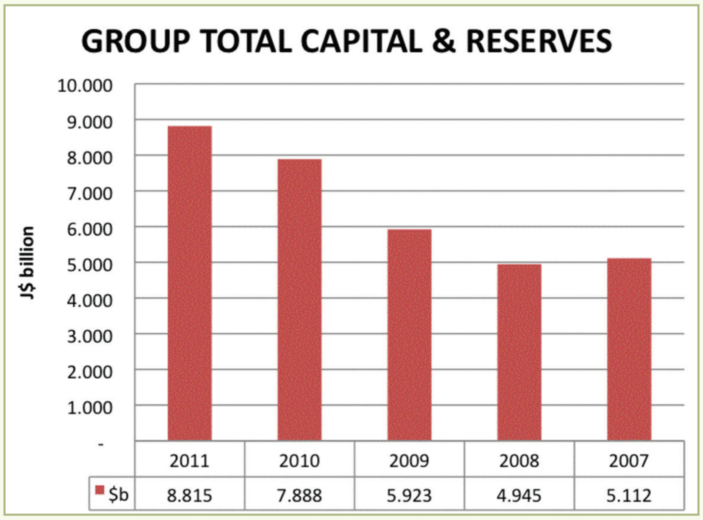
GROWTH IN ASSETS

The Group's assets totaled $72.22 billion at December 31, 2011, reflecting an increase of $8.073 billion or 12.6% over 2010. Loans amounted to $27.5 billion in 2011, which when compared to $29.4 billion in 2010, reflected a reduction of $1.9 billion year-on-year. The total mortgage and loan disbursement for 2011 was $1.423 billion, which was lower than the $3.255 billion of principal repayments for the period. The Credit Facility Reserve, which represents the excess of the regulatory loan loss provisions over that of IAS 39 loan impairment provision, was $1.047 billion as at December 31, 2011, an increase of $54 million or 5% over prior year. 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 Group's services which resulted in a $2.73 billion or 5.6% increase in the savings portfolio excluding Deferred Shares, and $2.8 billion or 4.62% in repurchase agreements. 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.

CAPITAL



The Group's Capital & Reserves grew from $7.89 billion in 2010 to $8.82 billion in 2011. The Capital Base of the Group and Society increased from $5.113 billion in 2010 to $7.041 billion in 2011, in large measure due to the subscription of deferred shares of $1.3 billion.

In keeping with the BOJ Regulations, the Society transferred 10% of its net surplus after income tax to the Reserve Fund after the required allocation to the Credit Facility Reserve.

The Society continues to transfer, as in prior years, all of the remaining surplus, after the abovementioned transfers, to the Permanent Capital Fund.

Chairman's Report

Michael McMorris
Chairman

To our Members:

While 2011 was a year of significant change in the Jamaican political economy, your Society continued to embrace traditional values in the provision of market leading savings, mortgage and financial planning products while modernizing its service delivery for greater efficiency and convenience for its Members in a digital age.

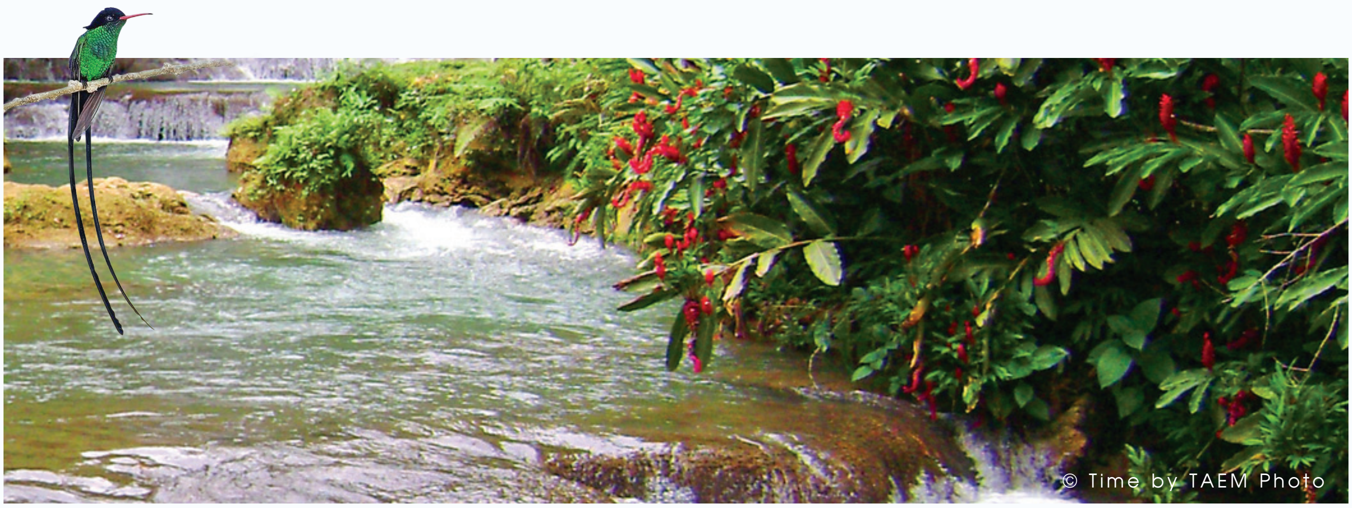
For much of the world economy, economic conditions remained weak with little likelihood of improvement in the near term. In Jamaica, Gross Domestic Product expanded by less than 2% which nonetheless, compared favourably with the previous three years of economic contraction. Although domestic saving and loan interest rates declined to levels not seen since the late 1960's, Jamaica experienced inflation of 7%, which meant that savers and many investors failed to earn a real rate of return on their savings in 2011. However, the lowering of interest rates did afford much needed relief to borrowers after the sharp increases experienced in the local economy during the period 2009 to 2010, following the onset of the credit crunch that gripped the world economy in the latter half of 2008.

The world economic outlook for 2012/13 continues to be dominated by the economic turmoil that has affected many of the countries in the European Union ('EU'). Unlike the United States and Great Britain that took swift action in 2009/10 to recapitalize their banking system, political and other considerations delayed similar actions in the EU. As a result, it is likely that the political and economic arrangements that currently underpin the 'Euro' will have to be altered if the Union and the Euro currency are to survive in their current form. Although it would be pure speculation to try to predict the outcome of the discussions currently taking place among the leaders of Europe, the best case scenario suggests that the US economy will continue to expand at a modest pace; the European Union will contract by 1-2%; and China, India and Brazil will continue to expand, albeit at reduced rates of growth.

OVERVIEW

As a mutual, The Victoria Mutual Building Society's primary objective is to create wealth and maximize the return of value to the Members of the Society, not by accumulating large profits but by delivering superior value in our product and service offerings. We therefore strive to offer to the Members, the highest market interest rates on their savings deposits and the lowest effective mortgage interest rates on their residential mortgage loans. In addition, we offer a broad range of services at prices and fee rates that represent deep discounts when compared with those charged by banks and other financial intermediaries.

Although maximizing profit is not our paramount objective, we do ensure that we earn surpluses sufficient to provide adequate levels of capital and reserves to satisfy the prudential requirements of the business and that comfortably meet the regulatory requirement of a minimum 1% return on the assets of the Society.



CORPORATE GOVERNANCE

Corporate Governance as conducted by the Victoria Mutual Building Society and its Subsidiary Companies (the VM Group) is comprised of a framework of rules and practices by which the Board of Directors ensures responsibility, accountability, fairness, and transparency in the relationships with all stakeholders (financiers, customers, management, employees, government, and the community) in the pursuit of the sustainability of the Group.

The main objectives of the VM Group's Corporate Governance Framework are as follows:

i) Establishing and reinforcing well articulated corporate values;
ii) Promoting a deeper understanding of corporate governance – what it is and how it works; what it demands of the Board, Management and Employees in their relationships with each other and with the Society's Members and customers;
iii) Ensuring Board and Management decision-making processes are clearly articulated and transparent; setting clear assignment of responsibilities, decision-making authorities and accountabilities;
iv) Defining the scope and delineating the Board's and Management's authorities and responsibilities while providing incentives for Directors, Managers and Employees to act in the best interest of the Society, its Members and its customers;
v) Establishing strong risk management and internal control systems; and
vi) Ensuring mechanisms to identify and assess legal and regulatory developments that will impact on compliance requirements of the enterprise.

In order to achieve the foregoing objectives, the Governance Framework requires several Boards and Board Committees to provide direction and oversight to ensure that the corporate governance principles are effectively applied in the management of the business operations of all operating entities in the VM Group.

These Committees provide oversight in the areas of Corporate Governance, Audit, Compliance, Finance, Investment, Loans, Risk Management, Nominations and Compensation.

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

Board Committees have been established at the levels of both the VMBS Board and the Subsidiary Boards to provide oversight in governance and regulatory requirements. All the Committees are required to meet at least four times each year with the Management and to provide periodic reports on their activities to their respective boards.

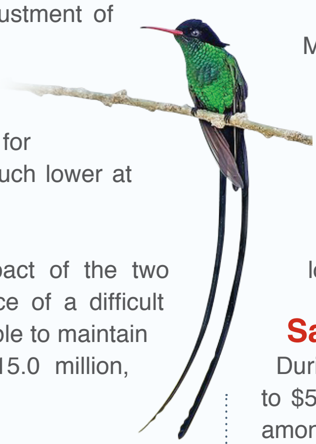
FINANCIAL HIGHLIGHTS

Group

As at December 31, 2011 the Victoria Mutual Group recorded assets, on a consolidated basis, of $72.2 billion, an increase of 12.6% over 2010. Concurrent with this welcomed growth, the Group was able to hold its Gross capital to total assets ratio at 12.2%. This ratio more than exceeds the standards set by regulators for financial intermediaries and is a good measure of the financial health and soundness of the Society and its subsidiaries.

The consolidated surplus after income taxes achieved by the Group in 2011 amounted to $912.9 million reflecting a decline from $2.053 billion reported for 2010. The year over year reduction is explained in large measure, by the 'one off' impact of the accounting gain of $925.6 million recorded in 2010, which arose from the merger of our former insurance subsidiary Victoria Mutual Insurance Company Limited (VMIC) with the British Caribbean Insurance Company Limited (BCIC). By comparison, the residual gain taken to account and reflected in the reported surplus for 2011 was $74.6 million.

In addition, as reported last year, the surplus in 2010 was enhanced by a favourable non-cash adjustment of $341.5 million, representing the change in the valuation of the Group's net pension fund assets. The corresponding adjustment recommended by our Actuary for 2011, while still being favourable, was much lower at $48.1 million.



It is noteworthy that excluding the impact of the two factors referred to above and in the face of a difficult operating environment, the Group was able to maintain a consolidated after tax surplus of $815.0 million, consistent with results of the prior year.

We are also pleased to advise that the merger of VMIC and BCIC has been seamlessly completed and that the merged entity has continued to trade successfully as BCIC: An Affiliate of Victoria Mutual. The returns achieved in 2011, being the first full year of operation after the merger, have exceeded the pre-merger expectations of your Directors. The results achieved to date have met our objective of strengthening the capital of the Group, securing a satisfactory risk adjusted return and moderating our risk exposures in the insurance industry, while enhancing our ability to offer a full range of attractively priced insurance products and services to our Members.

The Society

The Society performed creditably in 2011 reporting an after tax surplus of $703.0 million. The favourable impact of the VMIC/BCIC merger on the reported surplus of $1.405 billion in 2010 and the net pension fund asset adjustment are also the main explanatory factors for the year over year reduction in the after tax surplus reported by your Society in 2011. The gain from the VMIC/BCIC transaction amounted to $525 million in 2010 compared with $74.6 million in 2011 and the favourable pension fund asset adjustments were $341.5 million and $48.1 million in 2011 and 2010 respectively. After elimination of the impact of these two factors on the reported results, the Society's after tax surplus in 2011 reflected an increase over the prior year by 6.6% to $605.18 million.

The Society's Net Interest Income increased by $190.9 million or 7.1% in 2011, as we experienced reductions in both interest revenue, by 5.2% and interest expense, by 21.6%. Other Operating Revenue decreased year over year by 5.9% from $521.45 million to $490.64 million. Against the background of no significant increase having been recorded in 2010, your Directors are pleased to report a relatively modest increase of 8.0% in the core operating expenses in 2011, by comparison with the prior year.

We are also pleased to report that at year end 2011, the financial health of your Society was assured as the organisation reported a gross capital ratio of 11.1%, which more than exceeded the minimum of 6.0% required by the regulators. The Society also achieved growth in Total Assets of 9.0% during the year, from $56.72 billion to $ 61.79 billion.

Members can be further comforted in the knowledge that even as we have managed the affairs of your Society to ensure its financial health and sustainability, your Directors and the Management continued to put our Members and customers first by providing higher than average interest rates on our savings products and lower than average effective mortgage loan interest rates.

