The VICTORIA MUTUAL Building Society

The Victoria Mutual Building Society | Annual Report 2010

ANNUAL REPORT 2010

Building a Better Society

The VICTORIA MUTUAL Building Society

Vision Statement

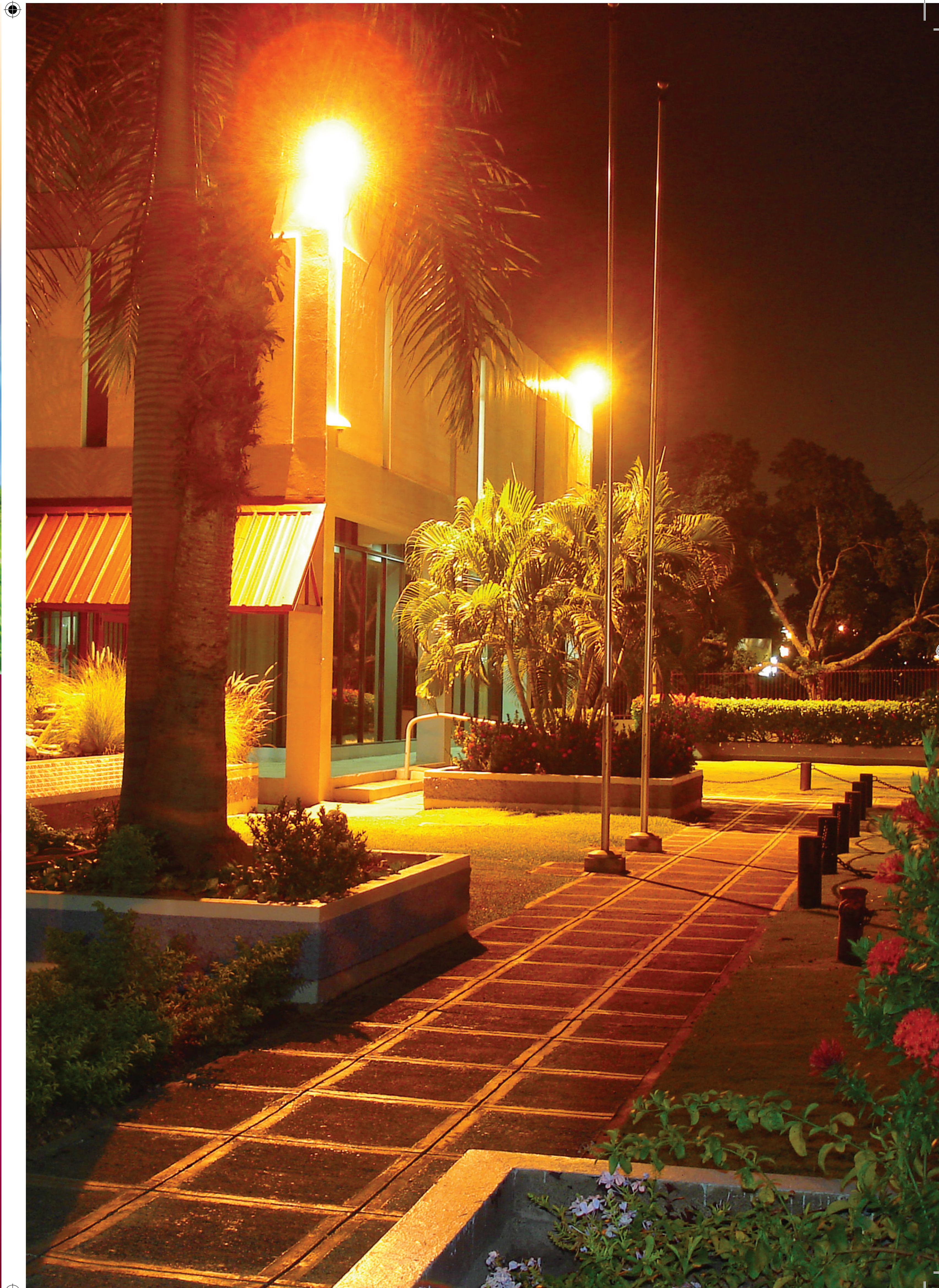
To be the leading provider of financial services

Mission Statement

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

Core Values

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



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The Victoria Mutual Building Society

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Free Phone: 0-800-068-8627 (UK) • **Email:** manager@vmbs.com • **Website:** www.vmbs.com

The Victoria Mutual Building Society

Notice of Annual General Meeting

NOTICE is hereby given that the One Hundred and Thirty-Second Annual General Meeting of The Victoria Mutual Building Society will be held in the Grand Caribbean Suite at the Knutsford Court Hotel, 11 Ruthven Road, Kingston 10 on Thursday, July 28, 2011 at 3:00 p.m. for the following purposes:-

1. To receive the Audited Group Accounts for the year ended 31 December 2010 and the Reports of the Directors and Auditors
2. To elect Directors
3. To review the fees of Directors
4. To appoint Auditors and authorize the Directors to fix the remuneration of the Auditors
5. To transact any other business permissible by the rules at an Annual General Meeting

By Order of the Board
26th day of May 2011

Keri-Gaye Brown
Secretary

8 -10 Duke Street
Kingston,
Jamaica, W.I.

Directors' Report

The Directors take pleasure in presenting the One Hundred and Thirty-Second Annual Report and Statements of Revenue and Expenditure of the Group and the Society, for the year ended 31 December 2010, together with Balance Sheets of the Group and the Society, as at that date.

Surplus

The Group Revenue and Expenditure Account shows Gross Revenue of $6.399 billion (2009: $7.88 billion) and Net Surplus of $2.053 million (2009: $576.01 million).

Directors

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

Mr. Roy Hutchinson, Chairman
Mr. Michael McMorris, Deputy Chairman
Rear Admiral Peter Brady
Mr. Noel daCosta
Mr. Fernando dePeralto
Mr. George Dougall
Mr. Paul Pennicook
Mr. Richard K. Powell
Mr. Richard M. Powell
Dr. Judith Robinson
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. Roy Hutchinson and Maurice Robinson will retire by rotation and being eligible, will offer themselves for re-election.

In accordance with Rule Number 62 of the Society's Rules, Miss Sandra Shirley and Mr. Matthew Wright having been appointed to the Board since the last Annual General Meeting, will retire from office and being eligible, offer themselves for election.

Auditors

Messrs. Patrick Chin and Linroy Marshall, Auditors of the Society, retire and in accordance with the Rules, 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
26 May 2011

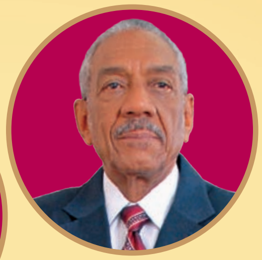
Keri-Gaye Brown
Secretary

8 -10 Duke Street, Kingston
Jamaica, West Indies

Board of Directors

MICHAEL MCMORRIS
Chairman














(First Row) left to right:

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

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

ROY N. HUTCHINSON
O.D., J.P.

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

NOEL DACOSTA
MA.Sc. M.B.A., B.Sc., ACII

(Second Row) left to right:

PAUL PENNICOOK
B.Sc.

MAURICE ROBINSON
B.A.

MATTHEW WRIGHT
M. PHIL., M.A., B.A.

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

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

(Third Row) left to right:

PETER BRADY
Rear Admiral,
CD., CVO., MMM., J.P.

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

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

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

Senior Management Team

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

(Top Row) left to right:

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

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

(Second Row) left to right:

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

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

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

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

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

(Third Row) left to right:

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

DENSEY DAVIS-LUMSDEN
PMP, M.Sc., B.Sc.
Head, Programme Management Office

Group Executives

(Top Row) left to right:

RICHARD K. POWELL
M.B.A., 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

(Middle Row) left to right:

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

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

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

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

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

(Bottom Row) left to right:

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

DENSEY DAVIS-LUMSDEN
PMP, M.Sc., B.Sc.
Head, Programme Management
Office

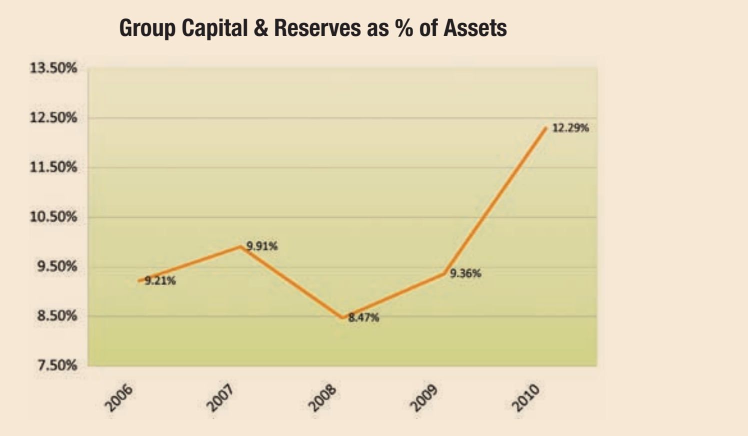
DEVON BARRETT
M.B.A., B.Sc
General Manager,
Victoria Mutual Wealth
Management

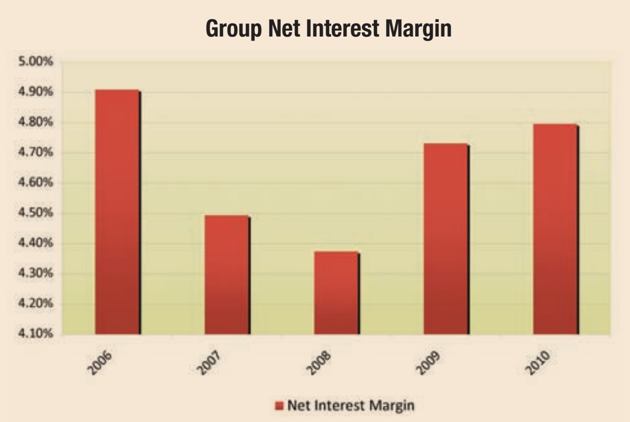
JOAN LATTY
B.Sc (Hons.) Dip. Mgmt. Studies
Actg. General Manager,
Victoria Mutual
Property Services

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

Financial Highlights

GROUP	2010	2009	2008	2007	2006
Balance Sheet ($'000)					
Earning Assets	61,597,762	61,632,495	56,787,538	50,040,308	44,797,807
Loans	29,452,959	30,739,802	28,766,351	20,541,520	14,336,010
Total Assets	64,168,790	63,293,787	58,397,431	51,604,597	46,213,878
Savings Fund	48,841,396	47,377,682	41,886,467	37,799,335	33,694,348
Capital and Reserves	7,888,237	5,923,837	4,944,991	5,111,753	4,257,146
Income Statement ($'000)					
Net Interest Income	2,955,025	2,801,347	2,336,159	2,130,852	2,096,719
Operating Revenue	3,857,978	4,128,103	3,830,774	3,418,587	3,069,569
Administration Expenses	2,303,901	3,187,305	2,810,400	2,509,802	2,327,416
Surplus before income tax	2,372,725	830,333	916,207	819,680	657,419
Surplus	2,053,013	576,006	743,773	651,442	543,854
Ratios					
Return on Capital	34.36%	15.28%	18.22%	17.50%	16.66%
Return on Assets	3.72%	1.36%	1.67%	1.68%	1.49%
Net Interest Margin	4.80%	4.73%	4.37%	4.49%	4.91%
Efficiency Ratio	3.62%	5.24%	5.11%	5.13%	5.28%
Capital & Reserves as a Percentage of Assets	12.29%	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 / 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

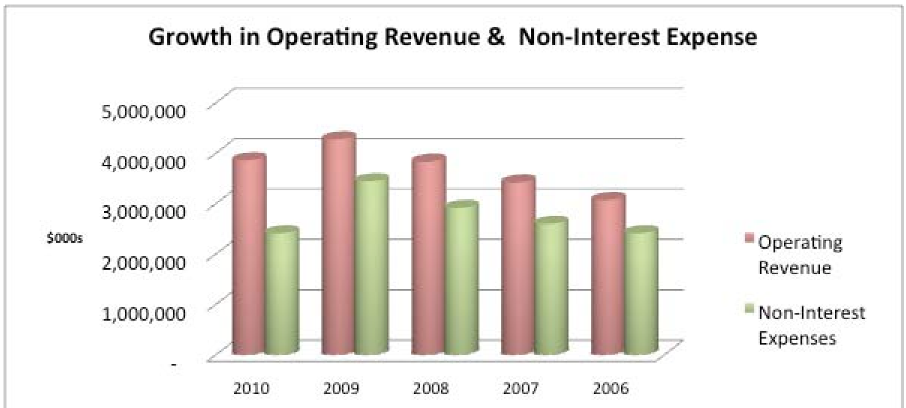
The Victoria Mutual Building Society has been committed to the provision of exceptional financial services to its Members at home and overseas for over 130 years. With an asset base in excess of $64 billion, the Group provides a wide range of financial services that include savings, mortgages, securities trading and brokerage, asset management, money transfer, real estate services. These services are delivered and supported by over 600 employees, through the Society's 15 branches, subsidiaries and representative offices in the United Kingdom, Canada and the United States. In addition, the Society provides access for its Members and customers to general insurance products and services as well as pension fund management and administration through affiliated companies.

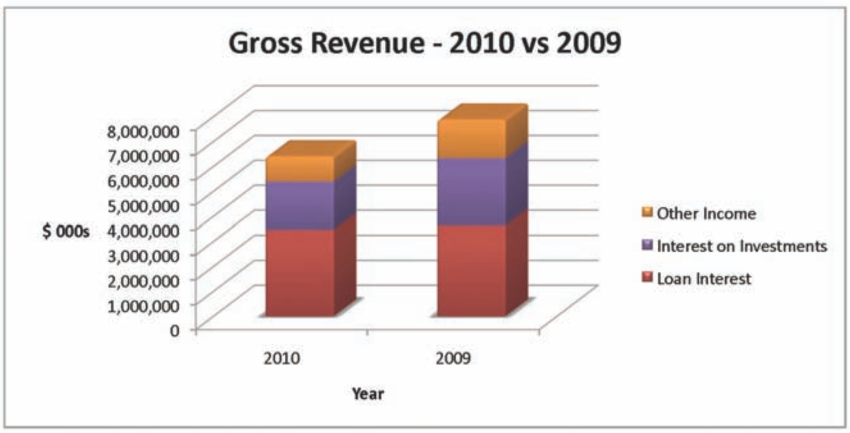
GROUP SUMMARY OF RESULTS ($'000's)	2010	2009	2008	2007	2006
Net Interest Income	2,955,025	2,801,347	2,336,159	2,130,852	2,096,719
Other Operating Revenue	902,953	1,472,453	1,494,615	1,287,735	972,850
Total Operating Revenue	3,857,978	4,273,800	3,830,774	3,418,587	3,069,569
Non-Interest Expenses	2,411,000	3,443,467	2,914,567	819,680	2,412,150
Operating Surplus	1,446,978	830,333	916,207		657,419
Gain on Sale of Subsidiary	925,601				
Share of Profit of Associate	146				
Surplus before Income Tax	2,372,725	830,333	916,207	819,680	657,419

The Group recorded an Operating Surplus of $1.45 billion for 2010, which was an increase of $617 million or 75% over that reported for 2009. The merger between Victoria Mutual Insurance Company (VMIC) and British Caribbean Insurance Company (BCIC) in May 2010 resulted in a gain of $925 million to the Group, of which $401 million relates to accumulated reserves since inception. The Society now has a 31.5% interest in BCIC and the share of profit for the seven month period (June to December 2010) was $0.146 million.