Savings

During the year, Deposit liabilities increased by 8.5% to $53.3 billion, as the Society increased its market share among deposit taking institutions (commercial banks and building societies). This achievement is commendable in light of the intense competition for savings among all financial intermediaries, especially so in the context of the anemic growth experienced in the domestic economy. The performance in this area was fueled by the effectiveness of the enhanced customer experience, the attractiveness of our suite of savings products and the efficacy of our marketing campaigns. This was underscored by the subscription of $1.3 billion in response to the public offer of Deferred Shares in the Building Society. Your Directors are extremely pleased with the enthusiastic response of the market, as it represents a resounding statement of confidence in the financial security and future prospects of your institution.

The Directors and Management will continue to pay close attention to this area of the Society's business because of the importance of growth to the future sustainability of the institution's core business. We are confident that the momentum developed in 2011 will be maintained on the strength of the enhanced marketing and sales capability of the organization.

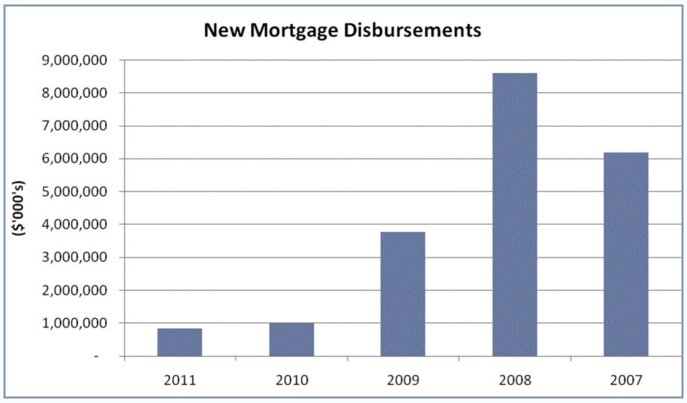
During the first quarter of 2012, we continued to provide innovative ways to return value to our Members with the launch of the "VM WIN 50" promotion, which is designed to reward savers for their loyalty as well as for increasing their savings balances. This promotion is the centerpiece of your Society's celebrations of the country's fiftieth year of independence. We expect that 'VM WIN 50' will encourage both new and existing Members to choose and retain Victoria Mutual as their partner to achieve financial independence.

	2009		2010		2011	
	GROUP	SOCIETY	GROUP	SOCIETY	GROUP	SOCIETY
Pre-tax Surplus ($M)	830.3	395.2	2,372.7	1,637.1	1,189.0	918.8
After-tax Surplus ($M)	576.0	254.7	2,053.0	1,405.0	912.9	703.0
Total Assets ($B)	63.3	53.6	64.1	56.7	72.2	61.8
Loans ($B)	30.7	30.7	29.5	29.5	27.5	27.6
Deposit Liabilities ($B)	47.4	47.7	48.8	49.2	52.9	53.3
NIM (% of Mean Assets)	4.73	4.91	4.80	5.12	4.90	5.15
Operating Expenses (% of Mean Assets)	5.24	4.28	3.51	3.67	4.06	4.23
Capital & Reserves (% of Assets)	9.36	8.57	12.30	10.79	12.21	11.13
Past Due Loans as a % of total Loans	6.71	6.71	9.17	9.17	6.56	6.56

Mortgage Loans

New mortgage loans disbursed declined to $770.1 million as a result of the Society's adoption of a more conservative approach to underwriting in light of the economic conditions and increased competition in the residential mortgage market.

During 2011, we maintained the conservative underwriting posture that was adopted in the 2009/2010 period, as we focused on enhancing the quality of the loan portfolio in light of declining economic activity. In 2011, we continued to be concerned about the uncertain economic prospects and the adverse impact on employment levels and by extension, household incomes. Further, the leading commercial banks, which hitherto displayed little interest in the residential mortgage market, have publicly declared and demonstrated their intent to gain a greater share of the residential market segment.



We are pleased to report that during the year, as interest rates declined in the economy, we aggressively reduced mortgage interest rates for our Members with loans in good standing as well as for new mortgage applicants. That trend has carried over into the new calendar year and in April 2012 mortgage rates were reduced to levels not experienced in the local economy for several decades.

The outlook for the future, while still being influenced by continuing economic uncertainty, appears somewhat more positive than in recent years. This is influenced by the relative economic stability that is expected to persist over the medium term and the expectation that, as a consequence, interest rates will be maintained at the current historically low levels. We therefore expect to see steady growth in the effective market demand for mortgage loans over the medium term.

At the time of writing, Victoria Mutual offers the best customer value in the mortgage market in terms of interest rates, processing fees and discounted ancillary services including property valuations. With a highly experienced team of financial advisors to cater to the needs of prospective and existing Members, the Society is well poised to increase the size and quality of its mortgage portfolio going forward.

Loan Portfolio Quality

The quality of the Society's loan portfolio exhibited significant improvement at year end when compared with prior year. The non-performing loan portfolio (loans greater than ninety days in arrears) as a percentage of total loans was 6.56% as at December 31, 2011 versus 9.17% as at December 31, 2010.

The noted improvement underscores the efficacy of the special measures put in place by Management to administer the collection process in general as well as the non-performing loan portfolio in particular. Of note is the continuing effort on the part of Management to engage our Members with the goal of helping those in financial difficulty to retain ownership of their homes.

Unfortunately, in spite of these initiatives, in 2011 the Society was forced, for the first time, to resort to foreclosure proceedings in the cases of certain loans that had fallen into chronic delinquency. Whereas such action invariably evokes profound emotional responses because of the loss of ownership by the mortgagor, it relieves the defaulting borrower of any further liability to the Society. As at December 31, 2011 the Society had completed the foreclosure process in respect of twenty-two properties and expects that this number will be doubled in 2012.

EFFICIENCY

Your Directors recognize that improving efficiency is imperative in order to safeguard the future of the Society. Significant investments are being made over a period of several years designed to enhance the level of service delivery and improve the efficiency of the operations. While we are confident that the investments being undertaken will achieve the desired results in the medium term, the associated expenditures and the process of transition has resulted in a drag on efficiency as illustrated by the decline in our efficiency ratio (Operating Expenses as a Percentage of Mean Assets) from 4.13% in 2010 to 4.35% in 2011. As we continue this process we expect that improvements in our ratios will be evident in 2014 and beyond.

The materialization of one such investment will be the deployment of an e-banking platform for use by Members and customers. This project more than any other will visibly represent the modernization of VMBS and is greatly anticipated by Team Members and customers alike. Although originally anticipated for launch in 2012, Management regrettably has encountered some delays and now projects its rollout for the first quarter of 2013.

SUBSIDIARY COMPANIES & AFFILIATES

As we continue to forge a group of companies that is geared to helping our Members and customers achieve their financial independence, the financial and operating performances of the Society's principal subsidiary companies and its affiliated companies assume an increasingly important role. These enterprises provide the basis for augmenting the range of products and services available to the Members of the parent Society.

After Tax Profit for Selected Subsidiary Companies (Millions of Jamaican Dollars)

	2009	2010	2011
VM Wealth Management Ltd.	116,146,259	115,224,000	114,478,000
VM Property Services Ltd.	2,742,044	(2,853,227)	7,645,733
VM Money Transfer Services Ltd.	328,973	(4,460,629)	(4,625,010)

As we indicated last year, Victoria Mutual Wealth Management ('VMWM') was expected to incur extraordinary expenditures while it undertook the transition to a new business model. Notwithstanding this initiative VMWM was able to maintain a flat profit performance of $114.5 million after taxes.

Increasingly, VMWM's operations will focus on asset management and advisory services as well as on brokerage and securities trading. In fact, a notable feature of VMWM's performance in 2011 was the emergence of a new income stream for the Company, arising from the provision of Advisory Services. The Company successfully assisted a major corporate client to restructure a significant portion of its debt.

In the first quarter of 2012 VMWM launched the first of a series of new products designed to provide additional options for customers to construct their investment portfolios in accordance with their individual needs and circumstances.

Victoria Mutual Property Services ('VMPS') and Victoria Mutual Money Transfer Services ('VMTS') while not significant contributors to the Group's revenues, continued to play their role in helping our Members to achieve their financial goals. VMTS provides a safe and convenient way for Members and customers who reside overseas to send funds to their friends and relatives at home and is a very important element of our valued overseas franchise in the UK, USA and Canada. VMPS provides a suite of property services that complements the Society's core mortgage products and that are highly valued by its Members.

Our two affiliated companies, British Caribbean Insurance Company Limited (BCIC) and Prime Asset Management Limited (PAM), provided financial returns to the Society in excess of expectations. In summary, the combined dividend and other income received by the Society from these companies was $137.25 million in 2011. BCIC's profit performance has been enhanced by significant improvements in its underwriting results, especially in relation to its motor insurance portfolio. It is noteworthy also that PAM recently achieved the milestone of $20 billion of managed pension assets.

CONCLUSION & OUTLOOK

Your Society, supported by its Subsidiaries, performed creditably in 2011 in executing its objective of creating Member value and was able to further consolidate the financial security of the Group by generating an after-tax surplus of $912.9 million.

Your Directors are focused on the successful implementation of a portfolio of diverse projects designed to modernize and transform the business. We are fully committed to the provision of the resources necessary to achieve the planned transformation and to lending support to Management to ensure successful execution of all such projects.

The uncertainty of Jamaica's short term economic prospects can only serve to heighten the challenges and increase the risks attendant to the conduct of the Group's business. Notwithstanding, your Directors remain confident that the institution is committed to harnessing the knowledge, skills, ingenuity and resolve to achieve the lofty goals articulated in our Vision and Mission statements.

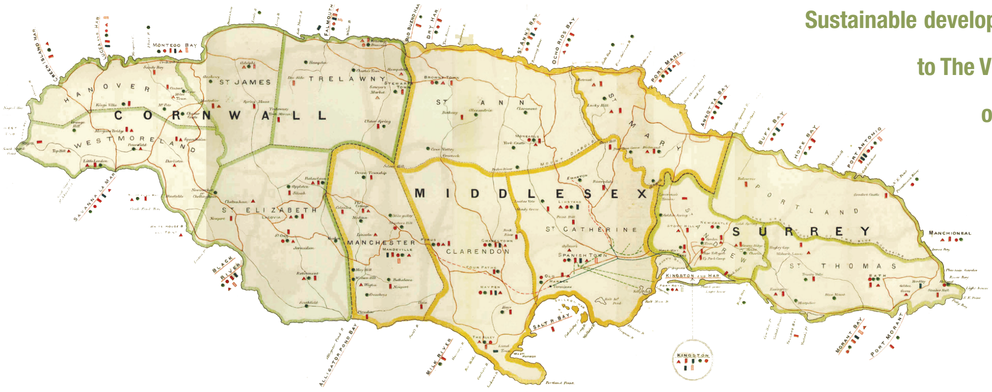
In that regard, all stakeholders can share a profound sense of pride in the fact that the Victoria Mutual brand is the longest enduring brand in the financial services sector in Jamaica, having been established over 133 years ago. This proud legacy must be cherished, celebrated and preserved as the brand is widely associated with a history of partnership with, and local ownership by, literally hundreds of thousands of Jamaicans, in the noble pursuit of building financial independence and security at the level of the household.

Our mutual status is paramount. We put Members first in shaping all our policies and in all decision-making. The Members of Victoria Mutual can take comfort from the unwavering commitment of your Directors to operate the institution on your behalf, for your benefit. Our mortgagors in good standing can rest assured that the mortgage rates they enjoy are among the lowest in Jamaica and all savers can continue to look forward to interest rates on their deposits that are the best among those offered by deposit taking institutions. All customers can feel confident that the Society will continue to offer a wide range of services at the lowest level of fees and charges available in Jamaica.

Our Members are served by a team of competent and dedicated professional staff who take great pride in helping their fellow Jamaicans to build their financial security. All Team Members are themselves depositors and by extension, shareholders. Accordingly, they collectively occupy a unique position among stakeholders, being both staff and owner. This dual interest is a source of great motivation for all Team Members to ensure the continued success and prosperity of the institution. I use this opportunity to salute and thank all Team Members in the Group who have contributed to the successes of the past year.

Finally, I am grateful for the sterling work done by the Members of the Boards of Directors of the Society and its Subsidiary and Affiliated companies. I would also like to thank the Members of the Advisory Councils for their contribution in helping the Society to achieve its goals. As the country celebrates 50 years as a nation, your Directors and Management commit to doing even more to help you our valued Members achieve your own financial independence.

Michael A. McMorris
Chairman



CORPORATE OUTREACH

Extending Mutuality to the Community

Sustainable development through partnership is nothing new to The Victoria Mutual Building Society (VMBS). For over 133 years, the Society has remained committed to the tenets of mutuality, the foundation of the Society's Corporate Social Responsibility Programme, which seeks to support national, regional and international initiatives for the betterment of its Members, who form the Victoria Mutual Family. Mutuality creates true value for its Members, provides sustainable community development and translates into global wealth.

The National Leadership Prayer Breakfast

The National Leadership Prayer Breakfast (NLPB) continues to be an important national initiative that Victoria Mutual has provided support for since 1985. The Prayer Breakfast, held on the third Thursday of January each year, unites leaders in prayer and fellowship and creates the opportunity to engage our leaders in meaningful discussion about matters of national importance. The 2011 staging of the National Leadership Prayer Breakfast was held under the theme 'Honour the Trust' and the freewill offering collected was made in aid of the Menzies children to cover medical expenses.

(l-r) **Joan Walter,** Vice-President Branch Distribution, VMBS engages in a animated discussion with The Most Hon. **Portia Simpson Miller**, then Opposition Leader and **Cecile McCormack**, Regional Business Development Manager Eastern, VMBS at the Annual National Leader Prayer Breakfast 2011 held at the Jamaica Pegasus.

United Way of Jamaica's Donor Option Programme

The Victoria Mutual Building Society prides itself in creating meaningful partnerships with organizations that work to enhance our corporate mission of maximizing value to our Members and building a better society. One such organization is the United Way of Jamaica, which has been in partnership with the Society for over a quarter of a century. VMBS, through the United Way of Jamaica's Donor Option Programme makes annual donations to over 75 charities that lead the charge for the common good in our society through the areas of education, community development, health, sports, youth and culture.

(l-r) **Peter Reid**, Senior Vice President and COO at Victoria Mutual accepts the Jupiter Award on behalf of the Society from **Noel daCosta**, Chairman of the Board of Governors for United Way at the United Way Nation Builders and Employee Awards Ceremony.

The United Way supports the vital need of a thriving community to increase the capacity of people to care for one another. As a valued corporate partner, Victoria Mutual has been consistently recognized among the highest corporate donors of the United Way. In 2011, the Society was presented with a Jupiter Award, recognizing the Society's place with organizations that make the highest charitable donations through the United Way of Jamaica.

Victoria Mutual Team Members proudly display the prestigious Jupiter Award at the United Way Nation Builders and Employee Awards Ceremony. *(l-r)* **Stephen Davidson**, Marketing Officer - Communications, **Joan Latty**, Actg. General Manager, Victoria Mutual Property Services, **Peter Reid**, Senior Vice President and COO, **Vivienne Bayley-Hay**, Vice President Group Marketing & Corporate Affairs and **Devon Barrett**, VM Wealth General Manager.

Annual Marriage & the Family Series

Victoria Mutual has continued to have a positive impact on family life in Jamaica through the Annual Marriage & the Family Series. The Series celebrated its 25th Anniversary in 2011 and was held at Emancipation Park under the theme, 'The Traditional Home in a Contemporary World'.

The topics explored provided practical advice on parenting, relationships and financial planning for the family. As part of the silver anniversary celebration, the Society engaged Members in a 25 Days Radio promotion and one lucky couple was given the wedding of their dreams in the 'Royal Victorian Affair' Promotion.

This live wedding ceremony, which included a street parade of the bridal party from the historic Devon House to iconic Emancipation Park, was the delight of the participants and the general public who witnessed this grand affair. The Royal Victorian Affair added a new dimension to the Marriage & the Family Series, in addition to the family entertainment that was provided during the two-day event.

The Lucky Bride being led in her Golden carriage to Emancipation Park.

Rev. Dr. Peter Garth officiating the Live Marriage Ceremony at Emancipation Park during the 25th Anniversary of the Victoria Mutual Marriage & The Family Series.

Corporate Outreach Cont'd

Scholarships, Bursaries & Grants

Education has remained an important area of concern for Victoria Mutual, as we firmly believe that the foundation of any country is the education of its youth.

For over 25 years, Victoria Mutual has offered scholarships, bursaries and grants to its student Members, awarding annually over 90 scholarships, bursaries and grants through the Victoria Mutual Scholarship Programme.

Bursaries are given to the top performing GSAT student in each of the schools on the VM Save2Grow Schools Savings Programme, which has approximately 80 participating schools. Additionally, scholarships are also awarded to the top performing GSAT student in each of the three counties. The Society also awards three VMBS Future Plan 'Head-start' Scholarships to Members, who have consistently saved with VMBS and are pursuing academic studies at a local tertiary institution.

One Member is also the recipient of the VMBS Master Plan 'Head-start' Scholarship, which is awarded to a final year student pursuing a first degree at a local university or college. VMBS has also committed to assisting educators through the VM Teacher's Bursary, which is awarded to three teachers, who are completing their degrees in education.

The VM Scholarship Programme also extends to other bursaries and grants including the National Youth in Agriculture Bursary and the Building Societies Cooperative Credit Union Bursary.

(l-r) **Vivienne Bayley-Hay**, Vice President, Group Marketing & Corporate Affairs greets two of the GSAT Top Performing recipients along with **Richard K. Powell**, President and CEO of VMBS, at the Annual Scholarship Awards Presentation Ceremony held at the Knutsford Court Hotel.

Mutual Building Societies Foundation: Creating Centres of Excellence

(l-r) **Kimala Bennett**, Managing Director of the Business Lab, **Major General Robert Neish**, Executive Director of the Digicel Foundation, **Earl Jarrett**, General Manager for JNBS, **Michael McMorris**, Chairman of VMBS, and **Dr. Renee Rattray**, Programme Manager for the Mutual Building Societies Foundation at the 'I Am the Change' entrepreneurship programme launch.

The Mutual Building Societies Foundation (MBSF), which is a joint partnership between Victoria Mutual Building Society and Jamaica National Building Society continued the innovative Centres of Excellence Programme in six rural schools namely, Mile Gully High, Seaforth High, Porus High, Godfrey Stewart High, Green Pond High and McGrath High School.

The Centres of Excellence Programme has taken a holistic approach to transforming the education system in non-traditional rural high school and engages the administration, teachers, students and community in various workshops and seminars designed to increase the academic performance of the students and raise the profile of the school.

In 2011, students from each of the six schools were introduced to an Entrepreneurship Camp that assisted them in generating business ideas, developing business plans and operating their business during the school year. The students established Business Clubs and each business had a successful year.

(l-r) **Allan Lewis**, Senior Vice President Group Strategy, Victoria Mutual shares a few words with some of the students participating in the 'I Am the Change' initiative along with **Major General Robert Neish**, Executive Director of the Digicel Foundation, **Dr. Renee Rattray**, Programme Manager for the Mutual Building Societies Foundation, **Kimala Bennett**, Managing Director of the Business Lab and **Earl Jarrett**, General Manager for JNBS.

This initiative, which was done in conjunction with the Business Lab and the Digicel Foundation, will continue into the next academic year, as a new class of students is introduced to the discipline of entrepreneurship.

The Governor General's Achievement Awards Programme

The Victoria Mutual Building Society has been a proud partner of the Governor General's Achievement Awards (GGAA) Programme since its inception. The Awards Programme seeks to recognize the achievements of outstanding Jamaicans who continue to make meaningful contributions to their communities, while achieving individual success in their respective fields of endeavour. For the last two decades, the GGAA has sought to recognise individuals who have demonstrated the drive, discipline and commitment in the pursuit of their life's dream as well as a passion for service. In 2011, the Awards Programme celebrated its 20th Anniversary and presented Awards of Excellence to over 40 individuals across the island for their outstanding contributions to their communities and for their own individual achievement.

(l-r) Recipients of the Governor General Achievement Awards in conversation with the **Governor General Sir Patrick Allen**, **Richard K. Powell**, President & CEO of the Victoria Mutual Group and **Lady Allen** at King's House.

SPORTS:
Fostering enduring character development

Sports has remained an important part of the Society's Corporate Outreach Initiatives, not only for its ability to develop athletes on the field of play, but also to foster enduring character development that will shape their future. This initiative has taken to the field across the island through several programmes. The Annual VMBS/St. James Under-13 Football Competition once again provided the opportunity for young boys and girls from Western Jamaica to display their skills in the much anticipated competition.

The Society's corporate support for Under-13 and Under-15 Football Competitions was extended to other parishes across the island including St. Mary, Portland and St. Elizabeth. Victoria Mutual also supported local track and field events including the Annual Gibson Relay and the Camperdown Track & Field Classics and served as the title sponsor of the Intercollegiate Track & Field Championship, which allowed us to enrich our relationship with the local college community.

(l-r) **Mrs. Jeanne Robinson-Foster**, Director, Victoria Mutual Building Society and **Keisha Mascoll**, Marketing Manager make a presentation to **Stephen A. Bucknor** while National Senior Football Representative **Fabian Davis** looks on at the VMBS St. James Under-13 Kick-Off Ceremony.

Team Members of the St. James Under-13 Competition meet and greet with **Mrs. Jeanne Robinson-Foster**, Director of Victoria Mutual Building Society.

Corporate Outreach Cont'd

(l-r) **Cecile McCormack**, VMBS Regional Business Development Manager Eastern presents the championship trophy to the winning team at the VMBS Portland Under-13 Football Finals.

Delia Burke, VMBS Regional Business Development Manager, South Eastern presents awards to top athletes at the 2011 Intercollegiate Track & Field Championships held at the UWI.

Labour Day 2011: Beautification Projects

Victoria Mutual Team Members were fully engaged in National Labour Day activities, which were held under the theme 'It takes a village to raise a child'. The organisation participated in three major projects across the island. Team Members gave their support to general repair and beautification at St. John's Basic School in Hannah Town, Kingston, Roehampton Basic School in Montego Bay and Lister Mair-Gilby Senior School for the Deaf in Hope Estate, St. Andrew.

The work carried out at these institutions created a pleasant surrounding for the students and teachers. Members of the school community also assisted in the Labour Day activities.

Victoria Mutual Team Members participate in a beautification activity for Labour Day 2011.

Several Victoria Mutual Team Members participated in a beautification and restoration project as a part of their Labour Day activities.

Corporate Outreach Cont'd

Sigma Corporate Run

Over 200 Victoria Mutual Team Members represented the organization in the Annual Sigma Corporate Run, which is a marquis fund-raising initiative involving several corporate entities. In 2011, the corporate run was held to raise funds for the Neo-natal Care Unit of the Victoria Jubilee Hospital in Kingston. The initiative, held under the theme 'Save our Children, Save our Future' met its $15 million dollar target.

Over 200 VMBS Team Members participated in the Annual Sigma Corporate Run 2011

FINANCIAL STATEMENTS

DECEMBER 31, 2011

KPMG
Chartered Accountants
The Victoria Mutual Building
6 Duke Street
Kingston
Jamaica, W. I.

P.O. Box 76
Kingston
Jamaica, W.I.
Telephone: +1 (876) 922-6640
Fax: +1 (876) 922-7198
+1 (876) 922-4500
e-Mail: firmmail@kpmg.com.jm

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 102, which comprise the Group's and Society's statement of financial position as at December 31, 2011, the Group's and Society's income statement and statements of comprehensive income, changes in equity 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 and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal controls as management determines are 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 control relevant to the entity's preparation and fair presentation of the financial statements 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 controls. 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 Society and the Group, 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 $127 million. Further, because of compliance with the BOJ Regulations rather than with IFRS, retained earnings and accrued interest receivable at December 31, 2011 would have been greater by $172 million.

Qualified opinion

In our opinion, except for the effects of the non-compliance with International Financial Reporting Standards 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, 2011, and of the Group's and Society's financial performance, changes in equity 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 8,147 were produced to us and actually inspected by us, and we are satisfied that the remaining 228 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 29, 2012

STATEMENTS OF FINANCIAL POSITION Year Ended December 31, 2011

	Notes	Group 2011 $'000	Group 2010 $'000	Society 2011 $'000	Society 2010 $'000
ASSETS					
Cash and cash equivalents	7	7,727,753	7,489,481	7,631,709	7,394,448
Investments - Jamaica Government securities	8	22,859,502	15,802,293	13,843,548	7,803,683
- Other	9	1,919,182	77,422	1,833,103	73,527
Resale agreements	10	7,467,036	7,551,993	6,629,121	8,342,907
Loans	11	27,541,585	29,452,959	27,557,142	29,468,105
Other assets	12	1,592,699	1,202,452	882,712	694,437
Deferred tax assets	13(a)	8,351	3,306	-	-
Employee benefit asset	14	1,260,200	1,208,500	1,260,200	1,208,500
Interest in subsidiaries	15	-	-	306,627	313,899
Interest in associate	16	729,729	594,509	659,200	584,579
Intangible assets	17	104,429	75,613	90,947	60,564
Investment properties	18	561,667	225,521	678,987	342,841
Property, plant and equipment	19	448,833	463,579	421,239	431,184
Total assets		**72,220,966**	**64,147,628**	**61,794,535**	**56,718,674**
LIABILITIES					
Savings fund:					
Shareholders' savings	20	52,106,103	48,190,338	52,563,489	48,498,136
Depositors' savings	21	770,696	657,450	770,696	657,450
		52,876,799	48,847,788	53,334,185	49,155,586
Income tax payable		131,452	144,322	131,357	119,385
Other liabilities	22	521,288	252,846	452,138	386,696
Repurchase agreements	23	8,858,855	6,055,747	-	-
Insurance underwriting provisions	24	495	586	-	-
Loans payable	25	435,313	431,914	435,313	431,914
Deferred tax liabilities	13(b)	333,924	309,988	333,901	306,376
Employee benefit obligation	14	247,800	216,200	228,800	200,300
Total liabilities		**63,405,926**	**56,259,391**	**54,915,694**	**50,600,257**
CAPITAL AND RESERVES					
Permanent capital fund	26	4,523,824	3,940,285	4,523,824	3,940,285
Reserve fund	27(i)	533,919	469,081	533,919	469,081
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)	1,047,879	993,259	1,047,879	993,259
Investment revaluation reserve	27(v)	261,628	198,936	258,951	201,524
General reserve		10,000	10,000	10,000	10,000
Currency translation reserve	27(vi)	54,675	103,446	-	-
Retained earnings		1,878,765	1,668,880	-	-
Total capital and reserves		8,815,040	7,888,237	6,878,841	6,118,417
Total liabilities and capital and reserves		**72,220,966**	**64,147,628**	**61,794,535**	**56,718,674**