Operating Revenue, which includes Net Interest Income and other Operating Revenue, amounted to $3.857 billion, reflecting a decline of $415 million from the 2009 results. This reduction was primarily as a result of a reduction in insurance premiums of $650 million below the 2009 results, offset by an increase in dividend income of $150 million over the prior year.

The Group incurred non-interest expenses of $2.41 billion, down from $3.44 billion in the 2009. This reduction was primarily as a result of a decline in underwriting expenses of $750 million from the insurance arm of the business; as well as one-off adjustments for the change in long term staff obligations of $342 million. While salaries remained unchanged year over year, our actuarial assessment of pension assets resulted in a reduction in personnel costs from $1.2 billion in 2009, to $860 million in 2010.

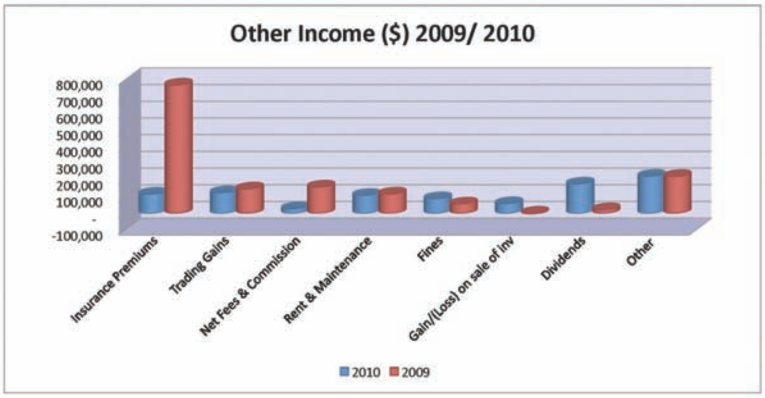


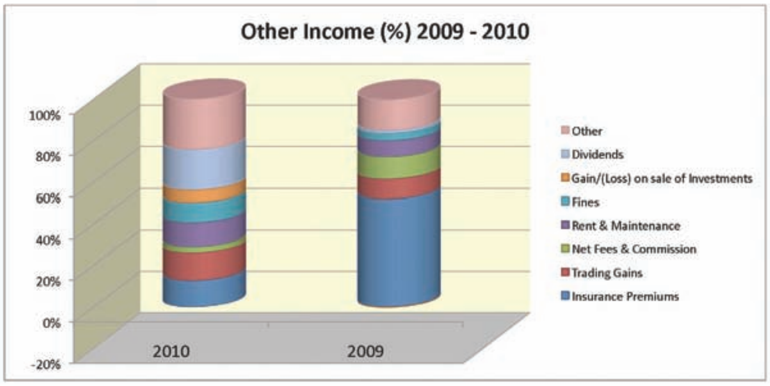


GROUP REVENUE

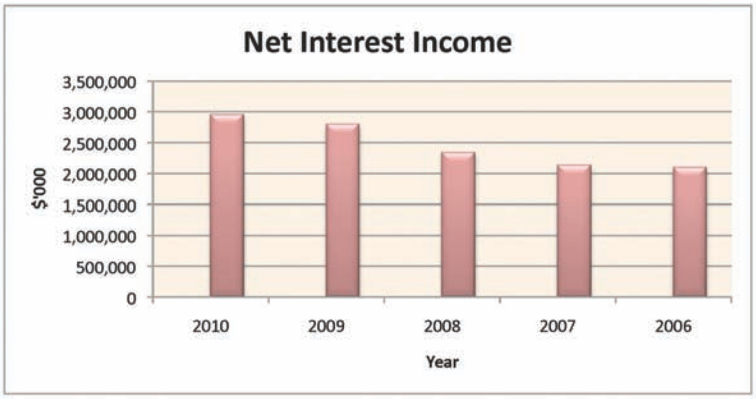
The Group's Total Revenue, defined as Interest Income from loans and investments and Other Operating Revenue, which totaled $6.399 billion for 2010, reflects a decrease of $1.479 billion or 19% when compared to that reported for the previous year. These results reflect the impact of the Group's participation in the Jamaica Debt Exchange (JDX) in February 2010. The Group had full participation for all eligible securities totaling J$4.95 billion and US$12.2 million.

GROWTH IN ASSETS





NET INTEREST INCOME



In 2010, the Group's Net Interest Income increased by 5%, to end the year at $2.95 billion. However, both interest income and expense declined. In the post JDX environment, the Group's revenues from loan interest as well as interest on investments fell by 5% and 29% respectively, when compared to the results for 2009. Interest expense was $2.43 billion, a reduction of $1.097 billion or 31% below that reported for 2009.

GROWTH IN ASSETS

The Group's assets totaled $64.15 billion at December 31, 2010, reflecting an increase of $0.854 billion or 1.3% over 2009. Loans amounted to $29.4 billion in 2010, which when compared to $30.7 billion in 2009, reflects a reduction of $1.3 billion year-on-year. The disbursement for 2010 was $1.55 billion, lower than the $2.84 billion of loan repayments for the period. The Credit Facility Reserve, which represents the excess of the regulatory loan loss provisions to that of IAS 39 loan impairment, is $993.3 million as at December 31, 2010, an increase of $379.7 million or 61% over the 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 the $1.47 billion or 3% increase in the savings portfolio, which totaled $48.85 billion at December 31, 2010. 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 total Capital & Reserves grew from $5.92 billion to $7.89 billion in 2010. This was primarily as a result of a 25% increase in the capital base of the Society which moved from $4.098 billion in 2009 to $5.113 billion in 2010, as a result of 100% transfer of the current year's surplus. The Society has, for the foreseeable future, committed to transfer 100% of its earnings to Capital each year.

Chairman's Report

To Our Members:

The Victoria Mutual Building Society completed its 132nd year proudly responsible for over $49 billion in Member's funds. This represents a 3 % increase in Members savings entrusted to us over 2009. More importantly, it stands as testimony to our enduring presence in the lives of everyday Jamaicans as a financial group committed to the principles of mutuality in the service of our Members. Our relentless drive to return value to our savers/Members in Jamaica and in our diaspora markets of the USA, UK and Canada, was typified by savings rates that consistently ranked among the top three in the local market and has resulted in great stability to the savings portfolio despite harsh economic prescriptions nationally and internationally.

Michael McMorris
Chairman

Unfortunately, our homeowners were not immune to the effects of the economic conditions and despite regular decreases in mortgage rates throughout the year, your Society along with the rest of the financial sector experienced material increases in delinquency of loan payments. The Society's non-performing loans as a percentage of the total loan portfolio grew to a high of 9.17% of the total loan portfolio by the end of 2010. Thankfully, aggressive loan portfolio management by our Management Team which included counseling, active follow up of collections, restructuring and in chronic cases recommendation to foreclose have resulted in improvement in the default statistics for the last quarter of 2010 and the first half of 2011. For mortgagors overall, the Society was able to lower mortgage rates progressively during the year as the general level of interest rates declined in the local economy. Your Directors are keenly aware of the importance of this measure to our Members, especially as they continue to be adversely affected by the malaise in the local economy. In this regard, your Society has continued to offer residential loans at rates that are among the most attractive in the market and remains at the forefront of the industry in 2011 in proactively effecting reductions in lending rates for new and existing borrowers as deposit rates continue to trend downwards.

Nevertheless the Society is wary of the next few years as our economy tries to gather momentum in economic growth. With this in mind the Board and Management remain committed to building the capital and reserves of the Society as a safety net for the unforeseeable and expect to transfer 100 % of any surplus generated over the next few years until conditions change.

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

Corporate Governance

The Victoria Mutual Group is fully committed to the principles and practices of good corporate governance. Your Board of Directors constantly strives to enhance the governance framework under which the Society and its Subsidiaries operate. The objective is the establishment and maintenance of a robust governance framework to underpin the execution of the business strategy and operations as well as to provide the basis for ensuring strict compliance with all applicable laws and regulations.

The Victoria Mutual Corporate Governance Framework provides effective strategic guidance of the Group and supports mechanisms for the balanced conduct of the business of the enterprise consistent with the highest ethical standards. In addition, it provides appropriate monitoring arrangements to ensure statutory compliance.

The Corporate Governance Framework that has been adopted requires several Boards and Board Committees to provide direction and oversight for the conduct of business in all of the Group's Strategic Business Units. These Committees provide oversight for each Business Unit as appropriate, in the areas of Audit and Compliance, Finance, Investment and Loans, Risk Management and Corporate Governance, Nominations and Compensation. In addition to the conduct of regular Board meetings for each Business Unit, the Board Committees are required to hold meetings with the respective management teams at least four times each year and provide, at a minimum, quarterly reports to their Boards.

During the course of 2010 we welcomed to the Board of the Society Mr. Mathew Wright and Miss Sandra Shirley and we look forward to their contributions to the Society and the wider group in the years to come. Mr. Roy Hutchinson retired as Chairman of the Society's Board at the start of 2011 after many years of distinguished service in that capacity. Roy has graciously agreed to remain as a member of the Board and I am grateful for the invaluable assistance and support that he has provided in the transition. He has made and continues to make a sterling contribution to the progress of the Society.

FINANCIAL HIGHLIGHTS

Group

The Victoria Mutual Group directly provides a wide range of financial services including savings, mortgage loans, asset management, securities trading and brokerage, money transfer as well as a full range of real estate services. These services are offered through a combination of the Building Society and a number of wholly and majority owned subsidiaries. In addition, the Group is able to make available to its customers property and motor insurance as well as pension fund management and administration services, provided by affiliated and associated companies.

For 2010 the Group's after tax surplus improved dramatically year over year from $576 million to $2,053.0 million, an increase of 256.4%. The Group's Capital and Reserves secured a 33% increase to an all time high of $7,888 million, thereby significantly consolidating the financial strength and stability of the institution. Total Assets of the Group increased by 1.4% from $63,293 million to $64,147 million.

While the entire group performed creditably, these dramatic results were heavily influenced by the impact of the merger between the Victoria Mutual Insurance Company (VMIC) and the British Caribbean Insurance Company (BCIC), which was successfully completed during the year. The merger met our objective of strengthening our capital and lowering our risk in the insurance industry. This merger resulted in a gain of $925 million to the Group. Of that sum, accumulated reserves since the formation of VMIC amounted to $401 million.

The other factor that contributed in a significant way to the improvement in the reported surplus was a favourable non-cash adjustment of $342 million representing the change in the valuation by our Actuary of the Group's net pension fund assets in respect of long term staff obligations .

The Society

The surplus recorded by the Victoria Mutual Building Society was also favourably impacted by the adjustment noted in respect of the Group's surplus. The Society's after tax surplus increased year over year by 451.7% from $255 million to $1,405 million. In the case of the Society, the reported surplus included a gain from the VMIC/BCIC transaction of $525 million as well as a credit adjustment of $342 million in relation to the long term staff pension obligations. The Society's Net Interest Income increased by 11.6% and Net Fee and Commission Income remained virtually unchanged. However, Other Operating Revenue increased by 48.3% from $398.8 million to $591 million. This large increase was driven by an increase in dividends received of $65 million and an increase in gains on the sale of investments amounting to $61 million. The Society is pleased to report that there was no significant change in the core operating expenses year over year.

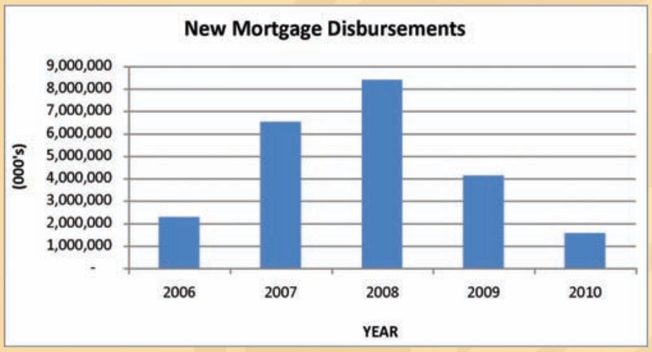
Savings

The Society recorded a modest increase of 3.1% in its Deposit Liabilities to end 2010 at $49,155 million. As reported last year, this aspect of the Society's business is subject to intense competition in the market place. The growth of the Society's business is critical to the future sustainability and therefore, this area of its operations will continue to receive close attention by the Directors and Management of the Society. We are confident that with attractive products such as our I-save account and closer contact between our staff team and savers/Members, underscored by programmes such as our one-less campaign, we will continue compete effectively and meet savers needs where it matters most.

	2008		2009		2010	
	GROUP	SOCIETY	GROUP	SOCIETY	GROUP	SOCIETY
Pre-tax Surplus ($M)	916.2	597.4	830.3	395.2	2,372.7	1,637.1
After-tax Surplus ($M)	743.8	509.8	576	254.7	2,053.0	1,405.0
Total Assets ($B)	58.4	48.7	63.3	53.6	64.2	56.7
Mortgage Loans ($B)	28.8	28.8	30.7	30.7	29.5	29.5
Deposit Liabilities ($B)	41.9	42.2	47.4	47.7	48.8	49.2
Net Interest Margin as % of Mean Assets	4.37	4.66	4.73	4.91	4.80	5.12
Operating Expenses as % of Mean Assets	5.11	4.29	5.24	4.28	3.62	3.79
Capital and Reserves as a % of Total Assets	8.47	8.47	9.36	8.57	12.29	10.79
Past Due Loans as a % of Total Loans	4.15	4.15	6.71	6.71	9.17	9.17

Mortgage Loans

As we anticipated, there continued to be a severe contraction in the effective market demand for mortgage loans of all classifications. This was directly attributable to the impact on household incomes generally of the continued decline in Jamaica's economic fortunes in 2010. With this economic landscape and our fiduciary responsibility to maintain conservative and prudent credit standards, the Society's mortgage loan advances slowed over the prior year to $1,600 million in new loans. In fact, principal repayments exceeded new advances and thus the Society's portfolio contracted by 3.9% to $29,500 million. As the management actively works with homeowners to navigate this economically sensitive period we are comfortable with the current size of the loan portfolio as we focus on preserving quality.



Portfolio Quality

The quality of the loan portfolio continued to experience some deterioration through the first three quarters of 2010 but was arrested by the last quarter of the year. Despite this momentum shift, the non-performing loan portfolio (loans greater than ninety days in arrears) grew from 6.71% as a percentage of the total loan portfolio at the start of the year to 9.17% at year end. We are pleased to report that the amelioration observed in the last quarter has continued and the quality of the loan portfolio has indeed improved over the first six months of 2011. This improvement is largely due to the special measures put in place by the management to administer the collection process in general as well as the non-performing loan portfolio in particular.

Efficiency

Your Directors and the Management continue to make special efforts to re-organize the Society's operations and transform its business processes, in order to improve the level of service delivery to our Members and customers as well as the efficiency of the operations. For the year in review, the efficiency as measured by Operational Expenses as a percentage of Mean Assets improved year over year from 4.56% to 4.13%. This improvement is noteworthy, however, continuous improvement in efficiency of the operations will continue to be an area of focus for management. In the last quarter of the 2010 plans were established to create an e-banking platform with an emphasis on user convenience and efficiency. We expect to roll out the first phase of this alternative customer channel by April 2012.

Subsidiary Companies and Affiliates

The main operating subsidiaries and affiliated companies of the Building Society play an important strategic role in complementing the offerings of the Building Society, with both financial and non-financial products and services. The financial results of the main operating subsidiaries are presented in the table below.