The financial statements on pages 30 to 102 were approved for issue by the Board of Directors on March 29, 2012 and signed on its behalf by:

Judith A. Robinson, Director

R. K. Powell, Director

Countersigned:

K. Brown, Corporate Secretary

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

INCOME STATEMENTS Year Ended December 31, 2011

	Notes	Group 2011 $'000	Group 2010 $'000	Society 2011 $'000	Society 2010 $'000
Interest income	30	5,155,077	5,386,884	4,460,444	4,703,196
Interest expense	30	(1,956,520)	(2,431,859)	(1,571,899)	(2,005,565)
Net interest income		3,198,557	2,955,025	2,888,545	2,697,631
Fee and commission income	31	195,377	135,646	121,531	56,977
Fee and commission expenses	31	(47,760)	(110,157)	(47,760)	(45,567)
Net fee and commission income		147,617	25,489	73,771	11,410
Other operating revenue	32	580,603	807,632	490,639	521,455
Net interest income and other revenue		3,926,777	3,788,146	3,452,955	3,230,496
Personnel costs	33	(1,447,733)	(859,642)	(1,225,100)	(654,093)
Depreciation and amortisation	17,18,19	(113,081)	(107,099)	(102,891)	(95,489)
Other operating expenses	34	(1,300,954)	(1,374,427)	(1,280,775)	(1,368,400)
		(2,861,768)	(2,341,168)	(2,608,766)	(2,117,982)
Gain on sale of subsidiary – Victoria Mutual Insurance Company Limited		74,621	925,601	74,621	524,579
Share of profit of associate		49,323	146	-	-
Surplus before income tax		1,188,953	2,372,725	918,810	1,637,093
Income tax charge	35	(276,071)	(319,712)	(215,813)	(232,081)
Surplus for the year, all attributable to members of the Society	36	912,882	2,053,013	702,997	1,405,012

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

STATEMENTS OF COMPREHENSIVE INCOME Year Ended December 31, 2011

		Group		Society	
	Notes	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Surplus for the year	36	912,882	2,053,013	702,997	1,405,012
Other comprehensive income					
Foreign currency translation difference for foreign operations		(48,771)	64,848	-	-
Change in fair value of available-for-sale investments		27,422	256,355	36,556	87,806
Deferred income tax on available-for-sale investments		23,916	(18,579)	20,871	37,631
Other comprehensive income for the year, net of income tax		2,567	302,624	57,427	125,437
Total comprehensive income for the year		915,449	2,355,637	760,424	1,530,449

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, 2011

	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, 2009	**3,017,506**	**366,551**	**504,268**	**90,082**	**613,556**	**(48,546)**	**10,000**	**38,598**	**1,331,822**	**5,923,837**
Total comprehensive income for the year										
Surplus for the year	-	-	-	-	-	-	-	-	2,053,013	2,053,013
Other comprehensive income:										
Foreign currency translation differences on foreign subsidiaries' balances	-	-	-	-	-	-	-	64,848	-	64,848
Change in fair value of available-for-sale investments	-	-	-	-	-	256,355	-	-	-	256,355
Deferred tax on available-for-sale investments	-	-	-	-	-	(18,579)	-	-	-	(18,579)
Total other comprehensive income	-	-	-	-	-	237,776	-	64,848	-	302,624
Total comprehensive income for the year	-	-	-	-	-	237,776	-	64,848	2,053,013	2,355,637
Movement between reserves										
Credit facility reserve transfer	-	-	-	-	379,703	-	-	-	(379,703)	-
Other transfers [notes 26 and 27(i)]	922,779	102,530	-	-	-	-	-	-	(1,025,309)	-
Realised on disposal of subsidiary	-	-	-	(90,000)	-	-	-	-	90,000	-
Total movement between reserves	922,779	102,530	-	(90,000)	379,703	-	-	-	(1,315,012)	-
Share of investment revaluation reserve of associate	-	-	-	-	-	9,785	-	-	-	9,785
Elimination arising from disposal of subsidiary	-	-	-	-	-	(79)	-	-	(400,943)	(401,022)
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	-	-	-	-	-	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**

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, 2011

	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, 2009	**3,017,506**	**366,551**	**504,268**	**613,556**	**76,087**	**10,000**	**-**	**4,587,968**
Total comprehensive income for the year								
Surplus for the year	-	-	-	-	-	-	1,405,012	1,405,012
Other comprehensive income:								
Change in fair value of available-for-sale investments	-	-	-	-	87,806	-	-	87,806
Deferred tax on available-for-sale investments	-	-	-	-	37,631	-	-	37,631
Total other comprehensive income	-	-	-	-	125,437	-	-	125,437
Total comprehensive income for the year	-	-	-	-	125,437	-	1,405,012	1,530,449
Movements between reserves								
Credit facility reserve transfer	-	-	-	379,703	-	-	(379,703)	-
Other transfers [notes 26 and 27(i)]	922,779	102,530	-	-	-	-	(1,025,309)	-
Total movement between reserves	922,779	102,530	-	379,703	-	-	(1,405,012)	-
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	-	-	-	-	36,556	-	-	36,556
Deferred tax on available-for-sale investments	-	-	-	-	20,871	-	-	20,871
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**

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

GROUP STATEMENT OF CASH FLOWS Year Ended December 31, 2011

	Notes	2011 $'000	2010 $'000
Cash flows from operating activities			
Surplus for the year		912,882	2,053,013
Adjustments for:			
Depreciation	17,18,19	113,081	107,099
Employee benefit obligation		31,600	25,700
Interest income	30	(5,155,077)	(5,386,884)
Interest expense	30	1,956,520	2,431,859
Income tax expense	35	276,071	319,712
		(1,864,923)	(449,501)
Gain on disposal of property, plant and equipment		(490)	(628)
Write off of property, plant and equipment		-	266
Gain on sale of subsidiary		(74,621)	(925,601)
Share of profit of associate		(49,323)	(146)
Change in provision for loan losses		(26,743)	229,915
Insurance underwriting provisions		(91)	(796,995)
Unrealised exchange (losses)/gains on foreign currency balances		(39,905)	64,848
Loan advances, net of repayments		1,604,098	1,056,928
Change in other assets		(343,593)	374,894
Change in employee benefit assets		(51,700)	(344,500)
Net receipts from shareholders and depositors		4,051,035	1,579,551
Change in other liabilities		219,671	(1,212,614)
		3,423,415	(423,583)
Interest and dividends received		5,108,423	5,713,673
Interest paid		(1,949,762)	(2,589,051)
Income taxes paid		(270,050)	(205,832)
Net cash provided by operating activities		6,312,026	2,495,207
Cash flows from investing activities			
Government of Jamaica securities		(7,009,608)	(5,606,090)
Other investments		(1,841,760)	5,457,462
Net proceeds of disposal of subsidiary and acquisition of associate		-	(60,000)
Resale agreements		85,088	(2,632,084)
Purchase of intangible asset	17(a)	(60,688)	(29,016)
Additions to investment properties	18	(8,071)	-
Purchase of property, plant and equipment	19	(60,573)	(78,591)
Proceeds of disposal of property, plant and equipment		3,336	7,464
Repurchase agreements		2,803,108	(713,811)
Net cash used by investing activities		(6,089,168)	(3,654,666)
Cash flows from financing activities			
Loans payable, being cash provided by financing activities		3,835	(18,474)
Net increase/(decrease) in cash and cash equivalents for year		226,693	(1,177,933)
Cash and cash equivalents at beginning of year		7,489,481	8,619,666
Effect of exchange rate fluctuations on cash and cash equivalents		11,579	47,748
Cash and cash equivalents at end of year	7	7,727,753	7,489,481

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

SOCIETY STATEMENT OF CASH FLOWS Year Ended December 31, 2011

	Notes	2011 $'000	2010 $'000
Cash flows from operating activities			
Surplus for the year		702,997	1,405,012
Adjustments for:			
Depreciation	17,18,19	102,891	95,489
Unrealized exchange (gains)/losses on foreign currency balances		(29,218)	(14,408)
Employee benefit obligation		28,500	31,700
Interest income	30	(4,460,444)	(4,703,196)
Interest expense	30	1,571,899	2,005,565
Income tax expense	35	215,813	232,081
		(1,867,562)	(947,757)
Gain on disposal of property, plant and equipment		(490)	(628)
Gain on sale of investments		(108,071)	(56,417)
Gain on sale of subsidiary		(74,621)	(524,579)
Change in provision for loan losses		(26,743)	229,916
Loan advances, net of repayments		1,603,687	1,041,140
Interest in subsidiaries			(35,339)
Change in other assets		(111,553)	(82,931)
Change in employee benefit assets		(51,700)	(344,500)
Net receipts from shareholders and depositors		4,219,250	1,541,116
Change in other liabilities		65,442	(36,536)
		3,647,639	783,485
Interest and dividends received		4,383,618	4,877,796
Interest paid		(1,583,767)	(2,081,873)
Income taxes paid		(176,317)	(84,735)
Net cash provided by operating activities		6,271,173	3,494,673
Cash flows from investing activities			
Government of Jamaica securities		(5,874,366)	(1,616,202)
Other investments		(1,759,576)	887,786
Resale agreements		1,713,786	(3,845,706)
Purchase of intangible asset	17(a)	(57,894)	(28,332)
Additions to investment properties	18	(10,050)	-
Purchase of property, plant and equipment	19	(57,680)	(75,225)
Proceeds of disposal of property, plant and equipment		-	628
Net cash used by investing activities		(6,045,780)	(4,677,051)
Cash flows from financing activities			
Loans payable, being cash provided/(used) by financing activities		3,835	(17,273)
Net increase/(decrease) in cash and cash equivalents for year		229,228	(1,199,651)
Cash and cash equivalents at beginning of year		7,394,448	8,543,056
Effect of exchange rate fluctuations on cash and cash equivalents		8,033	51,043
Cash and cash equivalents at end of year	7	7,631,709	7,394,448

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, 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:

Subsidiaries	Country of incorporation	Nature of Business	Percentage equity held by: The Society	Subsidiaries
Westin International Insurance Company Limited	The Cayman Islands	General insurance	100	-
Victoria Mutual Investments Limited and its 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 and its wholly-owned subsidiary:	Jamaica	Housing development and property management and sales	-	100
Manx Development Limited**	Jamaica	Housing development	-	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	85	-
VMBS Overseas (UK) Limited	United Kingdom	Promotion of the business of the Society	100	-
VMBS Overseas (Canada) Inc*	Canada	Money transfer and promotion of the business of the Society	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.

** The Society has commenced the process of applying to the Companies Office of Jamaica to have this company struck from the Register of Companies.

1. IDENTIFICATION (CONT'D)

(c) Interest in associated companies:

The Group has a 20% interest in Prime Pensions St. Lucia Limited, the holding company for Prime Asset Management Limited, whose principal activity is pension management.

Effective May 31, 2010, the Group acquired a 31.5% interest in British Caribbean Insurance Company Limited ("BCIC"), whose principal activity is general insurance. The portion of the gain in 2011 represents the value of preference shares in BCIC received by the Society in connection with the sale of Victoria Mutual Insurance Company Limited.

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

2. REGULATIONS AND LICENCE

The Society is licensed, and the financial statements 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 under review. They did not have any significant effect on the financial statements, and, based on the Group's current operations, none of them is expected to have any significant effect on the amounts and disclosures in the financial statements, except that the amendment to IFRS 7, *Financial Instruments: Disclosures*, led to some changes in the qualitative and quantitative disclosures relating to credit risk. The changes are reflected in note 5 to these financial statements, viz:

(i) Disclosure of the amount of the Group's 'maximum exposure to credit risk without considering any collateral held' is now made only if the carrying amount of the financial asset does not already reflect such exposure.

(ii) Previously, the Group disclosed the existence and nature of collateral held as security and other credit enhancements in respect of a financial instrument. As required by the amendment, it now, in addition, discloses the financial effect of such collateral.

(iii) The disclosure of the nature and carrying amount of collateral obtained by the Group as a result of a debtor's default (a foreclosure), including policies for using the financial and non-financial assets that cannot be converted into cash immediately, is now required to be made only for collateral obtained and still held at the end of the reporting period.

(iv) Where the terms of a financial asset that was not past due and not impaired were renegotiated, the carrying amount was disclosed; this is no longer required.