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

	2008	2009	2010
VM Wealth Management Ltd.	59.35	116.15	115.22
VM Property Services Ltd.	(1.36)	2.74	(2.85)
VM Money Transfer Services Ltd.	(12.25)	0.33	(4.46)
VM Insurance Company Ltd.	108.96	120.58	73.24*

** Results for five months ended May 31, 2010*

In 2010 Victoria Mutual Wealth Management Limited (VMWM) maintained essentially the same level of profitability that it had achieved in the previous year. However, very important steps were initiated to restructure the Company's Balance Sheet to limit its market risk exposures and to transform the Company's business model in light of the impact of the Jamaica Debt Exchange (JDX). The Company's operations will focus increasingly on asset management, advisory services as well as on brokerage and the trading of securities. VMWM's profit performance in 2010 was adversely affected by additional costs attendant to the restructuring and transformation measures. It is expected that similar extraordinary expenditures will be required over the next two years in order to complete the transition to the new business model. Your Directors expect that the growth and profitability of the Company will be significantly enhanced at the end of the process and that VMWM will produce excellent risk adjusted returns to your Society.

VMIC continued to perform creditably up to the end of May 2009 when it was transferred to BCIC as a wholly owned subsidiary of that Company. As a result of that transaction, the Society now holds an ownership position in BCIC of 31.5%. The merger of the two companies was successfully completed at year-end following the approval by the Minister of Finance and the Public Service of the Vesting Order that enabled the merger of the insurance portfolios of the two entities. The merged entity now trades as BCIC: An Affiliate of Victoria Mutual. Your Directors are pleased that the merger has been successfully concluded. The fact that the Victoria Mutual Group now enjoys a lower relative exposure to the risks inherent in the general insurance sector is comforting. Your Directors are also confident that the merged company will provide good risk-adjusted returns to the Society over the medium to long term.

After recording relatively small after-tax profits in 2009 both Victoria Mutual Property Services Limited and Victoria Mutual Money Transfer Services Limited (VMTS) sustained after-tax losses of $2.9 million and $4.5 million dollars respectively. The former continues to operate in a soft real estate market and has therefore experienced stagnation in its revenues over the last two years. VMTS failed to meet its revenue targets in 2010 largely as a result of less than advantageous foreign exchange rates. As we have asserted in the past, your Board of Directors is acutely aware that the products and services provided by these entities are very important to many of our Members, especially so in the case of those resident overseas.

Prime Asset Management Limited (PAM) an associate of the VM Group has continued to distinguish itself as a leading provider of pension fund administration and investment management services in Jamaica. In addition, in 2010 PAM continued to improve its profit performance and provided attractive returns to its shareholders.

Conclusion /Outlook

On a consolidated basis, your Society and its Subsidiaries achieved good financial results in 2010. These results have served to enhance the capital of the enterprise and underscore the financial security of the institution.

Your Directors remain firmly committed to the principle of mutuality which motivated its founders and which have underpinned its operations over the last 132 years. In addition to offering attractive interest rates on both savings and loan instruments, your Society continues to offer a range of related and ancillary services at the lowest level of transaction fees and charges available in the domestic market. We remain the only institution that offers free usage of its Debit Card at any Point of Sale (POS) terminal or any Automatic Teller Machine (ATM) even if it is owned or operated by another Building Society, Bank or Credit Union.

The Management continues to pursue multiple projects and programmes, involving significant investments in the short term that will improve productivity and customer service delivery in the future. One such project that deserves special mention because of the customer impact is the Online Financial Services project that is expected to deliver internet banking capability to our Members and customers in the first half of 2012.

There is still however much work to be done in the core business operations to increase efficiencies in order to enable the release of even greater value to Members. Your Directors and the management teams in each of the business lines continue to work tirelessly to transform the respective business units, in the effort to make them more robust, efficient and truly customer-focused.

I take the opportunity, on behalf of the Boards, Management teams and Staff of the Society and all of its subsidiaries, to express gratitude to our Members and customers for your continued loyalty and support. We offer our thanks also to those team Members who worked hard and have sacrificed in order to strengthen our Society to the level achieved in 2010. Without them Victoria Mutual would not have been able to increase the level of financial security for all stakeholders and provide enhanced member benefits during such a time of relative austerity and uncertainty. I offer my sincere thanks also to the Members of the Boards of Directors of the Society and its subsidiary companies as well as the Members of the Society's Advisory Councils for their selfless and distinguished service.

Michael A. McMorris
Chairman

Corporate Outreach

Victoria Mutual prides itself in fulfilling its Corporate Social Responsibility by supporting numerous initiatives that promote individual, community and national development for the benefit of Jamaicans at home and in the Diaspora. In 2010, the Society continued to focus on Education, Sports, Youth and Community Development in its Corporate Citizenry Programme.

The National Leadership Prayer Breakfast

Victoria Mutual celebrated 25 years of support to the Annual National Leadership Prayer Breakfast, which aims to unite leaders from State, Church, Community and Civic groups in prayers for the Nation. The Prayer Breakfast, which marked its 30th year in 2010, was held under the theme: "With God, We Will Overcome". The customary free-will offering taken at the Prayer Breakfast was donated to the Hear the Children's Cry Committee and the Haitian Relief efforts following the devastating earthquake which destroyed most of the country.

United Way of Jamaica

2010 marked the 25th anniversary of Victoria Mutual's participation in the United Way of Jamaica's Donor Option Programme. Through this participation, Victoria Mutual was able to make financial contributions to over 75 charities in the areas of health, education, sports, youth and community development. Victoria Mutual was named the highest corporate donor for 2010 and received the Jupiter Award as well as a special 25th Anniversary Award of Appreciation at the 25th Annual Nation Builders & Employees Awards Ceremony.

Scholarships, Bursaries & Grants

Victoria Mutual awarded over 90 scholarships, bursaries and grants to student-savers on the Society's School Savings Programme, which boasts approximately 80 preparatory, primary, all-age and high schools. The top performing student among those who sat the Grade Six Achievement Test (GSAT) at each of the schools on the School Savings Programme, received a bursary to offset the cost of the first year in high school. In addition, three students were awarded the **VMBS Junior Plan "Head Start" Scholarship;** three were awarded the **VMBS Future Plan "Head-Start" Scholarship** and one student was the recipient of the **VMBS Master Plan "Head Start" Scholarship**.

The Society also provided assistance to three teachers who have committed themselves to a career in education and were completing final year studies at a local university/teachers' college. These teachers were awarded the **VM Teacher's Bursary**.

Several other bursaries were awarded during the year, including one **National Youth in Agriculture Bursary** and the **Building Societies Cooperative Credit Union Bursary**.

Book Drive

As part of its Better Society Corporate Campaign, Victoria Mutual launched a book drive in all its branches and offices to collect new and used books for donation to schools and libraries across the island.

Past Chairman & Executive Member of the **National Leadership Prayer Breakfast** Committee, Rev. Alston Henry is greeted by senior members of the Victoria Mutual family. From right, Former Chairman, Roy Hutchinson, Richard K. Powell, President & CEO and Vivienne Bayley-Hay, Vice President, Group Marketing & Corporate Affairs

Vice-President, Group Marketing & Corporate Affairs, Vivienne Bayley-Hay accepts the Jupiter Award on behalf of Victoria Mutual from Noel daCosta, Chairman, United Way of Jamaica, at the **25th Annual Nation Builders & Employees Awards Ceremony**. Victoria Mutual was named the highest corporate donor in the United Way of Jamaica's Donor Option Programme.

2010 Junior Plan Scholarship Awardees (l-r), Alexandra Deer, Jon-Marc McGregor and Jonathan Pearson have the full attention of President & CEO, Richard K. Powell and Vice President, Group Marketing & Corporate Affairs, Vivienne Bayley-Hay at the **Annual Scholarship Awards Ceremony**.

This Vaz Prep student is all smiles as she peruses a textbook with Phillip Jarrett, Operations Manager, The Victoria Mutual Building Society (VMBS) New Kingston Branch. The branch donated books from the Society's book drive to the school's library. Also sharing in the handover are Dasta Knight, Librarian (left), other Vaz Prep students and Sekou Davis, Business Development Officer, VMBS (centre).

Joan Walter, (2nd right) Vice-President, Branch Distribution, VMBS presents the **VMBS/St. James Under-13 Football Championship Trophy** to the captain of Howard Cooke Primary School football team. Also sharing in the presentation are: Former Reggae Boy & Guest Speaker, Ricardo Fuller (right) and Competition Coordinator, Hopeton Gilchrist (left). The competition represents one of the Society's outreach initiatives in Western Jamaica.

Delia Burke, Regional Business Development Manager, South Eastern Region makes a presentation to one of the winners at the **Annual Camperdown Track & Field Classics**.

Jennifer James, Counsellor, Family Life Ministries, provides expert advice on parenting at the **Annual Marriage & the Family Series** which was held in Kingston, Mandeville and Montego Bay. Marriage and the Family represents one of the signature highlights of the Society's outreach calendar.

Minister of Education, the Hon. Andrew Holness (centre) engages Richard K. Powell, President & CEO, Victoria Mutual and Earl Jarrett, General Manager, Jamaica National Building Society at **the signing of a Memorandum of Understanding between the Ministry of Education and the Mutual Building Societies Foundation (MBSF)**. The Foundation continued its work in supporting six rural high schools in the Centres of Excellence Programme.

Sports

During the period under review, Victoria Mutual continued its support for sports and youth development through the sponsorship of several sporting activities across the island. The **20th Annual VMBS/St. James Under-13 Football Competition,** an outreach project of the Montego Bay branch, continued to provide the youngsters from schools across Western Jamaica with the opportunity to develop their football skills, while enjoying friendly competition.

Twenty-eight schools participated in the competition, which was launched in April 2010, following the Grade Six Achievement Test (GSAT). The Under-13 Football Competition remains a platform for the development of the sporting talent and skills of future athletes. Victoria Mutual also extended its corporate support to youth football in the parishes of **Portland**, **St. Mary** and **St. Elizabeth**. The organization partnered with the local football associations by sponsoring their respective Under-13 and Under-15 football competitions. Support was also given to the **Annual Gibson Relays**, **Camperdown Track & Field Classics** and the **Courtney Walsh Cricket Clinic**.

Annual Marriage & the Family Series

As part of its commitment to helping foster healthy marriages, relationships, and family life, Victoria Mutual hosted the 24th Annual Marriage & the Family Series under the theme "Money & Relationship: Prosperity or Pandemonium". Persons received free advice from renown experts on the topics "Recognizing the changes: parenting for the times"; "An open mind to a listening ear – the art of Communication" and "Happily ever after or till money do us part". Those in attendance were also treated to live entertainment, fun and games and a bridal fashion show featuring the lastest designs in bridal wear. The series was held in Kingston, Mandeville and Montego Bay.

Mutual Building Societies Foundation

The Mutual Building Society Foundation (MBSF), which is a joint venture between The Victoria Mutual Building Society and Jamaica National Building Society, continued to provide support to six rural schools through the Centres of Excellence Programme. Over a five year period, the programme will focus on improving school leadership, management, teaching, learning and overall student performance at Mile Gully, McGrath, Porus, Seaforth, Godfrey Stewart and Green Pond High Schools. This will be effected through the engagement of students, teachers and administrators in various workshops and initiatives and the implementation of software management systems to improve monitoring and feedback in the schools. The Mutual Building Societies Foundation (MBSF) in partnership with the Ministry of Education, established the Centres of Excellence Programme in support of the Government's Vision 2030 plan, the model for National Development towards achieving "developed country" status by 2030.

VMBS & The Salvation Army: Forging a new Partnership

During 2010, the Society deepened its association with the Salvation Army, beginning with a staff Clothing Drive for young girls at "The Nest", a children's home operated by The Salvation Army. In June, several Victoria Mutual Team Members from the Kingston Metropolitan Region participated in a major project to refurbish the female bathroom, carried out beautification work on the property and participated in much needed interaction with the children living at the home. In addition, each of the 40 children who reside at "The Nest" were presented with a hand painted and personalized lock box constructed by Victoria Mutual Team Members.

Members of the Victoria Mutual team refurbished the female bathroom and combed the girls' hair at **The Nest, a children's home operated by The Salvation Army.**

Labour Day Projects: It Takes a Village to Raise a Child

Victoria Mutual continued its social outreach activities on Labour Day in accordance with the national theme "It takes a village to raise a child." Team Members carried out much needed painting and restoration work in Manchester at the Porus Primary & Infant School; St. Elizabeth at the Santa Cruz Early Childhood Institution and Trelawny at the Duanvale Primary School as well as landscaping on each school property. This was part of an overall effort to create a cleaner and more positive environment in which the children can learn and play.

Team Members from the Northern and Southwestern Regions participated in the refurbishing work in **St. Elizabeth, Manchester** and **Trelawny** on **Labour Day**.

2010 Sigma Corporate Run: Special Children Need Special Care

Victoria Mutual maintained its support of this major fundraising initiative by inviting Team Members to participate in the Corporate Run and Walk. Over 200 Team Members from across the Group, our strongest contingent to date, represented Victoria Mutual and helped to raise funds for children with disabilities. The initiative, held under the theme "Special Children Need Special Care," raised over one million dollars for the Sir John Golding Rehabilitation Centre and other institutions which provide care for children with disabilities.

Victoria Mutual continues to be focused on the financial well being of its Members and the social stability of the Jamaican society. As it looks to serve Jamaicans, Victoria Mutual will continue to take a holistic approach in helping to build a better society.

Over 200 Team Members participated in the **Sigma Corporate Run** held at Emancipation Park to help raise funds for children with disabilities.

FINANCIAL
STATEMENTS

KPMG
Chartered Accountants
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Kingston
Jamaica, W. I.

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INDEPENDENT AUDITORS' REPORT

To the Members of
THE VICTORIA MUTUAL BUILDING SOCIETY

Report on the Financial Statements

We have audited the financial statements of The Victoria Mutual Building Society ("Society") and the consolidated financial statements of the Society and its subsidiaries ("Group"), set out on pages **20 to 96**, which comprise the Group's and the Society's statements of financial position as at December 31, 2010, the Group's and the Society's income statements, statements of comprehensive income, changes in capital and reserves and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence relating to the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation 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 audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Society as at December 31, 2010, and of the Group's and the Society's financial performance, changes in capital and reserves and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Report on other matters as required by the Building Societies Act

We have examined the mortgage deeds and other securities belonging to the Society. Title deeds numbering 8,857 were produced to us and actually inspected by us, and we are satisfied that the remaining 198 deeds not inspected by us were in the hands of attorneys, or elsewhere in the ordinary course of business of the Society.

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

Linroy J. Marshall

Patrick A. Chin

Chartered Accountants
Kingston, Jamaica
March 25, 2011

KPMG, a Jamaican partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Elizabeth A. Jones
Caryl A. Fenton
R. Tarun Handa
Patrick A. Chin
Patricia O. Dailey-Smith
Linroy J. Marshall
Cynthia L. Lawrence
Rajan Trehan
Norman O. Rainford
Nigel R. Chambers

STATEMENTS OF FINANCIAL POSITION As At December 31, 2010

	Notes	Group 2010	Group 2009	Society 2010	Society 2009
		$'000	$'000	$'000	$'000
ASSETS					
Cash and cash equivalents	7	7,489,481	8,619,666	7,394,448	8,543,056
Investments - Jamaica Government securities	8	15,802,293	9,914,099	7,803,683	6,005,622
- Other	9	77,422	5,534,884	73,527	961,313
Resale agreements	10	7,551,993	4,919,909	8,342,907	4,497,201
Loans	11	29,452,959	30,739,802	29,468,105	30,739,161
Other assets	12	1,202,452	1,904,135	694,437	786,106
Deferred tax assets	13(a)	3,306	26,251	-	-
Employee benefit asset	14	1,208,500	864,000	1,208,500	864,000
Interest in subsidiaries	15	-	-	313,899	338,560
Interest in associate		594,509	-	584,579	-
Intangible assets	16	75,613	76,174	60,564	56,265
Investment properties	17	225,521	231,276	342,841	348,596
Property, plant and equipment	18	463,579	463,591	431,184	421,662
Total assets		64,147,628	63,293,787	56,718,674	53,561,542
LIABILITIES					
Savings fund:					
Shareholders' savings	19	48,190,338	46,854,294	48,498,136	47,129,550
Depositors' savings	20	657,450	523,388	657,450	523,388
		48,847,788	47,377,682	49,155,586	47,652,938
Income tax payable		144,322	93,296	119,385	61,849
Other liabilities	21	252,846	1,465,460	386,696	423,233
Repurchase agreements	22	6,055,747	6,769,558	-	-
Insurance underwriting provisions	23	586	797,581	-	-
Loans payable	24	431,914	450,388	431,914	450,388
Deferred tax liabilities	13(b)	309,988	225,485	306,376	216,566
Employee benefit obligation	14	216,200	190,500	200,300	168,600
Total liabilities		56,259,391	57,369,950	50,600,257	48,973,574
CAPITAL AND RESERVES					
Permanent capital fund	25	3,940,285	3,017,506	3,940,285	3,017,506
Reserve fund	26(i)	469,081	366,551	469,081	366,551
Retained earnings reserve	26(ii)	504,268	504,268	504,268	504,268
Capital reserve on consolidation	26(iii)	82	90,082	-	-
Credit facility reserve	26(iv)	993,259	613,556	993,259	613,556
Investment revaluation reserve	26(v)	198,936	(48,546)	201,524	76,087
General reserve		10,000	10,000	10,000	10,000
Currency translation reserve	26(vi)	103,446	38,598	-	-
Retained earnings		1,668,880	1,331,822	-	-
Total capital and reserves		7,888,237	5,923,837	6,118,417	4,587,968
Total liabilities and capital and reserves		64,147,628	63,293,787	56,718,674	53,561,542

The financial statements on pages **20 to 96** were approved for issue by the Board of Directors on March 25, 2011 and signed on its behalf by:

______________________ Chairman
M. A. McMorris

Countersigned:

______________________ Director
R. K. Powell

______________________ Corporate Secretary
K. Brown

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

INCOME STATEMENTS

Year ended December 31, 2010

	Notes	Group 2010 $'000	Group 2009 $'000	Society 2010 $'000	Society 2009 $'000
Interest income	29	5,386,884	6,330,539	4,703,196	5,144,250
Interest expense	29	(2,431,859)	(3,529,192)	(2,005,565)	(2,727,433)
Net interest income		2,955,025	2,801,347	2,697,631	2,416,817
Fee and commission income	30	135,646	232,629	56,977	68,475
Fee and commission expenses	30	(110,157)	(76,240)	(45,567)	(58,971)
Net fee and commission income		25,489	156,389	11,410	9,504
Other operating revenue	31	877,464	1,316,064	591,287	398,820
Net interest income and other revenue		3,857,978	4,273,800	3,300,328	2,825,141
Personnel costs	32	(859,642)	(1,268,504)	(654,093)	(1,018,265)
Depreciation and amortisation	16,17,18	(107,099)	(110,465)	(95,489)	(94,537)
Other operating expenses	33	(1,444,259)	(2,064,498)	(1,438,232)	(1,317,157)
		(2,411,000)	(3,443,467)	(2,187,814)	(2,429,959)
Gain on sale of subsidiary	1(b)	925,601	-	524,579	-
Share of profit of associate		146	-	-	-
Surplus before income tax		2,372,725	830,333	1,637,093	395,182
Income tax charge	34	(319,712)	(254,327)	(232,081)	(140,494)
Surplus for the year, all attributable to members of the Society	35	2,053,013	576,006	1,405,012	254,688

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

STATEMENTS OF COMPREHENSIVE INCOME Year ended December 31, 2010

	Notes	Group 2010	Group 2009	Society 2010	Society 2009
		$'000	$'000	$'000	$'000
Surplus for the year	35	2,053,013	576,006	1,405,012	254,688
Other comprehensive income					
Foreign currency translation difference for foreign operations		64,848	50,839	-	-
Change in fair value of available-for-sale investments		256,355	316,201	87,806	98,148
Deferred income tax on available-for-sale investments		(18,579)	35,800	37,631	108,448
Other comprehensive income for the year, net of income tax		302,624	402,840	1w25,437	206,596
Total comprehensive income for the year		2,355,637	978,846	1,530,449	461,284

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, 2010

	Permanent capital fund	Reserve fund	Retained earnings reserve	Capital reserve on consolidation	Credit facility reserve	Investment revaluation reserve	General reserve	Currency translation reserve	Retained earnings	Total capital and reserves
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$000	$000
Balances at December 31, 2008	2,941,630	358,120	559,222	90,082	388,221	(400,547)	10,000	(12,241)	1,010,504	4,944,991
Total comprehensive income for the year										
Surplus for the year	-	-	-	-	-	-	-	-	576,006	576,006
Other comprehensive income										
Foreign currency translation differences on foreign subsidiaries' balances	-	-	-	-	-	-	-	50,839	-	50,839
Change in fair value of investments	-	-	-	-	-	316,201	-	-	-	316,201
Deferred tax on investments	-	-	-	-	-	35,800	-	-	-	35,800
Total other comprehensive income	-	-	-	-	-	352,001	-	50,839	-	402,840
Total comprehensive income for the year	-	-	-	-	-	352,001	-	50,839	576,006	978,846
Movement between reserves										
Credit facility reserve transfer [note 4(r)]	-	-	(54,954)	-	225,335	-	-	-	(170,381)	-
Transfers [notes 25 and 26(i)]	75,876	8,431	-	-	-	-	-	-	(84,307)	-
Total movement between reserves	75,876	8,431	(54,954)	-	225,335	-	-	-	(254,688)	-
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 investments	-	-	-	-	-	256,355	-	-	-	256,355
Deferred tax on 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 [note 4(r)]	-	-	-	-	379,703	-	-	-	(379,703)	-
Realised on disposal of subsidiary	-	-	-	(90,000)	-	-	-	-	90,000	-
Transfers [notes 25 and 26(i)]	922,779	102,530	-	-	-	-	-	-	(1,025,309)	-
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

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, 2010

	Permanent capital fund $'000	Reserve fund $'000	Retained earnings reserve $'000	facility reserve $'000	Credit revaluation reserve $'000	Investment General reserve $'000	Retained earnings $000	Total $000
Balances at December 31, 2008	**2,941,630**	**358,120**	**559,222**	**388,221**	**(130,509)**	**10,000**	**-**	**4,126,684**
Total comprehensive income for the year:								
Surplus for the year	-	-	-	-	-	-	254,688	254,688
Other comprehensive income:								
Change in fair value of investments	-	-	-	-	98,148	-	-	98,148
Deferred tax on investments	-	-	-	-	108,448	-	-	108,448
Total other comprehensive income	-	-	-	-	206,596	-	-	206,596
Total comprehensive income for the year	-	-	-	-	206,596	-	254,688	461,284
Movements between reserves								
Credit facility reserve transfer	-	-	(54,954)	225,335	-	-	(170,381)	-
Other transfers [notes 25 and 26(i)]	75,876	8,431	-	-	-	-	(84,307)	-
Total movement between reserves	75,876	8,431	(54,954)	225,335	-	-	(254,688)	-
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 investments	-	-	-	-	87,806	-	-	87,806
Deferred tax on 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 25 and 26(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**

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

STATEMENT OF GROUP CASH FLOWS Year ended December 31, 2010

	Notes	2010	2009
		$'000	$'000
Cash flows from operating activities			
Surplus for the year		2,053,013	576,006
Adjustments for:			
Depreciation	16,17,18	107,099	110,465
Employee benefit obligation		25,700	27,400
Interest income	29	(5,386,884)	(6,330,539)
Interest expense	29	2,431,859	3,529,192
Income tax expense	34	319,712	254,327
		(449,501)	(1,833,149)
Gain on disposal of property, plant and equipment		(628)	(339)
Write off of property, plant and equipment		266	143
Gain on sale of subsidiary		(925,601)	-
Share of profit of associate		(146)	-
Change in provision for loan losses		229,915	54,075
Insurance underwriting provisions		(796,995)	15,409
Unrealised exchange (losses)/gains on foreign currency balances		64,848	121,013
Loan advances, net of repayments		1,056,928	(2,027,527)
Change in other assets		374,894	(266,269)
Change in employee benefit assets		(344,500)	(143,000)
Net receipts from shareholders and depositors		1,579,551	3,630,838
Change in other liabilities		(1,212,614)	(392,257)
		(423,583)	(841,063)
Interest and dividends received		5,713,673	6,150,691
Interest paid		(2,589,051)	(3,504,535)
Income taxes paid		(205,832)	(130,231)
Net cash provided by operating activities		2,495,207	1,674,862
Cash flows from investing activities			
Government of Jamaica securities	8	(5,605,824)	(258,401)
Other investments	9	5,457,462	(276,338)
Net proceeds of disposal of subsidiary and acquisition of associate		(60,000)	-
Resale agreements		(2,632,084)	750,179
Purchase of intangible asset	16(b)	(29,216)	(4,563)
Additions to investment properties	17	-	(3,922)
Purchase of property, plant and equipment	18	(78,591)	(74,695)
Proceeds of disposal of property, plant and equipment		7,398	378
Repurchase agreements		(713,811)	(406,629)
Net cash used by investing activities		(3,654,666)	(273,991)
Cash flows from financing activities			
Loans payable		(18,474)	(932,747)
Net (decrease)/increase in cash and cash equivalents		(1,177,933)	468,124
Cash and cash equivalents at beginning of year		8,619,666	8,305,094
Effect of exchange rate fluctuations on cash and cash equivalents		47,748	(153,552)
Cash and cash equivalents at end of year	7	7,489,481	8,619,666

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

STATEMENT OF SOCIETY CASH FLOWS Year ended December 31, 2010

	Notes	2010 $'000	2009 $'000
Cash flows from operating activities			
Surplus for the year		1,405,012	254,688
Adjustments for:			
Depreciation	16,17,18	95,489	94,537
Unrealized exchange (gains)/losses on foreign currency balances		(14,408)	145,698
Employee benefit obligation		31,700	21,700
Interest income	29	(4,703,196)	(5,144,250)
Interest expense	29	2,005,565	2,727,433
Income tax expense	34	232,081	140,494
		(947,757)	(1,759,700)
Gain on disposal of property, plant and equipment		(423)	(376)
Write off of property, plant and equipment		-	(143)
Gain on sale of investments		(56,417)	4,199
Gain on sale of subsidiary		(524,579)	-
Change in provision for loan losses		229,916	54,075
Loan advances, net of repayments		1,041,140	(2,034,465)
Interest in subsidiaries		(35,339)	(31,379)
Change in other assets		(82,931)	5,002
Change in employee benefit assets		(344,500)	(143,000)
Net receipts from shareholders and depositors		1,541,116	5,431,312
Change in other liabilities		(36,536)	(307,634)
		783,690	1,217,888
Interest and dividends received		4,877,796	4,976,213
Interest paid		(2,081,873)	(2,671,154)
Income taxes paid		(84,735)	(58,699)
Net cash provided by operating activities		3,494,878	3,464,248
Cash flows from investing activities			
Government of Jamaica securities	8	(1,616,207)	347,027
Other investments	9	887,786	219,087
Resale agreements		(3,845,706)	(2,596,458)
Purchase of intangible asset	16(b)	(28,532)	(3,562)
Additions to investment properties	17	-	(3,922)
Purchase of property, plant and equipment	18	(75,225)	(69,209)
Proceeds of disposal of property, plant and equipment		628	376
Net cash used by investing activities		(4,677,256)	(2,106,661)
Cash flows from financing activities			
Loans payable		(17,273)	(910,127)
Net (decrease)/increase in cash and cash equivalents		(1,199,651)	447,460
Cash and cash equivalents at beginning of year		8,543,056	8,250,213
Effect of exchange rate fluctuations on cash and cash equivalents		51,043	(154,617)
Cash and cash equivalents at end of year	7	7,394,448	8,543,056

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

1. IDENTIFICATION

(a) The Victoria Mutual Building Society ("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, general insurance services, 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
Victoria Mutual Insurance Company Limited**	Jamaica	General insurance	100	-
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 poperty	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	-
Victoria Mutual Jamaica Limited*ø	Jamaica	Promotion of the business of the Society	100	-
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.

** On May 31, 2010, the Society sold its interest in the company and acquired a minority share in the acquirer [note 1(c)].

ø Application to the Companies Office of Jamaica for strike off of this company from the Register of Companies was made on January 7, 2010. At the date of approval of these financial statements, the order for strike off was still not gazetted.

1. IDENTIFICATION (CONT'D)

(c) Interest in associated company:

An associated entity is one, other than a subsidiary or joint venture, over which the Group has significant influence.

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.

(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.

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.

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

Certain new and revised standards and interpretations which were in issue came into effect for the current financial year, as follows:

- Revised IFRS 3, Business Combinations, and Amended IAS 27, Consolidated and Separate Financial Statements, amended the definition of business combination and focuses on control. All items of consideration transferred by the acquirer are measured and recognised at fair value as of the acquisition date, including contingent consideration. An acquirer can elect to measure non-controlling interest at fair value at the acquisition date or on a transaction by transaction basis. New disclosure requirements were introduced. The standard did not have a significant impact on the financial statements.

New and revised standards and interpretations that are not yet effective

At the date of approval of the financial statements, certain new and revised standards and interpretations were in issue but are not yet effective and have not been early-adopted. The Group has assessed the relevance of all such new standards, amendments and interpretations with respect to its operations and has concluded as follows:

- Amendment to IFRS 7, Disclosures – Transfer of Financial Assets, 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. The Group is assessing the impact the amendment will have on the financial statements.

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)

- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The amendment is effective for annual reporting periods beginning on or after January 1, 2011. It applies when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset. The Group is assessing the impact that the interpretation will have on the financial statements.

- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments, which is effective for annual reporting periods beginning on or after July 1, 2010, addresses the accounting by the debtor in a debt for equity swap transaction - specifically how the entity should measure the equity instruments issued to extinguish a financial liability. The Group is assessing the impact that the interpretation will have on the financial statements.

- IFRS 9, Financial Instruments, which is effective for annual reporting periods beginning on or after 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. The Group is assessing the impact that the standard will have on the financial statements.

- IAS 24, Related Party Disclosures, Revised, which is effective for annual reporting periods beginning on or after January 1, 2011, amends the definition of a related party and also expands the list of transactions that require disclosure. The Group is assessing the impact that the amendment will have on the financial statements.

- Improvements to IFRS (2010) contain amendments to six standards and to one interpretation and are effective for annual reporting periods beginning on or after July 1, 2010 or January 1, 2011. The main applicable amendments are as follows:

  - IFRS 7, Financial Instruments: Disclosures, which has been amended, effective for annual reporting periods beginning on or after January 1, 2011, to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial statements. Existing disclosures relating to maximum exposure to credit risk, financial effect of collateral held as security and other enhancements in respect of a financial instrument have been amended. Certain disclosures relating to the carrying amount of financial assets that are not past due or are not impaired as a result of their terms having been renegotiated and description of collateral held as security for financial assets that are past due have been removed.