3. BASIS OF PREPARATION (CONT'D)

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

(iv) The disclosure of the description of collateral held as security and other credit enhancements in respect of financial assets that are past due or impaired, including an estimate of their fair value, is no longer required.

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 are not yet effective 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:

- IFRS7, *Financial Instruments: Disclosures*, has been amended by the issue of "Amendment to IFRS 7, *Disclosures – Transfer of Financial Assets"*, which is effective for annual reporting periods beginning on or after July 1, 2011. The amendment requires disclosure of information that enables users of financial statements to understand the relationship between transferred financial assets that are not derecognised in their entirety and the associated liabilities and to evaluate the nature of and risks associated with the entity's continuing involvement in these derecognised assets.

- 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 12, *Income Taxes,* has been amended, effective for annual reporting periods beginning on or after January 1, 2012, to require an entity to measure deferred taxes relating to an asset based on whether the entity expects to recover the carrying amount of the asset through use or sale.

- 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 exposes 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 and revised standards and interpretations that are not yet effective (cont'd)

- 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.

- 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.

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

(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 financial statements are presented in Jamaica dollars ($), which is the functional currency of the Society. Amounts are rounded to the nearest thousand. 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).

(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.

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

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

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.

  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.

3. BASIS OF PREPARATION (CONT'D)

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

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

- Fair value of financial instruments

  In the absence of quoted market prices, the fair value of a significant proportion 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.

- 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.

3. BASIS OF PREPARATION (CONT'D)

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

(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).

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

- In designating financial assets as at fair value through profit or loss, the Group has determined that they have met the criteria for this designation 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, 2011, after eliminating intra-group amounts, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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 in the statement of financial position.

(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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Investments (cont'd):

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 in the statement of financial position 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.

(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 income statement, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(g) Income tax (cont'd):

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 by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be 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.

(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).

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Employee benefits (cont'd):

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

The Group's net obligation in respect of the defined-benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and 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 the profit or loss.

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

(h) Employee benefits (cont'd):

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

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).

(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.

THE VICTORIA MUTUAL BUILDING SOCIETY

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

(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.

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

(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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Allowance for impairment (cont'd):

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. 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)].

(q) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates ('the functional currency').

The consolidated financial statements are presented in Jamaica dollars, which is the functional currency of the Society and some subsidiaries.

(ii) Transactions and balances

Foreign currency transactions are accounted for 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Foreign currency translation (cont'd)

(ii) Transactions and balances (cont'd)

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

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.

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 Society and the Group, 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 $127 million. Further, because of compliance with the BOJ Regulations rather than with IFRS, retained earnings and accrued interest receivable at December 31, 2011 would have been greater by $172 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) Commissions, premium income 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) Fees and commission expenses

Other fees 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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(w) Related parties:

A related party is a person or entity that is related to the Group ("reporting entity").

a) 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.

b) 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).

   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 (a).

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

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, 2011.

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.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

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:

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

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

The risk management policies are established 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 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 Group does not make use of derivative instruments as part of its overall risk management activities at this time. Therefore, exposure to credit, market (comprising foreign currency, interest rate and equity price) and liquidity risks on financial instruments arises in the ordinary course of the Group's operations.

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 loans and other receivables, investment securities, resale agreements, cash and cash equivalents and accounts receivable.

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

Introduction and overview (cont'd)

Risk management framework (cont'd)

(a) **Credit risk (cont'd):**

(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.

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

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Loan commitments	239,792	440,130	239,792	440,130

(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.

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):

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.

	Group and Society	
	2011 $'000	2010 $'000
Past due but not impaired loans	10,030,873	8,340,256
Aging analysis of past due but not impaired loans		
Under 3 months	8,645,206	6,150,896
3 months – 6 months	558,791	830,737
6 months – 12 months	345,781	682,811
Over 12 months	481,195	675,812
Total carrying amount	10,030,973	8,340,256

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	
	2011 $'000	2010 $'000
Past due and impaired loans	512,528	1,038,230
Aging analysis of past due and impaired loans		
3 months – 6 months	86,822	224,833
6 months – 12 months	9,010	231,920
Over 12 months	416,696	581,477
Total carrying amount	512,528	1,038,230

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 2011were granting moratoria and entering into rescheduling arrangements on loans. At December 31, 2011, the outstanding principal balances on loans that were restructured amounted to $505,761,789 (2010: $542,738,000).

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 $47,039,320,000 (2010: $39,998,375,000). For details refer to note 5(a)(iii) below.

Foreclosure:

During the year, the Group acquired real properties with a total carrying value of $334,019,000 by way of foreclosure. 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 a three year period. 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.

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 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 reporting date (2010: no collateral held).

NOTES TO THE FINANCIAL STATEMENTS as at December 31, 2011

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	
	2011	2010	2011	2010	2011	2010	2011	2010
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Against neither past due nor impaired financial assets:								
Property	185,030,647	203,663,173	-	-	185,030,647	203,663,173	-	-
Debt securities	-		8,556,755	9,927,913	-	-	6,668,525	8,847,616
Liens on motor vehicles	29,978	32,174	-	-	29,978	32,174	-	-
Hypothecation of deposits	230,871	230,871	-	-	230,871	230,871	-	-
Subtotal	185,291,496	203,926,218	8,556,755	9,927,913	185,291,496	203,926,218	6,668,525	8,847,616
Against past due but not impaired finanical assets:								
Property	45,395,590	37,277,906	-	-	45,395,590	37,277,906	-	-
Hypothecation of deposits	56,396	11,487	-	-	56,396	11,487	-	-
Subtotal	45,451,986	37,289,393	-	-	45,451,986	37,289,393	-	-
Against past due and impaired financial assets:								
Property	1,587,334	2,720,469	-	-	1,587,334	2,720,469	-	-
Total	232,330,816	243,936,080	8,556,755	9,927,913	232,330,816	243,936,080	6,668,525	8,847,616

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.

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.

It shows significant excess of short-term interest-bearing liabilities over short-term interest-earning assets. This is a direct consequence of the nature of a significant part of the Group's business, which involves granting long-term loans (up to 30 years) funded by savings which are substantially withdrawable on demand or after short notice. The savings fund has been stable and management expects it to remain so. This interest rate gap is normal within the building society sector.

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):

Management of 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 2011					
	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	2,623,341	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, capital and reserves	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):

Group:

	Group					
	2010					
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	1,332,829	1,803,258	1,607,655	69,776	2,675,963	7,489,481
Investments	-	1,798,956	1,033,657	12,979,300	67,802	15,879,715
Resale agreements	819,687	4,045,578	2,686,728	-	-	7,551,993
Loans	-	312,500	103,870	1,437,252	27,599,337	29,452,959
Other assets	-	-	-	-	1,202,452	1,202,452
Total financial assets	2,152,516	7,960,292	5,431,910	14,486,328	31,545,554	61,576,600
Savings fund	-	36,719,944	3,455,117	8,672,727	-	48,847,788
Other liabilities	-	-	-	-	252,846	252,846
Repurchase agreements	-	4,434,621	1,621,126	-	-	6,055,747
Insurance underwriting provisions	-	-	-	-	586	586
Loans payable	-	-	431,914	-	-	431,914
Total financial liabilities, capital and reserves	-	41,154,565	5,508,157	8,672,727	253,432	55,588,881
Total interest rate sensitivity gap *	2,152,516	(33,194,273)	(76,247)	5,813,601	31,292,122	5,987,719
Cumulative gap	2,152,516	(31,041,757)	(31,118,004)	(25,304,403)	5,987,719	

* 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):

	Society					
	2010					
	Immediately rate sensitive	Within 3 months	Three to 12 months	Over 12 months	Non-rate sensitive	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	1,245,701	1,803,258	1,607,655	69,776	2,668,058	7,394,448
Investments	1,098,660	165,716	952,821	5,596,545	63,468	7,877,210
Resale agreements	2,643,097	3,013,082	2,686,728	-	-	8,342,907
Loans	-	29,468,105	-	-	-	29,468,105
Other assets	-	-	-	-	694,437	694,437
Total financial assets	4,987,458	34,450,161	5,247,204	5,666,321	3,425,963	53,777,107
Savings fund	-	37,685,192	3,455,117	8,015,277	-	49,155,586
Other liabilities	-	-	-	-	386,696	386,696
Loans payable	-	-	431,914	-	-	431,914
Total financial liabilities, capital and reserves	-	37,685,192	3,887,031	8,015,277	386,696	49,974,196
Total interest rate sensitivity gap *	4,987,458	(3,235,031)	1,360,173	(2,348,956)	3,039,267	3,802,911
Cumulative gap	4,987,458	1,752,427	3,112,600	763,644	3,802,911	

* 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

A change of 100 (2010: 500) basis points in interest rates on Jamaica dollar denominated instruments and a change of 50 (2010: 100) basis points on interest rates on US$ denominated instruments at the reporting date would have increased or decreased profit and reserves by the amounts shown below. The analysis assumes that all other variables, in particular, foreign currency rates, remain constant. The analysis is performed on the same basis for 2010.

	Group		Society	
	$'000 Increase	$'000 (Decrease)	$'000 Increase	$'000 (Decrease)
		2011		
Effect on profit or loss	65,668	(65,688)	60,550	(60,550)
Effect on equity	(134,672)	135,383	(90,082)	93,790
		2010		
Effect on profit or loss	79,308	(79,308)	72,250	(72,250)
Effect on equity	(273,587)	308,840	(214,040)	247,156

(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, because there are 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 possible. At the reporting date, the net exposure was as follows:

	Group							
	2011				2010			
	€ $'000	US$ $'000	£ $'000	CDN$ $000	€ $'000	US$ $'000	£ $'000	CDN$ $'000
Foreign currency assets	11,752	150,410	6,024	59,080	11,785	136,347	57,871	5,423
Foreign currency liabilities	-	(165,516)	(5,842)	(58,655)	-	(162,798)	(57,084)	(5,452)
Net foreign currency asset/(liability)	11,752	(15,105)	182	425	11,785	(26,451)	787	(29)

	Society					
	2011			2010		
	US$ $'000	£ $'000	CDN$ $'000	US$ $'000	£ $'000	CDN$ $'000
Foreign currency assets	122,994	6,007	59,078	112,404	58,201	5,419
Foreign currency liabilities	(122,528)	(5,813)	(58,655)	(111,695)	(58,123)	(5,452)
Net foreign currency asset/(liability)	466	194	423	709	78	(33)

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

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

Sensitivity to foreign exchange rate movements

A one percent (1%) [2010: five percent (5%)] strengthening of the Jamaica dollar against the following currencies at December 31, 2011 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 2010.

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Euro	(66,087)	75,536	-	-
United States	65,230	(113,209)	(402)	(3,035)
Pounds Sterling	(1,219)	5,208	(566)	(515)
Canadian Dollar	(1,777)	124	(163)	139
	(3,853)	(32,341)	(1,131)	(3,411)

A one percent (1%) [2010: nine percent (9%)] weakening of the Jamaica dollar against the following currencies at December 31, 2011 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 for 2010.

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Euro	118,956	(135,965)	-	-
United States	(117,415)	203,777	402	5,462
Pounds Sterling	2,195	(9,374)	566	928
Canadian Dollar	3,199	222	163	(250)
	6,935	58,660	1,131	6,140

(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 20% (2010: 20%) in share prices would result in an increase or an equal decrease, respectively, in reserves of $20,197,894 (2010: $11,873,476) for the Group and $16,463,090 (2010: $11,006,916) for the Society.

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

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(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.

	Ratio of net liquid assets to deposits from customers	
	2011	2010
Regulator's minimum requirement	5.00%	5.00%
Actuals:		
As at December 31	10.92%	7.72%
Average for the year	11.93%	8.64%
Maximum for the year	16.81%	9.91%
Minimum for the year	7.67%	7.72%

(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 74.61% (2010: 55.97%). The ratio stipulated by the regulator is 25% (2010: 25%).

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd):

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

Group

	2011						
	Within One month	One to 3 months	Three to 12 months	One to 5 years	Over 5 years	Contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
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

	2010						
	Within One month	One to 3 months	Three to 12 months	One to 5 years	Over 5 years	Contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Other liabilities	-	-	252,846	-	-	252,846	252,846
Due to savers	96,051	37,877,047	4,321,317	12,721,984	-	55,016,668	48,847,788
Bank overdrafts	113,069	-	-	-	-	113,069	113,069
Repurchase agreements	-	4,073,097	1,621,127	-	-	5,694,224	5,694,224
Certificates of participation	-	361,524	-	-	-	361,524	361,524
Loans payable	-	-	436,556	-	-	436,556	431,914

Society

	2011						
	Within One month	One to 3 months	Three to 12 months	One to 5 years	Over 5 years	Contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Other liabilities	-	452,139	-	-	-	452,139	452,139
Due to savers	95,468	37,919,688	6,081,911	15,017,831	-	59,125,897	53,334,185
Bank overdrafts	2,127	-	-	-	-	2,127	2,127
Loans payable	-	-	439,340	-	-	439,340	435,313

	2011						
	Within One month	One to 3 months	Three to 12 months	One to 5 years	Over 5 years	Contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Other liabilities	-	386,696	-	-	-	386,696	386,696
Due to savers	133,788	38,408,111	6,438,798	16,015,605	-	60,993,302	49,155,586
Bank overdrafts	113,069	-	-	-	-	113,069	113,069
Loans payable	-	-	436,556	-	-	436,556	431,914

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

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(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.