3. BASIS OF PREPARATION (CONT'D)

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

New standards, and interpretations of and amendments to existing standards, that are not yet effective (cont'd)

- IAS 1, Presentation of Financial Statements, which is effective for annual reporting periods beginning on or after January 1, 2011, is amended to state that for each component of equity a reconciliation from opening to closing balances is required to be presented in the statement of changes in equity, showing separately changes arising from items recognised in profit or loss, in other comprehensive income and from transactions with owners acting in their capacity as owners.

The Group is assessing the impact that these amendments will have on the 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.

(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 in the manner set out in note 4(s).

(d) Use of judgements and estimates:

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions, and critical judgements in applying accounting policies. These estimates, assumptions and judgements affect the application of accounting policies and the reported amounts of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and the revenue and expenses for the year then ended. Actual results could differ from those estimates.

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

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

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

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):

- 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.

- Outstanding claims:

  Outstanding insurance claims comprise estimates of the amount of reported losses and loss expenses, plus a provision for losses incurred but not reported, based on historical experience. The loss and loss expense reserves have been reviewed by the subsidiary's appointed actuary using the subsidiary's past loss experience and industry data.

  Amounts recoverable in respect of claims from reinsurers are estimated in a manner consistent with the underlying liabilities.

  Management believes, based on the analysis completed by its actuary, that the provision for outstanding losses and loss expenses will be adequate to cover the ultimate net cost of losses incurred up to the reporting date. However, the provision is necessarily an estimate and may, ultimately, be settled for a significantly greater or lesser amount. Any subsequent differences arising are recorded in the period in which they are determined.

  Note 5 contains information about the risks and uncertainties associated with insurance and financial risk management.

- 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.

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

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

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

- 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 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.

It is reasonably possible that outcomes within the next financial year that are different from these assumptions could require a material adjustment to the carrying amount reflected in the financial statements.

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

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

The following are relevant to these financial statements:

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

- In designating financial assets as at fair value through profit or loss, the Group has determined that they have met the criteria for this designation set out in accounting policy 4(c).

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, 2010, after eliminating intra-group amounts.

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.

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 current 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 the income statement.

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 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 the income statement.

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 22, 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 is 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 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 and charged as an expense, unless not considered material, in which case they are charged when they fall due.

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 income statement.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Employee benefits (cont'd):

(iii) Defined-benefit pension plans (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.

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) Insurance operations:

Underwriting results are accounted for in compliance with the recommendations and practices of the insurance industry, and comply with the provisions of the Insurance Act 2001.

The underwriting results are determined after making provision for, inter alia, unearned premiums and commissions, deferred commission expenses, outstanding claims and claims equalisation.

Unearned premiums represent the estimated cost of that portion of the premiums written up to the accounting date, which is attributable to subsequent periods, and is calculated substantially on the "twenty-fourths" basis on the total premiums written. Premiums ceded to reinsurers are accounted for similarly [note 4(p)].

Claims equalisation represents the amount previously set aside to be used to prevent exceptional fluctuations in the amounts charged to revenue in subsequent financial years in respect of claims under insurance contracts.

Commission income and expense are deferred on a basis consistent with that used for deferring premium income.

(o) 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.

(p) Reinsurance ceded:

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with reinsured policies. Unearned premiums on business ceded up to the accounting date which are attributable to subsequent periods are calculated substantially on the "twenty-fourths" basis on the total premiums ceded.

(q) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(q) Impairment (cont'd):

(i) Calculation of recoverable amount:

The recoverable amount of the Group's held-to-maturity securities, loans and receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their 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 and loans and receivables is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

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.

(r) Allowance for impairment:

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

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 credit facility reserve [note 26(iv)].

(s) 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 the income statement.

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 reserves.

Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the investment revaluation reserve

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

(s) Foreign currency translation (cont'd)

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 included in the currency translation reserve.

(t) Interest income

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

Where collection of interest income is considered doubtful, or payment is outstanding for more than 90 days, the Bank of Jamaica Building Societies Regulations (1995) stipulate that interest should be taken into account on the cash basis. IFRS requires that when loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. However, the difference between the amounts recognised under the Regulations and such amounts as would have been determined under IFRS is considered to be immaterial.

(u) Interest expense

Interest expense is recognised in the income statement 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.

(v) Commissions, premium income and other income:

(i) 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.

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

(iii) Premium income and commissions:

Premium and commission income are recognised over the period of insurance policies. Unearned premiums and commissions are calculated on the twenty-fourths method in accordance with industry practice. Reinsurance commission is recognised on a basis that is consistent with the recognition of the costs incurred on the acquisition of the underlying insurance contracts. Profit commission in respect of reinsurance contracts is recognised on the accrual basis.

4. SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(w) 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 28.

(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 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.

(x) Related parties:

A party is related to an entity, if:

(i) directly, or indirectly through one or more intermediaries, the party:

(a) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);

(b) has an interest in the entity that gives it significant influence over the entity; or

(c) has joint control over the entity;

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

(x) Related parties (cont'd):

A party is related to an entity, if (cont'd):

(ii) the party is an associate of the entity;

(iii) the party is a joint venture in which the entity is a venturer;

(iv) the party is a member of the key management personnel of the entity or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party 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.

(y) Interest in subsidiaries

Interest in subsidiaries is carried at cost less, if any, impairment losses.

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, 2010. The Group participated in the Jamaica Debt Exchange (JDX) which resulted in changes to the Group's investment portfolio in February 2010.

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

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

Note 5(a) to (e) presents 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)**

Introduction and overview (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 Risk Management Committee, Finance, Investment & Loan Committee (Finance Committee), and 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 the Finance Committee of the Board and has responsibility to monitor the liquidity, credit, interest rate and foreign exchange risks of the Group. The Credit Committee reports to the Finance Committee and has responsibility to monitor the credit risk of the Society.

The Society, Victoria Mutual Wealth Management Limited and, up to May 31, 2010, Victoria Mutual Insurance Company 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.

(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 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, the amount of loss that would be suffered if every counterparty to the Group's financial assets were to default at once, is represented by the carrying amount of financial assets shown on the statements of financial position and is as follows:

Exposure to credit risk by category:

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Cash and cash equivalents	7,483,481	8,619,666	7,394,448	8,543,056
Loans	29,452,959	30,739,802	29,468,105	30,739,161
Investments	15,879,715	15,448,983	8,461,789	6,966,935
Other assets	1,202,452	1,904,135	694,437	786,106
Loan commitments	440,130	1,290,013	440,130	1,290,013
	54,458,737	58,002,599	46,458,909	48,325,271

The following table summarises the exposure to credit risk arising from loans to borrowers, by category:

	Group			
	2010			
	Mortgage loans	Share loans	Other loans	Total
	$'000	$'000	$'000	$'000
Individuals	28,753,217	400,738	-	29,153,955
Staff consumer loans	-	-	67,653	67,653
Commercial loans	31,122	-	200,229	231,351
	28,784,339	400,738	267,882	29,452,959
	2009			
	$'000	$'000	$'000	$'000
Individuals	29,859,774	199,539	-	30,059,313
Staff consumer loans	-	-	132,917	132,917
Commercial loans	288,975	-	258,597	547,572
	30,148,749	199,539	391,514	30,739,802

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

Introduction and overview (cont'd)

(a) Credit risk (cont'd):

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

Society:

	Society			
	Mortgage loans	Share loans	Other loans	Total
	$'000	$'000	$'000	$'000
		2010		
December 31, 2010				
Individuals	28,753,217	400,738	-	29,153,955
Staff consumer loans	-	-	67,653	67,653
Commercial loans	31,122	-	215,375	246,497
	28,784,339	400,738	283,028	29,468,105
		2009		
Individuals	29,859,774	199,539	-	30,059,313
Staff consumer loans	-	-	132,917	132,917
Other	288,975	-	257,956	546,931
	30,148,749	199,539	390,873	30,739,161

Exposure to credit risk by geography

Substantially all lending is to parties in Jamaica.

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

The way in which management manages the credit risk exposure attaching to the financial assets set out in the table above is described in notes (1) to (5) following.

(1) Loans receivable:

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

Quality of loans receivable

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

Definition of impaired loans

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

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):

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	
	2010	**2009**
	$'000	$'000
Past due but not impaired loans	5,444,511	5,226,676
Aging analysis of past due but not impaired loans		
Under 3 months	3,255,151	3,732,196
3 months – 6 months	830,737	947,607
6 months – 12 months	682,811	236,853
Over 12 months	675,812	310,020
Total carrying amount	5,444,511	5,226,676

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	
	2010	**2009**
	$'000	$'000
Past due and impaired loans	1,038,230	618,998
Aging analysis of past due and impaired loans		
3 months – 6 months	224,833	238,758
6 months – 12 months	231,920	144,368
Over 12 months	581,477	235,872
Total carrying amount	1,038,230	618,998

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 2010 and 2009 were the moratorium and rescheduling arrangements on loans because of the economic recession. At December 31, 2010, the outstanding principal balance on loans that were restructured total $542,738,000 (2009: $737,408,000).

Allowance 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(r). Information on the impairment allowance is provided in note 11(b).

Write-off policy:

The Group writes off a loan (and any related allowance 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, lien over motor vehicles and hypothecation of deposits held. The fair value of collateral that the Group held for loans past due was $17,460,095,000 (2009: $15,972,516,000).

Collateral is not generally held against deposits and investment securities, and no such collateral was held at December 31, 2010.

(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.

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

(a) Credit risk (cont'd):

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

(4) Resale agreements and certificates of deposit:

Collateral is held for all resale agreements other than those with Bank of Jamaica.

(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.

The impairment provision (note 11) shown in the statement of financial position at year-end is derived from four categories set up by the Group. These apply specifically to mortgage lending, one of the core functions of the Society.

There was no change in the Group's approach to measuring and managing its credit risk during the year.

(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 assets, liabilities and equity 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.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

Management of market risks (cont'd)

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

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 25 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.

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

	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	1,322,829	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
Deferred tax asset**	-	-	-	-	3,306	3,306
Interest in associated company**	-	-	-	-	594,509	594,509
Employee benefit asset**	-	-	-	-	1,208,500	1,208,500
Intangible assets**	-	-	-	-	75,613	75,613
Investment properties**	-	-	-	-	225,521	225,521
Property, plant and equipment**	-	-	-	-	463,579	463,579
Total assets	2,152,516	7,960,292	5,431,910	14,486,328	34,116,582	64,147,628
Savings fund	-	36,719,944	3,455,117	8,672,727	-	48,847,788
Income tax payable	-	-	-	-	144,322	144,322
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
Deferred tax liabilities**	-	-	-	-	309,988	309,988
Employee benefit obligation**	-	-	-	-	216,200	216,200
Capital and reserves**	-	-	-	-	7,888,237	7,888,237
Total liabilities, capital and reserves	-	41,154,565	5,508,157	8,672,727	8,812,179	64,147,628
Total interest rate sensitivity gap *	2,152,516	(33,194,273)	(76,247)	5,813,601	25,304,403	-
Cumulative gap	2,152,516	(31,041,757)	(31,118,004)	(25,304,403)	-	-

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

** These are (or include) non-financial instruments.

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

(b) Market risks (cont'd):

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

Group:

	Group					
	2009					
	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	893,728	3,660,383	1,566,394	153,993	2,345,168	8,619,666
Investments	940,590	932,905	2,109,976	11,409,207	56,305	15,448,983
Resale agreements	1,691,460	2,401,845	826,604	-	-	4,919,909
Loans	-	30,739,191	-	-	611	30,739,802
Other assets	-	165	-	-	1,903,970	1,904,135
Deferred tax asset**	-	-	-	-	26,251	26,251
Employee benefit asset**	-	-	-	-	864,000	864,000
Intangible assets**	-	-	-	-	76,174	76,174
Investment properties**	-	-	-	-	231,276	231,276
Property, plant and equipment**	-	-	-	-	463,591	463,591
Total assets	3,525,778	37,734,489	4,502,974	11,563,200	5,967,346	63,293,787
Savings fund	26,035,649	10,447,493	2,787,440	8,107,100	-	47,377,682
Income tax payable	-	-	-	-	93,296	93,296
Other liabilities	-	-	-	-	1,465,460	1,465,460
Repurchase agreements	-	4,715,564	2,053,994	-	-	6,769,558
Insurance underwriting provisions	-	-	-	-	797,581	797,581
Loans payable	5,110	-	445,278 -	-	450,388	
Deferred tax liabilities**	-	-	-	-	225,485	225,485
Employee benefit obligation**	-	-	-	-	190,500	190,500
Capital and reserves**	-	-	-	-	5,923,837	5,923,837
Total liabilities, capital and reserves	26,040,759	15,163,057	5,286,712	8,107,100	8,696,159	63,293,787
Total interest rate sensitivity gap *	(22,514,981)	22,571,432	(783,738)	3,456,100	(2,728,813)	-
Cumulative gap	(22,514,981)	56,451	(727,287)	2,728,813	-	-

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

** These are (or include) non-financial instruments.

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
Employee benefit asset**	-	-	-	-	1,208,500	1,208,500
Interest in subsidiaries	-	-	-	-	313,899	313,899
Interest in associates	-	-	-	-	584,579	584,579
Intangible assets**	-	-	-	-	60,564	60,564
Investment properties	-	-	-	-	342,841	342,841
Property, plant and equipment**	-	-	-	-	431,184	431,184
Total assets	4,987,458	34,450,161	5,247,204	5,666,321	6,367,530	56,718,674
Savings fund	-	37,685,192	3,455,117	8,015,277	-	49,155,586
Income tax payable	-	-	-	-	119,385	119,385
Other liabilities	-	-	-	-	386,696	386,696
Loans payable	-	-	431,914	-	-	431,914
Deferred tax liabilities**	-	-	-	-	306,376	306,376
Employee benefit obligation**	-	-	-	-	200,300	200,300
Capital and reserves**	-	-	-	-	6,118,417	6,118,417
Total liabilities, capital and reserves	-	36,685,192	3,887,031	8,015,277	7,131,174	56,718,674
Total interest rate sensitivity gap *	4,987,458	(3,235,031)	1,360,173	(2,348,956)	(763,644)	-
Cumulative gap	4,987,458	1,752,427	3,112,600	763,644	-	-

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

** These are (or include) non-financial instruments.

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

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

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

	Society					
	2009					
	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	835,610	3,660,383	1,566,394	153,993	2,326,676	8,543,056
Investments	940,590	409,812	1,343,808	4,219,803	52,922	6,966,935
Resale agreements	2,409,633	1,581,615	505,953	-	-	4,497,201
Loans	-	30,739,161	-	-	-	30,739,161
Other assets	-	-	-	-	786,106	786,106
Employee benefit asset**	-	-	-	-	864,000	864,000
Interest in subsidiaries	-	-	-	-	338,560	338,560
Intangible assets**	-	-	-	-	56,265	56,265
Investment properties	-	-	-	-	348,596	348,596
Property, plant and equipment**	-	-	-	-	421,662	421,662
Total assets	4,185,833	36,390,971	3,416,155	4,373,796	5,194,787	53,561,542
Savings fund	26,310,905	10,447,493	2,787,440	8,107,100	-	47,652,938
Income tax payable	-	-	-	-	61,849	61,849
Other liabilities	-	-	-	-	423,233	423,233
Loans payable	5,110	-	445,278	-	-	450,388
Deferred tax liabilities**	-	-	-	-	216,566	216,566
Employee benefit obligation**	-	-	-	-	168,600	168,600
Capital and reserves**	-	-	-	-	4,587,968	4,587,968
Total liabilities, capital and reserves	26,316,015	10,447,493	3,232,718	8,107,100	5,458,216	53,561,542
Total interest rate sensitivity gap *	(22,130,182)	25,943,478	183,437	(3,733,304)	(263,429)	-
Cumulative gap	(22,130,182)	3,813,296	3,996,733	263,429	-	-

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

** These are (or include) non-financial instruments.

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 500 basis points in interest rates on Jamaican dollar denominated instruments and a change of 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 2009.

	Group		Society	
	$'000	$'000	$'000	$'000
	Increase	(Decrease)	Increase	(Decrease)
		2010		
Effect on profit or loss	79,548	65,432	72,490	72,490
Effect on equity	128,149	280,390	187,696	218,706
		2009		
Effect on profit or loss	305,847	(305,847)	156,961	(156,961)
Effect on equity	245,991	(222,120)	68,326	(84,259)

(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							
	2010				2009			
	€	US$	£	CDN$	€	US$	£	CDN$
	$'000	$'000	$'000	$000	$'000	$'000	$'000	$'000
Foreign currency assets	11,785	136,347	57,871	5,423	11,733	126,249	56,386	5,000
Foreign currency liabilities	-	(162,798)	(57,084)	(5,452)	-	(136,976)	(55,077)	(4,932)
Net foreign currency asset/(liability)	11,785	(26,451)	787	(29)	11,733	(10,727)	1,309	68

	Society					
	2010			2009		
	US$	£	CDN$	US$	£	CDN$
	$'000	$'000	$'000	$'000	$'000	$'000
Foreign currency assets	112,404	58,201	5,419	97,243	56,328	4,995
Foreign currency liabilities	(111,695)	(58,123)	(5,452)	(92,321)	(55,034)	(4,901)
Net foreign currency asset/(liability)	709	78	(33)	4,922	1,294	94

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(b) Market risks (cont'd):

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

Sensitivity to foreign exchange rate movements

A 5 percent strengthening of the Jamaica dollar against the following currencies at December 31, 2010 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 2009.

	2010			
	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Euro	75,536	(75,203)	-	-
United States	(113,209)	47,769	(3,035)	(10,103)
Pounds Sterling	5,208	(9,273)	(515)	(6,666)
Canadian Dollar	124	(283)	139	(237)
	(32,589)	(36,990)	(3,411)	(17,006)

A 9 percent weakening of the Jamaica dollar against the following currencies at December 31, 2010 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 2009.

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Euro	135,965	135,365	-	-
United States	203,776	(85,985)	5,462	18,186
Pounds Sterling	(9,374)	16,691	928	11,999
Canadian Dollar	(222)	509	(250)	427
	58,660	66,580	6,140	30,612

(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% (2009: 20%) in share prices would result in an increase or an equal decrease, respectively, in reserves of $11,873,476 (2009: $10,824,316) for the Group and $11,006,916 (2009: $9,308,205) for the Society.

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	
	2010	2009
Regulator's minimum requirement	5.00%	5.00%
Actuals:		
As at December 31	7.72%	8.12%
Average for the year	8.64%	6.44%
Maximum for the year	9.91%	8.52%
Minimum for the year	7.72%	5.00%

(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 55.97% (2009: 62.05%). The ratio stipulated by the regulator is 25% (2009: 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

2010	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	over 5 years $'000	Carrying amount $'000
Other liabilities	-	-	252,846	-	-	252,846
Due to customers	-	36,713,552	3,455,117	8,679,119	-	48,847,788
Bank overdrafts	113,069	-	-	-	-	113,069
Repurchase agreements	-	4,073,097	1,621,127	-	-	5,694,224
Certificates of participation	-	361,524	-	-	-	361,524
Loans payable	-	-	431,914	-	-	431,914

2009	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	over 5 years $'000	Carrying amount $'000
Other liabilities	26,521	825,825	1,691,524	-	24,000	2,567,870
Due to customers	26,310,904	10,447,493	3,303,400	255,736	6,650,740	46,968,273
Bank overdrafts	200	-	-	-	-	200
Repurchase agreements	-	5,301,756	1,666,675	-	-	6,968,431
Certificates of participation	-	168,489	387,318	-	-	555,807
Loans payable	31,117	-	445,278	-	3,403	479,798

Society

2010	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	over 5 years $'000	Carrying amount $'000
Other liabilities	-	386,696	-	-	-	386,696
Due to customers	-	37,027,742	3,455,117	8,015,277	-	48,498,136
Bank overdrafts	113,069	-	-	-	-	113,069
Loans payable	-	-	431,914	-	-	431,914

2009	Within One month $'000	One to 3 months $'000	Three to 12 months $'000	One to 5 years $'000	over 5 years $'000	Carrying amount $'000
Other liabilities	-	423,233	-	-	-	423,233
Due to customers	26,310,904	10,447,493	2,787,440	267,009	7,840,092	47,652,938
Bank overdrafts	200	-	-	-	-	200
Loans payable	5,110	-	445,278	-	-	450,388

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(c) Liquidity risk (cont'd):

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

(d) Operational risk:

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

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

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

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

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.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Insurance risk:

(i) Overview:

The principal activity of a former subsidiary in the Group was, up to May 31, 2010, underwriting general insurance. This involved the transfer of risk from persons or entities that are directly subjected to the risk, by means of the sale of insurance policies. This insurance activity exposed the Group to uncertainty surrounding the timing, frequency and severity of claims under these policies.

The management of insurance and financial risk was a critical aspect of the management of the Group's business.

The principal types of policy written were property and motor insurance.

The Group managed insurance risk through its underwriting policy that includes, inter alia, authority limits, approval procedures for transactions that exceed set limits, pricing guidelines and the centralised management of reinsurance. The Group monitored insurance risk exposures both for individual and portfolio types of risks.

Underwriting strategy:

The insurance subsidiary assumes risk through the insurance contracts it underwrites and the exposures are associated with both the perils covered by the specific line of insurance and the specific processes associated with the conduct of the insurance business. The Group managed the individual risk to determine the insurability of risks and exposure to large claims. The Group follows detailed, uniform underwriting practices and procedures designed to properly assess and qualify risks before issuing coverage. The Group underwriting guidelines also outline acceptance limits and the appropriate levels of authority for acceptance of risks.

Reinsurance strategy:

In the normal course of business, the Group sought to reduce the losses that could result from catastrophes or other events that cause unfavourable underwriting results, by reinsuring certain levels of risk with other insurers. Reinsurance ceded does not discharge the Group's obligations as the principal insurer. Failure of reinsurers to honour their obligations could result in losses to the Group. Consequently, a contingent liability exists in the event that an assuming reinsurer is unable to meet its obligations. The Group mitigated this risk by evaluating the financial condition of its reinsurers on a continuing basis.

Over the period that the insurance business operated, a comprehensive reinsurance programme was critical to the financial stability of the organisation and a detailed analysis of the Group's exposures, reinsurance needs and quality of reinsurance securities is conducted annually by senior management.

The Group's exposures are continually evaluated by management to ensure that its reinsurances remain adequate and mechanisms are in place to continually monitor the rating of reinsurance providers.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Insurance risk (cont'd):

(i) Overview (cont'd):

Reinsurance strategy (cont'd):

Under the 2009/2010 reinsurance treaties, the insurance subsidiary retained risk to a basic maximum of US$25,000 on any property claim, J$3,000,000 on any liability claim, and J$5,000,000 on any motor claim. The reinsurance had an upper event limit of US$105,800,000 in respect of earthquake and US$75,586,000 in respect of hurricane, and covered a further US$13,000,000 for earthquake and US$9,300,000 for hurricane, in respect of the Group's net exposure in the event of a catastrophe.

(ii) Terms and conditions of general insurance contracts and associated risks:

The table below provides an overview of the terms and conditions of general insurance contracts written by the Group and the key factors upon which the timing and uncertainty of future cash flows of these contracts depend:

Types of of contract	Terms and conditions	Key factors affecting future cash flows
Property	Property insurance indemnifies, subject to any limits or excesses, the policyholder against loss or damage to their own material property and business interruption arising from this damage.	The risk on any policy varies according to many factors such as location, safety measures in place and the age of the property. The event giving rise to a claim for damage to buildings or contents usually occurs suddenly (as for fire and burglary) and the cause is easily determinable. Therefore, claims are generally notified promptly and can be settled without delay (an exception to this is in relation to land subsistence claims). Property business is, therefore, classified as "short-tailed" and expense deterioration and investment return is of less importance in estimating provisions. The cost of repairing or rebuilding assets, or replacement of, or indemnity for, contents and the time taken to restart or resume operations to original levels for business interruption losses are the key factors influencing the level of claims under these policies.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Insurance risk (cont'd)

(ii) Terms and conditions of general insurance contracts and associated risks (cont'd):

Types of of contract	Terms and conditions	Key factors affecting future cash flows
Motor	Motor insurance contracts provide cover in respect of policyholders' private vehicles and their liability to third parties in respect of damage to property and injury. The exposure on motor insurance contracts is normally limited to the replacement value of the vehicle and a policy limit in respect of third party damage.	In general, claims reporting lags are minor and claim complexity is relatively low. The number of claims is correlated with the price of fuel, exchange rates and economic activity, which affect the amount of traffic activity.
Other	Other insurance contracts provide cover in respect of general accident, mortgage indemnity, engineering and liability.	The risk on any policy varies according to many factors such as the type of injury sustained, safety measures put in place, the type of industry that the business operates and the size of the business. The events giving rise to a claim are rare and the causes can be easily determined.

(iii) Risk management approach:

Property contracts:

The risks relating to property contracts were managed primarily through the pricing and underwriting processes. The Group used strict underwriting criteria to ensure that the risk of loss is acceptable. Furthermore, the Group accepted property insurance risks for one year so that each contract can be re-priced on renewal to reflect the evolving risk profile.

Motor and other contracts:

The risks relating to motor and other contracts were also managed primarily through the pricing and underwriting processes. The Group monitored and reacted to changes in trends of injury awards, litigation and the frequency of claims appeals.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Insurance risk (cont'd)

(iii) Risk management approach (cont'd):

Risk exposure and concentrations of risk:

The following table shows the Group's exposure to general insurance risk (based on the carrying value of insurance provisions at the reporting date) per major category of business.

	Group			
	2010			
	Property $'000	Motor $'000	Other $'000	Total $'000
Gross	-	-	-	-
Net of reinsurance	-	-	-	-
	2009			
	Property $'000	Motor $'000	Other $'000	Total $'000
Gross	449,510	197,119	150,200	796,829
Net of reinsurance	47,783	196,249	41,678	285,710

Claims development:

Claims development information is disclosed in order to illustrate the insurance risk inherent in the Group. The top part of the table below shows how the estimates of total claims for each accident year develop over time. The estimates are increased or decreased as losses are paid and more information becomes known about the severity of unpaid claims. The lower part of the table provides a reconciliation of the total provision included in the statement of financial position and the estimate of cumulative claims.

	Accident year					
	2005 $'000	2006 $'000	2007 $'000	2008 $'000	2009 $'000	2010 $'000
Estimate of cumulative claims						
at end of accident year	136,769	194,950	126,263	100,408	101,069	-
-one year later	135,166	181,801	127,618	112,545	-	-
-two years later	127,374	168,896	125,007	-	-	-
-three years later	122,963	166,582	-	-	-	-
-four years later	120,882	-	-	-	-	-
-five years later	-	-	-	-	-	-
Estimate of cumulative claims	120,882	166,582	125,007	112,545	101,069	-
Cumulative payments to date	(109,304)	(142,084)	(112,767)	(88,744)	(51,067)	-
Claims liability at end of year	11,578	24,498	12,240	23,801	50,002	-

(iv) Exposure to credit risk:

The Group's key areas of exposure to insurance-related credit risk included:

- debt securities, and cash and cash equivalents;
- amounts due from policyholders;
- amounts due from intermediaries;
- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of payments already made to policyholders.

5. FINANCIAL RISK MANAGEMENT (CONT'D)

(e) Ins urance risk (cont'd)

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

The nature of the Group's exposures to insurance-related credit risk up to May 31, 2010 (note 1) and its objectives, policies and processes for managing credit did not change significantly from the prior period.

Credit ratings are not publicly available for any assets with credit risk, except for reinsurance assets. The credit ratings at year end were as follows:

	AA	A	Total
	$'000	$'000	$'000
December 31, 2010	-	-	-
December 31, 2009	315,621	195,506	511,127

The carrying amounts of financial assets do not include any asset that is either past due or impaired.

The Group has no financial assets or reinsurance assets that have been renegotiated.

The Group does not hold any collateral for its premiums receivable.

Concentrations of credit risk:

The Group has no concentration of insurance-related credit risk from counterparties.

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 monitors compliance with the capital requirements established for the general insurance industry. The Regulations require Victoria Mutual Insurance Company Limited to maintain a certain minimum level of assets, capital and surplus to meet its liabilities. The company is solvent and adequately capitalized when the available assets are equal to at least Nil% (2009: 135%) of the required assets (as defined).

At December 31, 2010, the available assets of the general insurance subsidiary, Victoria Mutual Insurance Company Limited were Nil% (2009: 130.69%) of the required assets.

(b) 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 14% (2009: 14%).

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

	2010	2009
	$'000	$'000
Tier 1 Capital		
Ordinary share capital	115,000	115,000
Retained earnings	536,146	420,000
Current year to date profit	109,286	116,146
	760,432	651,146
Less: Revaluation reserves	(12,294)	(124,712)
Intangible assets	-	(10,112)
Total Tier 1 Capital	748,138	516,322
Tier 2 Capital		
Preference shares	50,000	50,000
Total qualifying capital	798,138	566,322
Risk weighted assets		
Deposits & other amounts due from local banks	15,329	3,693
Equity investments	4,333	3,384
Property, plant and equipment	10,791	5,522
Other assets	1,540,127	304,023
Foreign exchange exposure	1,345,953	1,504,066
	2,916,533	1,820,688
Capital ratios:		
Total regulatory qualifying capital expressed as a percentage of total risk weighted assets	27.67%	31.10%
Total Tier 1 Capital expressed as a percentage of total risk weighted assets	25.65%	28.36%

6. CAPITAL MANAGEMENT (CONT'D)

(c) Bank of Jamaica requires that building societies maintain a minimum of 10% (2009: 10%) of their risk weighted assets in capital.

	Society	
	2010	**2009**
	$'000	$'000
Capital base (note 27)	5,113,461	4,098,352
Qualifying capital	4,592,247	4,094,179
On balance sheet risk weighted assets	23,091,778	20,852,334
Off balance sheet risk weighted assets – Loan commitments	1,894,449	1,290,013
Foreign exchange exposure	216,080	629,310
Total risk assessed assets	25,202,307	22,771,657
Risk based capital adequacy ratio	18.22%	17.98%
Regulatory requirement	10.00%	10.00%

7. CASH AND CASH EQUIVALENTS

	Group		Society	
	2010	**2009**	**2010**	**2009**
	$'000	$'000	$'000	$'000
Cash in hand and at banks and other financial institutions	1,232,555	1,060,923	1,137,522	984,313
Statutory reserves held at Bank of Jamaica	478,402	466,989	478,402	466,989
Term deposits at banks [see note 24(a)]	5,778,524	7,091,754	5,778,524	7,091,754
	7,489,481	8,619,666	7,394,448	8,543,056

Statutory reserves, required by regulation to be held at Bank of Jamaica, comprise cash reserves. They are not available for use by the Society and the amount is 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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Held-to-maturity securities:				
Securities denominated in United States dollars:				
Bonds	499,624	523,052	-	-
Securities denominated in Jamaica dollars:				
Bonds	-	261,188	-	-
Debenture	1,000	1,000	-	-
Treasury bills	-	27,399	-	-
	1,000	289,587	-	-
	500,624	812,639	-	-
Available-for-sale securities:				
Securities denominated in United States dollars:				
Bonds	1,947,402	1,087,958	891,304	603,480
Securities denominated in Jamaica dollars:				
Bonds	3,125,496	1,695,876	3,125,496	1,695,876
Certificates of deposit	5,511,901	-	1,219,399	-
Debentures	-	2,228,340	-	230,584
Treasury bills	-	52,299	-	28,364
Local registered stock	-	607,879	-	223,618
	8,637,397	4,584,394	4,344,895	2,178,442
	10,584,799	5,672,352	5,236,199	2,781,922
Loans and receivables:				
Securities denominated in United States dollars:				
Bonds	1,650,674	3,429,108	2,567,484	3,223,700
Securities denominated in Jamaica dollars:				
Bonds	2,567,484	-	-	-
Certificates of Deposit	498,712	-	-	-
	4,716,870	-	-	-
	6,367,544	3,429,108	2,567,484	3,223,700
	15,802,293	9,914,099	7,803,683	6,005,622

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 and the Society is restricted from classifying any financial assets as held-to-maturity until financial year 2011.