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.

6. CAPITAL MANAGEMENT (cont'd)

(a) The Financial Services Commission also 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% (2010: 10%).

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

	2011 $'000	2010 $'000
Tier 1 Capital		
Ordinary share capital	115,000	115,000
Retained earnings	651,370	536,146
Current year to date profit	114,478	109,286
	880,848	760,432
Less: Revaluation reserves	(18,383)	(12,294)
Intangible assets	-	-
Total Tier 1 Capital	862,465	748,138
Tier 2 Capital		
Preference shares	50,000	50,000
Total qualifying capital	912,465	798,138
Risk weighted assets		
Deposits & other amounts due from local banks	28,118	15,329
Equity investments	18,674	4,333
Property, plant and equipment	10,129	10,791
Other assets	2,491,704	1,540,127
Foreign exchange exposure	1,321,794	1,345,953
	3,870,419	2,916,533
Capital ratios:		
Total regulatory qualifying capital expressed as a percentage of total risk weighted assets	23.58%	27.37%
Total Tier 1 Capital expressed as a percentage of total risk weighted assets	22.28%	25.65%

6. CAPITAL MANAGEMENT (CONT'D)

(b) Bank of Jamaica requires that building societies maintain a minimum of 10% (2010: 10%) of their risk weighted assets in capital.

	Society	
	2011	2010
	$'000	$'000
Capital base (note 28)	7,041,156	5,113,461
Qualifying capital	6,363,370	4,592,247
On balance sheet risk weighted assets	27,514,078	23,091,778
Off balance sheet risk weighted assets – Loan commitments	1,813,403	1,894,449
Foreign exchange exposure	309,590	216,080
Total risk assessed assets	29,637,071	25,202,307
Risk based capital adequacy ratio	21.47%	18.22%
Regulatory requirement	10.00%	10.00%

7. CASH AND CASH EQUIVALENTS

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Cash in hand and at banks and other financial institutions	1,732,910	1,232,555	1,636,866	1,137,522
Statutory reserves held at Bank of Jamaica	503,346	478,402	503,346	478,402
Term deposits at banks [see note 25(a)]	5,491,497	5,778,524	5,491,497	5,778,524
	7,727,753	7,489,481	7,631,709	7,394,448

Statutory reserves, required by regulation to be held at Bank of Jamaica, comprise cash reserves. They are not available for use by the Society. 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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Held-to-maturity securities:				
Securities denominated in United States dollars:				
Bonds	449,153	499,624	-	-
Securities denominated in Jamaica dollars:				
Debenture	-	1,000	-	-
	449,153	500,624	-	-
Available-for-sale securities:				
Securities denominated in United States dollars:				
Bonds	2,207,277	1,947,402	1,346,347	891,304
Securities denominated in Jamaica dollars:				
Bonds	8,594,565	3,125,496	8,594,565	3,125,496
Certificates of deposit	6,410,368	5,511,901	-	1,219,399
	15,004,933	8,637,397	8,594,565	4,344,895
	17,212,210	10,584,799	9,940,912	5,236,199
Loans and receivables:				
Securities denominated in United States dollars:				
Bonds	4,114,110	1,650,674	2,818,607	2,567,484
Securities denominated in Jamaica dollars:				
Bonds	-	2,567,484	-	-
Certificates of Deposit	1,084,029	498,712	1,084,029	-
	1,084,029	3,066,196	1,084,029	-
	5,198,139	4,716,870	3,902,636	2,567,484
	22,859,502	15,802,293	13,843,548	7,803,683

In 2008, the Society sold some of its held-to-maturity securities. In keeping with IAS 39, the remaining securities were reclassified to available-for-sale.

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

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

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Within 3 months	1,180,019	1,799,395	1,179,478	1,264,376
From 3 months to 1 year	1,341,172	1,033,656	40,182	952,821
From 1 year to 5 years	5,397,897	5,933,920	3,128,075	2,680,778
Thereafter	14,940,414	7,035,322	9,495,813	2,905,708
	22,859,502	15,802,293	13,843,548	7,803,683

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 2011	Fair value 2011	Carrying value 2010	Fair value 2010
	$'000	$'000	$'000	$'000
Group				
US$ denominated GOJ Global bonds	426,563	440,798	2,046,640	1,894,358
EURO denominated GOJ Global bonds	1,261,763	1,259,646	1,284,936	1,317,515
Society				
US$ denominated GOJ Global bonds	392,823	406,836	1,680,902	1,517,988

(a) Fair value gain/(losses) of $11,864,091 [2010: ($34,440,000)] for the Group and $14,013,091 [2010: ($28,424,000)] for the Society, excluding deferred taxation, would have been included in reserves for the year had the investments not been reclassified as loans and receivables. This amount was estimated on the basis of the bid-price of the securities as at December 31, 2011. 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 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 10.66% for US$ denominated securities for the Society. The undiscounted cash flows to be recovered from the investment securities reclassified are $740,556,012 (2010: $3,876,542,000) for the Group and $630,454,012 (2010: $2,628,440,000) for the Society.

9. INVESTMENTS – OTHER

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Loans and receivables:				
Bank deposits	67,405	972	-	1,410
Bonds	1,578,470	-	1,578,470	-
Available-for-sale:				
Bonds	164,334	10,059	164,334	10,059
Ordinary shares - quoted	100,989	59,359	82,315	55,026
Ordinary shares - unquoted	39	39	39	39
Units in unit trusts	7,945	6,993	7,945	6,993
	1,919,182	77,422	1,833,103	73,527

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

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

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
No maturity	108,974	67,363	90,300	63,468
Within 3 months	67,405	-	-	-
3 months to 1 year	-	-	-	-
From 1 year to 5 years	518,021	-	518,021	-
Thereafter	1,224,782	10,059	1,224,782	10,059
	1,919,182	77,422	1,833,103	73,527

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'). On paying cash to the counterparty, possession of the underlying securities is sometimes taken, although title is not formally transferred unless that counterparty fails to repurchase the securities on the date specified or to honour other conditions.

10. RESALE AGREEMENTS (CONT'D)

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Denominated in Jamaica dollars	2,267,463	2,693,798	3,044,289	3,484,712
Denominated in Sterling	762,957	408,901	762,957	408,901
Denominated in United States dollars	4,436,616	4,449,294	2,821,875	4,449,294
	7,467,036	7,551,993	6,629,121	8,342,907

Under resale agreements, the securities obtained as collateral may themselves be sold under repurchase agreements (see note 23). At December 31, 2011, securities with such permission that the Group and the Society held had a fair value of $8,558,889,754 (2010: $9,927,913,000) and $6,670,660,022 (2010: $8,847,616,000), respectively.

11. LOANS

(a) Loans:

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Conventional mortgage loans	26,299,049	28,453,313	26,299,048	28,453,313
Mortgage escrow (see below)	681,798	653,620	681,798	653,620
Allowance for impairment	(326,973)	(353,716)	(326,973)	(353,716)
Net conventional mortgage loans	26,653,874	28,753,217	26,653,873	28,753,217
Share loans	590,218	400,738	590,218	400,738
Commercial loans	231,054	231,351	246,612	246,497
Staff loans	66,439	67,653	66,439	67,653
Total loans, net	27,541,585	29,452,959	27,557,142	29,468,105

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	
	2011	2010
	$'000	$'000
Balances at the beginning of the year	353,716	123,800
Charged against income during the year	70,970	240,847
Allowance no longer required	(97,713)	(10,931)
Balances at the end of the year per IAS 39 [see (c) below]	326,973	353,716

11. LOANS (CONT'D)

(c) Credit facility reserve:

	Group and Society	
	2011	2010
	$'000	$'000
Regulatory impairment allowance	1,374,852	1,346,975
Less: Impairment allowance based on IAS 39 [see (b) above]	(326,973)	(353,716)
Credit facility reserve at end of year	1,047,879	993,259

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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Within three months	391,123	312,500	391,123	312,500
3 months to 1 year	100,926	88,724	116,483	103,870
1 year to 5 years	1,537,304	1,414,261	1,537,304	1,414,261
Thereafter	25,512,232	27,637,474	25,512,232	27,637,474
	27,541,585	29,452,959	27,557,142	29,468,105

12. OTHER ASSETS

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Interest receivable	600,127	545,073	501,952	416,726
Clients' funds	33,978	34,159	-	-
Income tax recoverable	74,735	51,064	-	-
Sundry receivables, deferrals and prepayments	883,859	572,156	380,760	277,711
	1,592,699	1,202,452	882,712	694,437

13. DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets:

Deferred tax assets are attributable to the following:

	Group	
	2011	2010
	$'000	$'000
Investments	13,768	-
Other receivables	(42,345)	(356)
Property, plant and equipment	155	(95)
Employee benefit asset	-	256
Other liabilities	30,051	-
Employee benefit obligation	6,162	3,233
Unrealised foreign exchange gains/(losses)	37	268
Accrued vacation leave	523	-
	8,351	3,306

Movement in temporary differences during the year for the Group:

	Balance at Jan 1, 2011	Recognised in income	Recognised in equity	Balance at Dec 31, 2011
	$'000	$'000	$'000	$'000
Investments	-	14,304	(536)	13,768
Other receivables	(356)	(41,989)	-	(42,345)
Property, plant and equipment	(95)	250	-	155
Employee benefit asset	256	(256)	-	-
Other liabilities	-	30,051	-	30,051
Employee benefit obligation	3,233	2,929	-	6,162
Unrealised foreign exchange (loss)/gain	268	(231)	-	37
Provision for vacation leave	-	523	-	523
	3,306	5,581	(536)	8,351

Deferred tax assets of approximately $21,000,000 (2010: $16,600,000) have not been recognised in respect of tax losses of certain subsidiaries [note 35(b)]. As at this time, management does not consider that it is probable that future 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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Other receivables	(6)	(45,477)	-	-
Employee benefit asset	(378,060)	(362,550)	(378,060)	(362,550)
Property, plant and equipment	(24,498)	(4,617)	(24,481)	(3,916)
Other liabilities	-	28,488	-	-
Employee benefit obligation	68,640	62,156	68,640	60,090
Unrealised foreign exchange gain	-	753	-	-
Investment properties	-	11,259	-	-
	(333,924)	(309,988)	(333,901)	(306,376)

Movement in temporary differences during the year:

	Group			
	Balance at Jan 1, 2011 $'000	Recognised in income $'000	Recognised in equity $'000	Balance at Dec 31, 2011 $'000
Other receivables	(45,477)	45,471	-	(6)
Employee benefit asset	(362,550)	(15,510)	-	(378,060)
Property, plant and equipment	(4,617)	(19,881)	-	(24,498)
Other liabilities	28,488	(28,488)	-	-
Employee benefit obligation	62,156	6,484	-	68,640
Unrealised foreign exchange gain	753	(753)	-	-
Investment properties	11,259	(11,259)	-	-
	(309,988)	(23,936)	-	(333,924)

	Society			
	Balance at Jan 1, 2011 $'000	Recognised in income $'000	Recognised in equity $'000	Balance at Dec 31, 2011 $'000
Employee benefit asset	(362,550)	(15,510)	-	(378,060)
Property, plant and equipment	(3,916)	(20,565)	-	(24,481)
Other liabilities	-	-	-	-
Employee benefit obligation	60,090	8,550	-	68,640
	(306,376)	(27,525)	-	(333,901)

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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Employee benefit asset (i)	1,260,200	1,208,500	1,260,200	1,208,500
Post-employment medical benefit obligation (ii)	247,800	216,200	228,800	200,300

(i) Employee benefit asset:

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

	Group and Society	
	2011	2010
	$'000	$'000
Present value of funded obligations	(1,975,300)	(1,886,100)
Fair value of plan assets	3,801,300	3,351,800
	1,826,000	1,465,700
Unrecognised actuarial gains	(565,800)	(257,200)
	1,260,200	1,208,500
Plan assets consist of the following:		
Equity securities	933,800	703,800
Government securities	2,133,200	2,065,900
Resale agreements	223,300	123,700
Property investments	92,600	89,500
Other assets	418,400	368,900
	3,801,300	3,351,800

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	
	2011	2010
	$'000	$'000
Balance at beginning of year	1,886,100	1,279,600
Benefits paid	(104,800)	(103,100)
Service and interest costs	310,800	268,500
Actuarial (loss)/gain	(116,800)	441,100
Balance at end of year	1,975,300	1,886,100

(c) Movement in plan assets:

	2011	2010
Fair value of plan assets at January 1	3,351,800	2,943,500
Contributions paid into the plan	46,900	41,300
Benefits paid by the plan	(104,800)	(103,100)
Expected return on plan assets	315,700	393,200
Actuarial gain on plan assets	191,700	76,900
Fair value of plan assets at December 31	3,801,300	3,351,800

(d) Income recognised in the profit or loss:

	Group and Society	
	2011	2010
	$'000	$'000
Current service costs	55,700	24,300
Interest on obligation	211,900	205,900
Expected return on plan assets	(315,700)	(393,300)
Net actuarial gain recognised	-	(21,800)
Change in amount of pension asset disallowed	-	(156,600)
	(48,100)	(341,500)
Actual return on plan assets	9.00%	9.50%

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

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

(d) Income recognised in the profit or loss (cont'd):

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

	2011 %	2010 %
Discount rate at December 31	10.0	11.0
Expected return on plan assets at December 31	9.0	9.5
Future salary increases	6.5	8.5
Future pension increases	5.0	7.0

(e) Historical information:

Defined-benefit pension plan:

	2011 $'000	2010 $'000	2009 $'000	2008 $'000	2007 $'000
Present value of the defined benefit	(1,975,300)	(1,886,100)	(1,279,600)	(1,120,400)	(1,048,200)
Fair value of plan assets	3,801,300	3,351,800	2,943,500	2,463,400	2,380,900
	1,826,000	1,465,700	1,663,900	1,343,000	1,332,700
Experience adjustments arising on plan liabilities	181,300	80,100	28,400	26,700	26,100
Experience adjustments arising on plan assets	191,700	76,900	291,200	(141,300)	216,700

(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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Present value of obligations	406,200	204,700	381,600	192,500
Unrecognised actuarial gain	(158,400)	11,500	(152,800)	7,800
	247,800	216,200	228,800	200,300

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

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

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

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Balance at beginning of year	204,700	172,600	192,500	159,600
Interest cost	23,800	29,300	22,100	26,600
Current service cost	11,500	10,000	10,100	8,400
Benefits paid	(3,700)	(3,300)	(3,700)	(3,300)
Actuarial (gains)/losses	169,900	(3,900)	160,600	1,200
Balance at end of year	406,200	204,700	381,600	192,500

(c) Expense recognised in the profit or loss:

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Actuarial losses/(gains)	-	100	-	-
Current service costs	11,500	10,000	10,100	8,400
Interest on obligations	23,800	29,300	22,100	26,600
	35,300	39,400	32,200	35,000

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

	2011	2010
	%	%
Discount rate	10.0	11.0
Medical claims growth	9.0	10.0

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.

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

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

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

The overall expected long-term rate of return on assets is 9 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 $5,468,908 in contributions to the defined-benefit plan in 2012.

(e) Historical information

Post-employment medical and other benefits:

	2011 $'000	2010 $'000	2009 $'000	2008 $'000	2007 $'000
Present value of the defined benefit obligation:					
Group medical	406,800	220,700	187,800	131,400	122,400
Directors' pension plan	35,826	31,753	22,127	18,800	14,300
Pensioners' concessionary mortgage loans	805	1,743	2,641	2,200	1,400
Fair value of plan assets	443,431	254,196	212,568	152,400	138,100
Experience adjustments arising on plan liabilities:					
Group medical	(168,100)	6,000	(29,100)	13,400	15,800
Directors' pension plan	(1,000)	2,775	1,699	(2,676)	800
Pensioners' concessionary mortgage loans	519	439	(966)	(1,184)	40
	(168,581)	9,214	(28,367)	9,540	16,640

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	10,600	(7,900)	9,500	(7,000)
Effect on the defined benefit obligation	100,600	(75,500)	93,300	(70,100)

15. INTEREST IN SUBSIDIARIES

	Society	
	2011	2010
	$'000	$'000
Shares, at cost [see note 1(b)]	222,566	222,566
Current accounts	84,061	91,333
	306,627	313,899

16. INTEREST IN ASSOCIATE

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

17. INTANGIBLE ASSETS

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Goodwill arising on consolidation	7,940	7,940	-	-
Computer software (a)	96,489	67,673	90,947	60,564
	104,429	75,613	90,947	60,564

(a) Computer software:

	Group			Society		
	Computer software	Improvements in progress	Total	Computer software	Improvements in progress	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Cost:						
December 31, 2009	232,336	114	232,450	193,517	114	193,631
Disposal of VMIC	(16,772)	-	(16,772)	-	-	-
Additions	2,034	26,982	29,016	1,350	26,982	28,332
Transfer to computer software	31,977	(31,977)	-	31,977	(31,977)	-
Transfer from property plant and equipment	-	4,881	4,881	-	4,881	4,881
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
Depreciation:						
December 31, 2009	164,216	-	164,216	137,368	-	137,368
Disposal of VMIC	(15,761)	-	(15,761)	-	-	-
Charge for year	33,447	-	33,447	28,912	-	28,912
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
Carrying value						
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
December 31, 2009	68,120	114	68,234	56,149	116	56,265

18. INVESTMENT PROPERTIES

	Group $'000	Society $'000
Cost:		
December 31, 2009 and 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
Depreciation:		
December 31, 2009	43,692	43,692
Charge for the year	5,755	5,755
December 31, 2010	49,447	49,447
Charge for the year	5,943	7,922
December 31, 2011	55,390	57,369
Net book values:		
December 31, 2011	561,667	678,987
December 31, 2010	225,521	342,841
December 31, 2009	231,276	348,596

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	
	2011 $'000	2010 $'000
Properties acquired by way of foreclosure	598,894	598,894
Other	1,537,000	1,439,500
	2,135,894	2,038,394

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, 2009	263,102	949,003	13,494	15,259	1,240,858
Translation adjustment*	(5,735)	(3,512)	-	-	(9,247)
Transfer from improvements in progress	204	61,065	-	(61,269)	-
Transfer to intangible assets	-	-	-	(4,881)	(4,881)
Disposal of VMIC assets	(9,760)	(13,032)	(106)	-	(22,898)
Revaluation adjustment	661	-	-	-	661
Additions	-	6,367	2,172	70,052	78,591
Disposals	-	(1,394)	(1,947)	-	(3,341)
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
Depreciation					
December 31, 2009	75,321	691,388	10,558	-	777,267
Disposal of VMIC	(10,608)	(9,991)	(35)	-	(20,634)
Translation adjustment *	-	(3,246)	-	-	(3,246)
Transfer of accumulated depreciation arising from revaluation	(1,908)	-	-	-	(1,908)
Charge for year	7,321	59,080	1,496	-	67,897
Eliminated on disposals	-	(1,265)	(1,947)	-	(3,212)
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
Net book values:					
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
December 31, 2009	187,781	257,615	2,936	15,259	463,591

* The translation adjustment arises from translation of the opening balances of the fixed assets of a foreign subsidiary at exchange rates prevailing at December 31, 2010 which differed from those prevailing at the end of the previous year.

The Group's freehold land and buildings include land at cost of $28,482,363 (2010: $28,482,363).

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, 2009	212,743	849,485	13,273	15,259	1,090,760
Additions	-	3,001	2,172	70,052	75,225
Transfers	204	61,065	-	(61,269)	-
Transfer to intangible assets	-	-	-	(4,881)	(4,881)
Disposals	-	-	(1,947)	-	(1,947)
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
Depreciation:					
December 31, 2009	51,111	607,499	10,488	-	669,098
Charge for year	4,724	54,636	1,462	-	60,822
Disposals	-	-	(1,947)	-	(1,947)
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
Net book values:					
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
December 31, 2009	161,632	241,986	2,785	15,259	421,662

The Society's freehold land and buildings include land at a cost of $23,807,012 (2010: $23,807,012).

20. SHAREHOLDERS' SAVINGS

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
General investment (“B”) shares	1,428,794	1,778,756	1,428,794	1,778,756
Paid up investment (“C”) shares	49,198,164	46,211,755	49,655,550	46,519,553
	50,626,958	47,990,511	51,084,344	48,298,309
Deferred shares [notes 27(i) and 28]	1,479,145	199,827	1,479,145	199,827
	52,106,103	48,190,338	52,563,489	48,498,136

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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
On demand to 3 months	36,648,590	36,868,222	36,960,055	37,027,742
Three to 12 months	5,231,701	3,455,117	5,231,701	3,455,117
Over 12 months	10,225,812	7,866,999	10,371,733	8,015,277
	52,106,103	48,190,338	52,563,489	48,498,136

21. DEPOSITORS' SAVINGS

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Due to depositors	770,696	657,450	770,696	657,450
Percentage of the Society's mortgage loan balances (section 27(B) Building Society's Act)	2.90%	2.30%	2.90%	2.30%

22. OTHER LIABILITIES

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Clients funds	33,978	34,306	-	-
Deposits – private treaty sales	77,642	47,384	77,642	47,384
Accrued expenses and other payables	409,668	171,156	374,496	339,312
	521,288	252,846	452,138	386,696

23. REPURCHASE AGREEMENTS

The Group sells Government and corporate securities and agrees to repurchase them on a specified date and at a specified price (repurchase agreements). On receiving payment from the purchaser, the underlying securities are sometimes delivered to the purchaser, although title is not formally transferred unless the securities are not repurchased on the date specified or other conditions are not honoured.

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Denominated in Jamaica dollars	4,924,358	2,276,341	-	-
Denominated in United States dollars	3,934,497	3,779,406	-	-
	8,858,855	6,055,747	-	-

At December 31, 2011, 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 $10,538,962,000 (2010: $8,228,730,457) for the Group.

24. INSURANCE UNDERWRITING PROVISIONS

	Group	
	2011	2010
	$'000	$'000
Outstanding claims	495	586

25. LOANS PAYABLE

	Group and Society	
	2011	2010
	$'000	$'000
United States dollar loan [see (a) below]	431,840	428,005
Interest payable	3,473	3,909
	435,313	431,914

(a) This represents a US$5 million loan, which bears interest at 1.865% per annum. The loan will mature July 31, 2012. The loan is secured by call deposits amounting to £4,764,920 (2010: £4,758,657) (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	
	2011	2010
	$'000	$'000
Permanent capital fund (note 26)	4,523,824	3,940,285
Reserve fund [note 27(i)]	533,919	469,081
Retained earnings reserve [note 27(ii)]	504,268	504,268
Deferred shares (note 20)	1,479,145	199,827
Total capital base [note 6(b)]	7,041,156	5,113,461

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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Held-to-maturity securities:				
Securities denominated in United States dollars:				
Bonds	449,153	529,186	-	-
Securities denominated in Jamaica dollars:				
Debentures	-	1,000	-	-
	449,153	530,186	-	-
Available-for-sale securities:				
Securities denominated in United States dollars:				
Bonds	2,207,277	1,947,402	1,346,347	891,304
Securities denominated in Jamaica dollars:				
Bonds	8,594,565	3,125,496	8,594,565	3,125,496
Debentures	-	-	-	1,219,399
Certificates of deposit	6,410,368	5,511,901	-	-
	15,004,933	8,637,397	8,594,565	4,344,895
	17,212,210	10,584,799	9,940,912	5,236,199
Loans and receivables:				
Securities denominated in United States dollars:				
Bonds	4,005,714	1,693,885	2,712,106	-
Securities denominated in Jamaica dollars:				
Bonds	-	1,517,988	-	1,517,988
Certificates of deposit	1,084,029	498,712	1,084,029	-
	1,084,029	2,016,700	1,084,029	1,517,988
	5,089,743	3,710,585	3,796,135	1,517,988
	22,751,106	14,825,570	13,737,047	6,754,187

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

(ii) Investments – Other

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Loans and receivables:				
Bank deposits	67,405	972	-	1,410
Bonds	1,333,494	-	1,333,494	-
Available-for-sale:				
Bonds	164,334	10,059	164,334	10,059
Ordinary shares - quoted	100,989	55,026	82,315	55,026
Ordinary shares - unquoted	39	39	39	39
Units in unit trusts	7,945	6,993	7,945	6,993
	1,674,206	73,089	1,588,127	73,527

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, 2011				
Available-for-sale financial assets	90,261	18,710,612	-	18,800,873
December 31, 2010				
Available-for-sale financial assets	62,019	10,594,858	-	10,656,877

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, 2011				
Available-for-sale financial assets	90,261	11,439,314	-	11,529,575
December 31, 2010				
Available-for-sale financial assets	62,019	4,028,118	-	4,090,137

30. NET INTEREST INCOME

	Group		Society	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Interest income				
Investment securities	2,146,496	1,924,403	1,449,671	1,238,593
Loans to customers	3,008,581	3,462,481	3,010,773	3,464,603
	5,155,077	5,386,884	4,460,444	4,703,196
Interest expense				
Interest on borrowings	3,802	5,890	8,857	10,803
To shareholders	1,919,973	2,400,988	1,530,297	1,969,781
To depositors	32,745	11,242	32,745	11,242
Other	-	13,739	-	13,739
	1,956,520	2,431,859	1,571,899	2,005,565
Net interest income	3,198,557	2,955,025	2,888,545	2,697,631

31. NET FEE AND COMMISSION INCOME

	Group		Society	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Fee and commission income				
Reinsurance	-	52,473	-	-
Customers	114,864	67,454	41,018	41,258
Associated company	69,742	-	69,742	-
Other	10,771	15,719	10,771	15,719
	195,377	135,646	121,531	56,977