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

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

	Group		Society	
	2010	**2009**	**2010**	**2009**
	$'000	$'000	$'000	$'000
Within 3 months	1,799,395	295,814	1,264,376	162,760
From 3 months to 1 year	1,033,656	1,118,602	952,821	623,975
From 1 year to 5 years	5,933,920	4,914,086	2,680,778	2,462,669
Thereafter	7,035,322	3,585,597	2,905,708	2,756,218
	15,802,293	9,914,099	7,803,683	6,005,622

Certain Government of Jamaica securities are pledged by a subsidiary as collateral for repurchase agreements (note 22).

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	**Fair value**	**Carrying value**	**Fair value**
	2010	**2010**	**2009**	**2009**
	$'000	$'000	$'000	$'000
Group				
US$ denominated GOJ				
Global bonds	2,046,640	1,894,358	4,619,203	3,779,590
EURO denominated GOJ				
Global bonds	1,284,936	1,317,515	1,435,712	1,292,141
Society				
US$ denominated GOJ				
Global bonds	1,680,902	1,517,988	2,155,556	1,885,009

(a) Fair value losses of $34,440,000 [2009: $(931,697,000)] for the Group and $28,424,000 [2009 : $(15,349,000)] for the Society, excluding deferred taxation, would have been included in capital and reserves for the year had the investments not been reclassified in a prior year. This amount was estimated on the basis of the mid-price of the securities as at December 31, 2010. Management believes that this price is not necessarily indicative of what the amount would have been if an active market for the securities existed 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 $3,876,542,000 (2009: $7,257,037,000) for the Group and $2,628,440,000 (2009: $ 3,356,806,000) for the Society.

9. **INVESTMENTS – OTHER**

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Loans and receivables:				
Bank deposits	972	866,148	1,410	56,291
Bonds	-	3,756,134	-	-
Available-for-sale:				
Bonds	10,059	852,100	10,059	852,100
Ordinary shares - quoted	59,359	54,121	55,026	46,541
Ordinary shares - unquoted	39	39	39	39
Units in unit trusts	6,993	6,342	6,993	6,342
	77,422	5,534,884	73,527	961,313

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

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

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
No maturity	67,363	116,794	63,468	109,213
Within 3 months	-	473,998	-	-
3 months to 1 year	-	1,031,505	-	695,646
From 1 year to 5 years	-	1,504,286	-	-
Thereafter	10,059	2,408,301	10,059	156,454
	77,422	5,534,884	73,527	961,313

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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Denominated in Jamaica dollars	2,693,798	2,091,178	3,484,712	1,345,046
Denominated in Sterling	408,901	498,800	408,901	498,800
Denominated in United States dollars	4,449,294	2,329,931	4,449,294	2,653,355
	7,551,993	4,919,909	8,342,907	4,497,201

Under resale agreements, the securities obtained as collateral may themselves be sold under repurchase agreements (see note 22). At December 31, 2010, securities with such permission that the Group and the Society held had a fair value of $9,927,913,000 (2009: $5,554,513,000) and $8,847,616,000 (2009: $5,040,135,000), respectively.

11. LOANS

(a) Loans:

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Conventional mortgage loans	28,453,313	29,709,494	28,453,313	29,709,494
Mortgage escrow (see below)	653,620	563,055	653,620	563,055
Allowance for impairment	(353,716)	(123,800)	(353,716)	(123,800)
Net conventional mortgage loans	28,753,217	30,148,749	28,753,217	30,148,749
Share loans	400,738	199,539	400,738	199,539
Commercial loans	231,351	258,597	246,497	257,956
Staff loans	67,653	132,917	67,653	132,917
Total loans, net	29,452,959	30,739,802	29,468,105	30,739,161

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 repayments.

(b) Allowance for impairment:

	Group and Society	
	2010	2009
	$'000	$'000
Balances at the beginning of the year	123,800	69,725
Charged against income during the year	240,847	85,877
Allowance no longer required	(10,931)	(31,802)
Balances at the end of the year per IAS 39 [see (c) below]	353,716	123,800

11. LOANS (CONT'D)

(c) Credit facility reserve:

	Group and Society	
	2010	2009
	$'000	$'000
Regulatory impairment allowance	1,346,975	737,356
Less: Impairment allowance based on IAS 39		
[see (b) above]	(353,716)	(123,800)
Credit facility reserve at end of year	993,259	613,556

The impairment allowance in excess of the amount required under IFRS is included in a non-distributable credit facility reserve [note 26(iv)].

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

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Within three months	312,500	105,026	312,500	105,026
3 months to 1 year	88,724	626,179	103,870	625,538
1 year to 5 years	1,414,261	1,020,150	1,414,261	1,020,150
Thereafter	27,637,474	28,988,447	27,637,474	28,988,447
	29,452,959	30,739,802	29,468,105	30,739,161

12. OTHER ASSETS

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Interest receivable	545,073	871,861	416,726	591,326
Premiums receivable	-	18,187	-	-
Clients funds	34,159	28,676	-	-
Income tax recoverable	51,064	17,230	-	-
Sundry receivables, deferrals and prepayments	572,156	968,181	277,711	194,780
	1,202,452	1,904,135	694,437	786,106

13. DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets:

Deferred tax assets are attributable to the following:

	Group	
	2010	2009
	$'000	$'000
Investments	-	62,356
Other receivables	(356)	(82,856)
Property, plant and equipment	(95)	(1,667)
Employee benefit asset	256	332
Other liabilities	-	53,586
Employee benefit obligation	3,233	3,500
Unrealised foreign exchange gains/(losses)	268	(9,000)
	3,306	26,251

Movement in temporary differences during the year for the Group:

	Balance at Jan 1, 2010	Recognised in income	Recognised in equity	Balance at Dec 31, 2010
	$'000	$'000	$'000	$'000
Investments	62,356	(6,146)	(56,210)	-
Other receivables	(82,856)	82,500	-	(356)
Property, plant and equipment	(1,667)	1,572	-	(95)
Employee benefit asset	332	(76)	-	256
Other liabilities	53,586	(53,586)	-	-
Employee benefit obligation	3,500	(267)	-	3,233
Unrealised foreign exchange (loss)/gain	(9,000)	9,268	-	268
	26,251	33,265	(56,210)	3,306

Deferred tax assets of $16,579,788 (2009: $16,253,159) have not been recognised in respect of tax losses of certain subsidiaries [note 34(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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Investment	-	(14,177)	-	-
Other receivables	(45,477)	(11)	-	-
Employee benefit asset	(362,550)	(255,612)	(362,550)	(259,200)
Property, plant and equipment	(4,617)	(7,803)	(3,916)	(9,484)
Other liabilities	28,488	1,538	-	1,538
Employee benefit obligation	62,156	50,580	60,090	50,580
Unrealised foreign exchange gain	753	-	-	-
Investment properties	11,259	-	-	-
	(309,988)	(225,485)	(306,376)	(216,566)

Movement in temporary differences during the year:

	Group			
	Balance at Jan 1, 2010	Recognised in income	Recognised in equity	Balance at Dec 31, 2010
	$'000	$'000	$'000	$'000
Investments	(14,177)	-	14,177	-
Other receivable	(11)	(45,466)	-	(45,477)
Employee benefit asset	(255,612)	(103,350)	(3,588)	(362,550)
Property, plant and equipment	(7,803)	2,158	1,028	(4,617)
Other liabilities	1,538	26,950	-	28,488
Employee benefit obligation	50,580	11,576	-	62,156
Unrealised foreign exchange gain	-	753	-	753
Investment properties	-	11,259	-	11,259
	(225,485)	(96,120)	11,617	(309,988)

	Society			
	Balance at Jan 1, 2010	Recognised in income	Recognised in equity	Balance at Dec 31, 2010
	$'000	$'000	$'000	$'000
Employee benefit asset	(259,200)	(103,350)	-	(362,550)
Property, plant and equipment	(9,484)	5,568	-	(3,916)
Other liabilities	1,538	(1,538)	-	-
Employee benefit obligation	50,580	9,510	-	60,090
	(216,566)	(89,810)	-	(306,376)

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, was most recently actuarially valued as at December 31, 2007.

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

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

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Employee benefit asset (i)	1,208,500	864,000	1,208,500	864,000
Post-employment medical benefit obligation (ii)	216,200	190,500	200,300	168,600

(i) Employee benefit asset:

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

	Group and Society	
	2010	2009
	$'000	$'000
Present value of funded obligations	(1,886,100)	(1,279,600)
Fair value of plan assets	3,351,800	2,943,500
	1,465,700	1,663,900
Unrecognised actuarial gains	(257,200)	(643,300)
Unrecognised amount of plan assets due to limitation in economic benefit	-	(156,600)
	1,208,500	864,000
Scheme assets consist of the following:		
Equity securities	703,800	579,900
Government securities	2,065,900	1,820,200
Resale agreements	123,700	56,100
Property investments	89,500	69,800
Other assets	368,900	417,500
	3,351,800	2,943,500

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

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

(b) Movements in the net assets recognised in the statement of financial position:

	Group and Society	
	2010	2009
	$'000	$'000
Net asset at January 1	864,000	721,000
Contributions paid	3,000	5,500
Income recognised in the income statement	341,500	137,500
Net assets at December 31	1,208,500	864,000

(c) Movement in plan assets:

	2010	2009
Fair value of plan assets at January 1	2,943,500	2,456,300
Contributions paid into the plan	41,300	40,200
Benefits paid by the plan	(101,900)	(156,000)
Expected return on plan assets	393,300	311,800
Actuarial gain on plan assets	75,600	291,200
Fair value of plan assets at December 31	3,351,800	2,943,500

(d) Income recognised in the income statement:

	Group and Society	
	2010	2009
	$'000	$'000
Current service costs	24,300	17,300
Interest on obligation	205,900	174,600
Expected return on plan assets	(393,300)	(311,800)
Net actuarial gain recognised	(21,800)	(13,000)
Change in amount of pension asset disallowed	(156,600)	(4,600)
	(341,500)	(137,500)
Actual return on plan assets	9.50%	13.50%

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

	2010	2009
	%	%
Discount rate at December 31	11.0	16.0
Expected return on plan assets at December 31	9.5	13.5
Future salary increases	8.5	12.5
Future pension increases	7.0	9.0

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

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

(e) Historical information:

Defined-benefit pension plan:

	2010	2009	2008	2007	2006
	$'000	$'000	$'000	$'000	$'000
Present value of the defined benefit	(1,886,100)	(1,279,600)	(1,120,400)	(1,048,200)	(1,080,100)
Fair value of plan assets	3,351,800	2,943,500	2,463,400	2,380,900	2,023,600
	1,465,700	1,663,900	1,343,000	1,332,700	943,500
Experience adjustments arising on plan liabilities	80,100	28,400	26,700	26,100	(9,600)
Experience adjustments arising on plan assets	76,900	291,200	(141,300)	216,700	(75,800)

(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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Present value of obligations	204,700	185,500	192,500	159,600
Unrecognised actuarial gain	11,500	5,000	7,800	9,000
	216,200	190,500	200,300	168,600

(b) Movements in the obligation recognised in the statement of financial position:

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Balance at beginning of year	190,500	164,400	168,600	146,900
Elimination on disposal of VMIC	(10,400)	-	-	-
Contributions paid	(3,300)	(2,600)	(3,300)	(2,500)
Expense recognised in the income statement	39,400	28,700	35,000	24,200
Balance at end of year	216,200	190,500	200,300	168,600

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

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

(c) Expense recognised in the income statement:

	Group		Society	
	2010	**2009**	**2010**	**2009**
	$'000	$'000	$'000	$'000
Actuarial losses/(gains)	100	(1,200)	-	(1,100)
Current service costs	10,000	7,800	8,400	5,900
Interest on obligations	29,300	22,100	26,600	19,400
	39,400	28,700	35,000	24,200

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

	2010	2009
	%	%
Discount rate	11.0	16.0
Medical claims growth	10.0	15.0

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

The overall expected long-term rate of return on assets is 10 percent. 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 $3,734,362 in contributions to the defined-benefit plan in 2011.

(e) Historical information

Post-employment medical and other benefits:

	2010	**2009**	**2008**	**2007**	**2006**
	$'000	$'000	$'000	$'000	$'000
Present value of the defined benefit obligation:					
Group medical	220,700	187,800	131,400	122,400	126,900
Directors' pension plan	31,753	22,127	18,800	14,300	13,000
Pensioners' concessionary mortgage loans	1,743	2,641	2,200	1,400	1,400
Fair value of plan assets	254,196	212,568	152,400	138,100	141,300
Experience adjustments arising on plan liabilities:					
Group medical	6,000	(29,100)	13,400	15,800	(3,800)
Directors' pension plan	2,775	1,699	(2,676)	800	(300)
Pensioners' concessionary mortgage loans	439	(966)	(1,184)	40	(400)
	9,214	(28,367)	9,540	16,640	(4,500)

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

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

(e) Historical information (cont'd)

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

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

	Group		Society	
	One percentage point increase	One percentage point decrease	One percentage point increase	One percentage point decrease
Effect on the aggregate service and interest cost	12,000	(8,700)	9,900	(7,100)
Effect on the defined benefit obligation	54,900	(41,300)	47,700	(35,900)

15. INTEREST IN SUBSIDIARIES

	Society	
	2010	2009
	$'000	$'000
Shares, at cost [see note 1(b)]	222,566	282,566
Current accounts	91,333	55,994
	313,899	338,560

16. INTANGIBLE ASSETS

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Goodwill arising on consolidation	7,940	7,940	-	-
Computer software (a)	67,673	68,234	60,564	56,265
	75,613	76,174	60,564	56,265

16. INTANGIBLE ASSETS (CONT'D)

(a) Computer software:

	Group			Society		
	Computer software $'000	Improvements in progress $'000	Total $'000	Computer software $'000	Improvements in progress $'000	Total $'000
Cost:						
December 31, 2008	227,873	50	227,923	190,055	50	190,105
Transfer between categories	128	(128)	-	128	(128)	-
Additions	4,335	228	4,563	3,334	228	3,562
Transfer to computer software	-	(2)	(2)	-	-	-
Transfer to property plant and equipment	-	(34)	(34)	-	(34)	(34)
December 31, 2009	232,336	114	232,450	193,517	116	193,633
Disposal of VMIC	(16,772)	-	(16,772)	-	-	-
Additions	2,034	27,182	29,216	1,350	27,182	28,532
Transfer to computer softw`are	31,977	(31,977)	-	31,977	(31,977)	-
Transfer from property plant and equipment	-	4,681	4,681	-	4,679	4,679
December 31, 2010	249,575	-	249,575	226,844	-	226,844
Amortisation:						
December 31, 2008	129,590	-	129,590	109,254	-	109,254
Charge for year	34,626	-	34,626	28,114	-	28,114
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
Carrying value						
December 31, 2010	67,673	-	67,673	60,564	-	60,564
December 31, 2009	68,120	114	68,234	56,149	116	56,265
December 31, 2008	98,283	50	98,333	80,801	50	80,851

17. INVESTMENT PROPERTIES

	Group	Society
	$'000	$'000
Cost:		
December 31, 2008	271,046	388,366
Additions	3,922	3,922
December 31, 2009 and 2010	274,968	392,288
Depreciation:		
December 31, 2008	37,723	37,723
Charge for the year	5,969	5,969
December 31, 2009	43,692	43,692
Charge for the year	5,755	5,755
December 31, 2010	49,447	49,447
Net book values:		
December 31, 2010	225,521	342,841
December 31, 2009	231,276	348,596
December 31, 2008	233,323	350,643

Included in investment properties is land at cost of $41,091,000 (2009: $41,091,000) for the Group, net of intra-group profit of $117,320,000 recorded during 2000; and $41,091,000 (2009: $41,091,000) for the Society.