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

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Fee and commission expenses				
Reinsurance	-	64,590	-	-
Other	17,717	22,842	17,717	22,842
Inter-bank transaction fees	30,043	22,725	30,043	22,725
	47,760	110,157	47,760	45,567
Net fee and commission income	147,617	25,489	73,771	11,410

32. OTHER OPERATING REVENUE

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Insurance premiums	95	113,592	-	-
Other income	171,081	205,333	89,380	108,498
Trading gains	120,667	121,701	120,667	121,701
Maintenance income – investment properties	-	1,751	-	1,751
Fines for late payments	84,283	85,898	84,283	85,898
Unrealised foreign exchange difference	39,905	14,408	29,218	14,408
Rent	30,150	33,935	32,669	36,776
Dividends	25,862	173,968	25,862	95,377
Gain on sale of investments	108,070	56,418	108,070	56,418
Gain on disposal of property, plant and equipment	490	628	490	628
	580,603	807,632	490,639	521,455

33. PERSONNEL COSTS

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Salaries	950,373	855,580	763,682	681,029
Statutory payroll contributions	108,960	90,649	91,943	78,224
Reduction in liability for deferred benefit plan	(48,100)	(341,500)	(48,100)	(341,500)
Other	436,500	254,913	417,575	236,340
	1,447,733	859,642	1,225,100	654,093

34. OTHER OPERATING EXPENSES

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Direct operating expenses for investment property that generated rental income	1,686	-	1,686	-
Administration	212,635	187,328	227,507	241,950
Marketing	153,539	144,553	140,509	131,120
Postage	40,624	38,113	37,526	34,913
Courier	32,544	28,364	30,257	26,248
Travelling	38,866	27,990	38,043	27,411
Maintenance – buildings, furniture and fixtures	194,075	145,641	181,125	130,814
Computer maintenance	56,138	55,422	56,138	55,422
Consultancy and other professional fees	32,726	45,787	28,139	41,755
Service contracts	22,654	19,356	22,654	19,356
Janitorial expenses	8,450	7,346	8,450	7,346
Overseas business development	190,695	178,277	190,695	178,277
Telephone	30,861	29,382	39,764	39,560
Insurance	85,082	87,597	105,285	89,717
Utilities	38,787	34,565	36,701	30,525
Stationery	26,912	28,626	23,371	24,834
Security	23,743	23,502	22,916	22,004
Audit fees	31,404	33,832	19,264	18,230
Directors' fees [note 37(d)]	17,013	15,961	8,225	6,133
Specific provision for loan losses	70,970	250,092	70,970	250,092
Impairment – quoted shares	-	39	-	39
	1,300,954	1,374,427	1,280,775	1,368,400

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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
(i) Current tax expense:				
Current tax at 30%	184,109	142,271	184,109	142,271
Current tax at 25% and 33⅓%				
- current year	69,048	114,869	-	-
- prior years	4,559	(282)	4,179	-
	257,716	256,858	188,288	142,271
(ii) Deferred tax expense:				
Origination and reversal of temporary differences [notes 13(a) and (b)]	18,355	62,854	27,525	89,810
Actual tax expense recognised	276,071	319,712	215,813	232,081

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 $38,839,000 (2010: $40,738,000).

(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% (2010: 13.47%) for the Group and 24.0% (2010: 14.17%) for the Society. The actual income tax expense differs from the expected income tax expense for the year, as follows:

	Group		Society	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Surplus before income tax	1,188,953	2,372,725	918,810	1,637,092
Computed "expected" income tax using statutory tax rates	356,685	711,817	275,643	491,128
Tax effect of treating the following items differently for income tax than for financial statement purposes:				
Depreciation charge and capital allowances	(30,370)	(27,584)	7,468	(28,646)
Disallowed expenses	69	(1,852)		-
Unrealised exchange gain	(8,851)	(5,983)	(8,765)	(4,322)
Other	(46,021)	(356,404)	(62,712)	(226,079)
	271,512	319,994	211,634	232,081
Adjustment for prior year underprovision	4,559	(282)	4,179	-
Actual tax expense recognised	276,071	319,712	215,813	232,081

36. SURPLUS FOR THE YEAR

	Group	
	2011 $'000	2010 $'000
Dealt with in the financial statements of:		
The Society	702,997	1,405,012
Subsidiaries	209,885	648,001
	912,882	2,053,013

37. RELATED PARTY TRANSACTIONS

(a) Identity of related parties:

The Society has a related party relationship with its subsidiaries, with its directors, senior officers and executives, 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:

	2011 $'000	2010 $'000
Subsidiaries:		
Resale agreements	1,291,089	1,823,410
Shareholders' savings	(474,936)	(317,065)
Net lease payable	13,421	15,951
Key management personnel:		
Mortgage loans	44,744	45,292
Other loans	7,832	8,490
Shareholders' savings	(32,279)	(14,044)
Non-executive directors - mortgage loans	37,023	25,094

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 and 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:

	2011 $'000	2010 $'000
Directors:		
Interest from loans	3,970	2,333
Key management personnel:		
Interest from loans	6,010	6,940
Interest expense	(873)	(1,165)
Subsidiaries:		
Interest and dividends from investments	193,824	99,367
Interest on loans	8,019	8,012
Other operating revenue	3,832	21,848
Interest expense	(15,417)	(17,735)
Other operating expenses	(195,234)	(211,013)

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	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Short-term employee benefits	112,859	113,100	76,957	92,896
Post employment benefits	504	557	504	557
	113,363	113,657	77,461	93,453

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 date of the statement of financial position expire as follows:

	Group		Society	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Within one year after that date	19,933	15,862	17,035	14,772
Subsequent years	19,048	12,415	14,898	6,529

(b) Commitments for capital expenditure for the Group and the Society amount to approximately $34,000,000 (2010: $11,362,000) 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 (2010: buying) for balances denominated in foreign currencies [see policy 4(s)]; the rates are as follows:

	2011 J$	2010 J$
United States Dollar	86.37	85.60
Canadian Dollar	83.60	84.34
Pound Sterling	133.85	132.27

Out & About

Throughout the year, the Victoria Mutual Group interacted with Jamaicans at home and in the Diaspora where they live, work, study and play.

The organisation celebrated excellence, by lending support to activities involving culinary arts, culture, sports and fashion. The Society has also fostered a strong partnership with the University of Technology (UTECH), providing convenient services for students and faculty through the campus branch and lending support to many of their events, including the highly accomplished athletics progamme.

As part of its 133rd Anniversary celebrations, Victoria Mutual connected with a number of its Members and affiliates, hosting them at Thanksgiving Services and a President's Cocktail Reception. There is much to celebrate after 133 years of advancing the welfare of Jamaicans.


"UTech's Road to Olympic Glory"
PRESERVING AND LEADING
JAMAICA'S LEGACY IN SPORTS
VICTORIA MUTUAL
No. VMMK001
UNIVERSITY OF TECHNOLOGY
OCTOBER 6, 2011
$10,000,000.00


VICTORIA MUTUAL
1-877-770-8627 (FL)
1-866-967-8627 (JA)
www.vmbs.com
manager@vmbs.com

VICTORIA MUTUAL

2012 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

MANAGERS OF SUBSIDIARIES

- 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

EXTERNAL AUDITORS

- Patrick Chin, F.C.A.
- Linroy Marshall, F.C.A.
- Chartered Accountants, KPMG

MEMBERS OF ADVISORY COUNCIL- CENTRAL REGION

- 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.

REGIONAL MANAGERS

Cecile McCormack
Regional Business Development Manager, Eastern

Conroy Rose
Regional Business Development Manager, Northern

Delia Burke
Regional Business Development Manager, South Eastern

Rudyard Simons
Regional Business Development Manager, South Western

LOCAL BRANCHES

Chief Office: Leighton Smith
Branch Manager
8-10 Duke Street, Kingston
Telephone: (876) 922-8627
(876) 922- 9410
Fax: (876) 922-6602

Falmouth: Faithline Campbell
Operations Officer
16 Market Street, Falmouth, Trelawny
Telephone: (876) 954-3207, 954-3538
(876) 954-4040
Fax: (876) 954-3728

Half-Way-Tree: Fay Lowe
Branch Manager
73-75 Half Way Tree Road., Kingston 10
Telephone: (876) 754-VMBS (8627)
Fax: (876) 926-4604

Liguanea: Marvia Evangelist
Operations Manager
115 Old Hope Road,
Kingston 6
Telephone: (876) 927-7228, 927-7294
Fax: (876) 927-7319

Linstead: Jacqueline Johnson
Operations Officer
110 King Street, Linstead, St. Catherine
Telephone: (876) 985-2177, 985-7444
Fax: (876) 985-2173

Mandeville: Maurice Clarke
Operations Manager
Manchester Shopping Centre Shop #3,
Mandeville, Manchester
Telephone: (876) 962-1030-3
Fax: (876) 962-1088

May Pen: Ruth McLean-Oliver
Operations Manager
40 Main Street, May Pen, Clarendon
Telephone: (876) 986-2245, 986-2250
Fax: (876) 986-2119

Montego Bay: Suzette Ramdanie-Linton
Branch Manager
7 Market Street, Montego Bay, St. James
Telephone: (876) 952-3772-6
(876) 952-5573-4
Fax: (876) 952-7515

New Kingston: Phillip Jarrett
Operations Manager
53 Knutsford Boulevard, Kingston 5
Telephone: (876) 929-5406, 929-5421
Fax: (876) 929-5489

Ocho Rios: Charmaine McConnell-Taylor
Operations Manager
7 Newlin Street, Ocho Rios, St. Ann
Telephone: (876) 974-5412, 974-5935
Fax: (876) 974-7862

Papine: Audria Rannie
Operations Officer
University of Technology (UTECH)
237 Old Hope Road, Kingston 6
Telephone: (876) 970-1166, 927- 0792
Fax: (876) 702- 4638

Portmore: Lesa Robinson
Branch Manager
Lot 1, Sea Grape Close, Portmore,
St. Catherine
Tel: 939-7955/72; Fax: (876) 939-7946

Santa Cruz: Joy Rhoden
Operations Officer
56 Main Street, Santa Cruz, St. Elizabeth
Telephone: (876) 966-9948, 966-9957-8
Fax: (876) 966-9952

Savanna-la-Mar: Vernon Largie
Operations Officer
123 Great George Street, Savanna-la-mar,
Westmoreland
Telephone: (876) 955-4940-1
(876) 955-4964-6
Fax: (876) 955-4924

Spanish Town: Joy Bunting-Pusey
Operations Manager
22 Oxford Road, Spanish Town,
St. Catherine
Telephone: (876) 984-2629, 984-2633
Fax: (876) 924-2634

Customer Relationship Unit:
Marion Lewis
Manager
8-10 Duke Street, Kingston
Telephone: (876) 922-VMBS (8627)
Fax: (876) 967-2409
Toll Free: (From USA) 1-800-255-5922

Treasury Department: Andrena McMayo
Senior Assistant Manager
73-75 Half Way Tree Road, Kingston 10
Telephone: (876) 754-8627
Fax: (876) 929 -5654

OVERSEAS OFFICES

UNITED KINGDOM

Marcia Fletcher
Chief Representative

VMBS Overseas (UK) Ltd.
380 Brixton Road
London SW9 7AW
Telephone: (207) 738-6799

BRANCH OFFICES

Main Office: Brixton
380 Brixton Road
London SW9 7AW
Telephone: (207) 738-6799

London
520 High Road
Tottenham, London N17 9SX
Telephone: (208) 801-6777

Birmingham
174 Dudley Road
Edgbaston,
Birmingham B18 7QX
Telephone: (0121) 454-2020

Manchester
559 Barlow Moor Road
Chorlton, Manchester M21 8AN
Telephone: (0161) 881-9222

FIELD REPRESENTATIVES

London - Mr. Carlton Troutt
Tel: (0181) 961-2578

Leeds - Mrs. Elizabeth Johnson
Telephone: (0113) 239-2414

UNITED STATES OF AMERICA

Suzette Rochester
Manager
The Victoria Mutual Building Society

Florida Representative Office
County Square Shopping Center
21461 NW 2nd Avenue
Miami Gardens, FL 33169
Telephone: 305-770-2622 / 2643 / 2654
Toll-Free: 1-877-770-VMBS (8627)
Fax: 305-770-2656

CANADA

Denise Sinclair
Chief Representative Officer
VMBS Canadian Representative Office
3117A Dufferin Street, Toronto, Ontario
M6A 2S9
Telephone: (416) 652-8652
Toll Free Number: 1-800-465-6500

TELECARE CENTRE

FROM JAMAICA
1-876-754-VMBS (8627)
1-888-YES-VMBS (937-8627)

TOLL FREE FROM USA AND CANADA
1-866-967-VMBS (8627)

FREE PHONE FROM THE UK
0-800-068-VMBS (8627)

Monday-Friday: 7:00 a.m. - 8:00 p.m.
Saturday: 10:00 a.m. - 6:00 p.m.
Sunday: 10:00 a.m. - 3:00 p.m.

Email: manager@vmbs.com
Website: www.vmbs.com