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 $1,439,500,000 (2009: $1,358,000,000) for the Group and the Society.

18. PROPERTY, PLANT AND EQUIPMENT

	Group				
	Leasehold and freehold land and buildings	Office furniture and equipment	Motor vehicles	Improvements in progress	Total
	$'000	$'000	$'000	$'000	$'000
Cost:					
December 31, 2008	257,513	864,164	11,729	18,720	1,152,126
Translation adjustment*	7,087	10,527	-	-	17,614
Transfer from improvements in progress	-	31,916	-	(31,916)	-
Transfer from intangible assets	-	-	-	34	34
Revaluation adjustment	(2,125)	-	-	-	(2,125)
Additions	627	43,191	2,455	28,421	74,694
Disposals	-	(795)	(690)	-	(1,485)
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
Depreciation					
December 31, 2008	67,803	622,136	9,968	-	699,907
Translation adjustment *	(729)	9,910	(143)	-	8,938
Charge for year	8,247	60,200	1,423	-	69,870
Eliminated on disposals	-	(758)	(690)	-	(1,448)
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
Net book values:					
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
December 31, 2008	189,710	242,028	1,761	18,720	452,219

* 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, 2009 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 (2009: $28,482,363).

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

	Society				
	Leasehold and freehold land and buildings	Office furniture & equipment	Motor vehicles	Improvement in progress	Total
	$'000	$'000	$'000	$'000	$'000
Cost:					
December 31, 2008	212,743	779,131	11,613	18,720	1,022,207
Additions	-	38,438	2,350	28,421	69,209
Transfers	-	31,916	-	-	31,916
Transfer from intangible assets	-	-	-	34	34
Adjustment to capital improvement	-	-	-	(31,916)	(31,916)
Disposal	-	-	(690)	-	(690)
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)	-
Adjustment to improvement in progress	-	-	-	(4,881)	(4,881)
Disposal	-	-	(1,947)	-	(1,947)
December 31, 2010	212,947	913,551	13,498	19,161	1,159,157
Depreciation:					
December 31, 2008	46,388	553,144	9,945	-	609,477
Charge for year	4,723	54,355	1,376	-	60,454
Adjustment to motor vehicles	-	-	(143)	-	(143)
Disposal	-	-	(690)	-	(690)
December 31, 2009	51,111	607,499	10,488	-	669,098
Charge for year	4,724	54,636	1,462	-	60,822
Disposal	-	-	(1,947)	-	(1,947)
December 31, 2010	55,835	662,135	10,003	-	727,973
Net book values:					
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
December 31, 2008	166,355	225,987	1,668	18,720	412,730

The Society's freehold land and buildings include land at a cost of $23,807,012 (2009: $23,807,012).

19. SHAREHOLDERS' SAVINGS

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
B shares	1,778,756	1,710,863	1,778,756	1,710,863
C shares	46,211,755	44,933,404	46,519,553	45,208,660
	47,990,511	46,644,267	48,298,309	46,919,523
Deferred shares [notes 26(i) and 27]	199,827	210,027	199,827	210,027
	48,190,338	46,854,294	48,498,136	47,129,550

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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
On demand to 3 months	36,868,222	36,608,279	37,027,742	36,735,258
Three to 12 months	3,455,117	2,810,320	3,455,117	2,810,320
Over 12 months	7,866,999	7,435,696	8,015,277	7,583,972
	48,190,338	46,854,295	48,498,136	47,129,550

20. DEPOSITORS' SAVINGS

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Due to depositors	657,450	523,388	657,450	523,388
Percentage of the Society's mortgage loan balances	2.30%	1.70%	2.30%	1.70%

21. OTHER LIABILITIES

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Due to reinsurers	-	343,591	-	-
Clients funds	34,306	28,676	-	-
Deposits – private treaty sales	47,384	39,771	47,384	39,771
Accrued expenses and other payables	171,156	1,053,422	339,312	383,462
	252,846	1,465,460	386,696	423,233

22. 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	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Denominated in Jamaica dollars	2,276,341	3,056,827	-	-
Denominated in United States dollars	3,779,406	3,712,731	-	-
	6,055,747	6,769,558	-	-

At December 31, 2010, 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 $8,228,730,457 (2009: $7,311,491,040) for the Group.

23. INSURANCE UNDERWRITING PROVISIONS

	Group	
	2010	2009
	$'000	$'000
Unearned premiums	-	642,238
Outstanding claims	586	155,343
	586	797,581

24. LOANS PAYABLE

	Group and Society	
	2010	2009
	$'000	$'000
United States dollar loan [see (a) below]	428,005	445,278
Interest payable	3,909	5,110
	431,914	450,388

(a) This represents a US$5 million loan, which bears interest at 2.15% per annum. The loan will mature July 29, 2011. The loan is secured by call deposits amounting to £4,758,657 (2009: £3,961,429) (note 7).

25. 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 26(i)].

26. 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 25 and 27)] and its deferred shares (note 19).

(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 27). Transfers of profits to the retained earnings reserve are made at the discretion of the directors, but must be notified to Bank of Jamaica to be effective.

(iii) Capital reserve on consolidation:

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

(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(r) and 11(c)].

(v) Investment revaluation reserve:

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

(vi) Currency translation reserve:

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

27. CAPITAL BASE

	Group and Society	
	2010	2009
	$'000	$'000
Permanent capital fund (note 25)	3,940,285	3,017,506
Reserve fund [note 26(i)]	469,081	366,551
Retained earnings reserve [note 26(ii)]	504,268	504,268
Deferred shares (note 19)	199,827	210,027
Total capital base [note 6(c)]	5,113,461	4,098,352

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

28. 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 estimated fair values of loans receivable are assumed to be the principal receivable, less any provision for losses.

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 carrying value as the loans are due within the short-term and bear interest at rates at or close to market (note 24).

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

The fair values of investments are as follows:

(i) Investments – Jamaica Government securities:

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Held-to-maturity securities:				
Securities denominated in United States dollars:				
Bonds	529,186	449,731	-	-
Securities denominated in Jamaica dollars:				
Bonds	-	261,897	-	-
Treasury bills	-	27,399	-	-
Debenture	1,000	1,000	-	-
	1,000	290,296	-	-
	530,186	740,027	-	-
Available-for-sale securities:				
Securities denominated in United States dollars:				
Bonds	1,947,402	1,073,225	891,304	603,480
Securities denominated in Jamaica dollars:				
Bonds	3,125,496	1,695,877	3,125,496	1,695,876
Debentures	-	2,167,049	1,219,399	230,584
Treasury bills	-	52,299	-	28,364
Local registered stock	-	589,170	-	223,618
Certificate of deposit	5,511,901	-	-	-
	8,637,397	4,504,395	4,344,895	2,178,442
	10,584,799	5,577,620	5,236,199	2,781,922
Loans and receivables:				
Securities denominated in United States dollars:				
Bonds	1,693,885	206,064	-	-
Securities denominated in Jamaica dollars:				
Bonds	1,517,988	1,885,009	1,517,988	1,885,009
Certificate of deposit	498,712	-	-	-
	2,016,700	1,885,009	1,517,988	1,885,009
	3,710,585	2,091,073	1,517,988	1,885,009
	14,825,570	8,408,720	6,754,187	4,666,931

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

(ii) Investments – Other

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Loans and receivables:				
Bank deposits	972	866,167	1,410	56,291
Bonds	-	3,211,581	-	-
Available-for-sale:				
Bonds	10,059	852,100	10,059	852,100
Ordinary shares - quoted	55,026	54,122	55,026	46,541
Ordinary shares - unquoted	39	39	39	39
Units in unit trusts	6,993	6,342	6,993	6,342
	73,089	4,990,351	73,527	961,313

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, 2010				
Available-for-sale financial assets	62,019	10,594,858	39	10,656,916
December 31, 2009				
Available-for-sale financial assets	392,541	6,094,298	39	6,486,878
Financial assets held for trading	3,384	-	-	3,384

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

(ii) Investments – Other (cont'd)

Society

	Level 1	Level 2	Level 3	Total
	$'000	$'000	$'000	$'000
December 31, 2010				
Available-for-sale financial assets	62,019	4,028,118	-	4,090,137
December 31, 2009				
Available-for-sale financial assets	388,344	3,298,600	39,326	3,726,270

29. NET INTEREST INCOME

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Interest income				
Investment securities	1,924,403	2,700,200	1,238,593	1,512,554
Loans to customers	3,462,481	3,630,339	3,464,603	3,631,696
	5,386,884	6,330,539	4,703,196	5,144,250
Interest expense				
Interest on borrowings	5,890	42,793	10,803	47,537
To shareholders	2,400,988	3,422,595	1,969,781	2,616,092
To depositors	11,242	56,118	11,242	56,118
Other	13,739	7,686	13,739	7,686
	2,431,859	3,529,192	2,005,565	2,727,433
Net interest income	2,955,025	2,801,347	2,697,631	2,416,817

30. NET FEE AND COMMISSION INCOME

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Fee and commission income				
Reinsurance	52,473	13,301	-	-
Customers	67,454	78,777	41,258	55,174
Other	15,719	140,551	15,719	13,301
	135,646	232,629	56,977	68,475

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

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Fee and commission expenses				
Reinsurance	64,590	17,064	-	-
Other	22,842	32,613	22,842	32,552
Inter-bank transaction fees	22,725	26,563	22,725	26,419
	110,157	76,240	45,567	58,971
Net fee and commission income	25,489	156,389	11,410	9,504

31. OTHER OPERATING REVENUE

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Insurance premiums	113,592	766,900	-	-
Other income	205,333	219,417	108,498	56,235
Trading gains	121,701	144,730	121,701	141,211
Maintenance income – investment properties	71,583	76,689	71,583	76,689
Fines for late payments	85,898	54,313	85,898	54,313
Unrealised foreign exchange difference	14,408	-	14,408	-
Rent	33,935	37,578	36,776	43,353
Dividends	173,968	20,260	95,377	30,842
Gain/(loss) on sale of investments	56,418	(4,199)	56,418	(4,199)
Gain on disposal of property, plant and equipment	628	376	628	376
	877,464	1,316,064	591,287	398,820

32. PERSONNEL COSTS

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Salaries	855,580	857,071	681,029	666,076
Statutory payroll contributions	90,649	109,347	78,224	91,082
Employee benefit credit	(341,500)	(137,500)	(341,500)	(137,500)
Other	254,913	439,586	236,340	398,607
	859,642	1,268,504	654,093	1,018,265

33. OTHER OPERATING EXPENSES

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Direct operating expenses for investment property that generated rental income	69,832	74,720	69,832	74,720
Administration	755,659	679,062	804,522	739,952
Unrealised foreign exchange difference	-	145,697	-	145,697
Marketing	144,553	116,754	125,449	101,045
Insurance	87,597	77,172	86,572	75,812
Utilities	34,565	29,233	30,525	25,387
Stationery	28,626	25,677	24,834	19,958
Security	23,502	22,006	22,004	19,862
Audit fees	33,833	36,602	18,230	19,937
Directors' fees [note 36(d)]	15,961	17,861	6,133	5,788
Specific provision for loan losses	250,092	66,465	250,092	66,157
Impairment – quoted shares	39	22,842	39	22,842
Underwriting expenses	-	750,407	-	-
	1,444,259	2,064,498	1,438,232	1,317,157

34. INCOME TAX EXPENSE

(a) Income tax expense is based on the surplus for the year, as adjusted for tax purposes, and is computed at statutory rates of 30% for the Society, 33⅓% for local subsidiaries and 25% for certain foreign subsidiaries [note 34(c)]. In computing taxable income of the Society, transfers to general reserves (as defined in the Income Tax Act) are exempt from income tax if the general reserves after such transfers do not exceed 5% of assets. The charge is made up as follows:

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
(i) Current tax expense:				
Current tax at 30%	142,271	104,226	142,271	104,226
Current tax at 25% and 33⅓%				
- current year	114,869	112,316	-	-
- prior years	(282)	16,322	-	16,322
	256,858	232,864	142,271	120,548
(ii) Deferred tax expense:				
Origination and reversal of temporary differences [notes 13(a) and (b)]	62,854	(27,246)	89,810	19,946
Tax benefit of unused tax losses	-	48,709	-	-
	62,854	21,463	89,810	19,946
Actual tax expense recognised	319,712	254,327	232,081	140,494

(b) At the reporting date, taxation losses of certain subsidiaries, subject to agreement by the Commissioner, Taxpayer Audit and Assessment, available for relief against future taxable income, amounted to approximately $40,738,000 (2009: $34,350,000).

34. INCOME TAX EXPENSE (CONT'D)

(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 34(a)] and is 13.47% (2009: 30.63%) for the Group and 14.17% (2009: 35.55%) for the Society. The actual income tax expense differs from the expected income tax expense for the year, as follows:

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Surplus before income tax	2,372,725	830,333	1,637,092	395,182
Computed "expected" income tax using statutory tax rates	582,349	237,984	491,128	118,555
Tax effect of treating the following items differently for income tax than for financial statement purposes:				
Depreciation charge and capital allowances	(27,584)	(8,183)	(28,646)	(8,170)
Disallowed expenses	(1,852)	(7)	-	-
Unrealised exchange gain	(5,983)	(2,511)	(4,322)	-
Interest receivable	-	9	-	-
Tax losses utilised	-	324	-	-
Other	(227,218)	10,389	(226,079)	13,787
	319,712	238,005	232,081	124,172
Adjustment for prior year underprovision	-	16,322	-	16,322
Actual tax expense recognised	319,712	254,327	232,081	140,494

35. SURPLUS FOR THE YEAR

	Group	
	2010	2009
	$'000	$'000
Dealt with in the financial statements of:		
The Society	1,405,012	254,688
Subsidiaries	648,001	321,318
	2,053,013	576,006

In accordance with the policy set out at note 4(a), non-controlling interest has not been allocated a share of the relevant subsidiary's loss.

36. 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:

	2010	2009
	$'000	$'000
Subsidiaries:		
Resale agreements	1,823,410	718,173
Shareholders' savings	(317,065)	(277,964)
Net lease payable	15,951	10,917
Key management personnel:		
Mortgage loans	45,292	35,551
Other loans	8,490	15,108
Shareholders' savings	(14,044)	(13,331)
Non-executive Directors - mortgage loans	25,094	11,239

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:

	2010	2009
	$'000	$'000
Directors:		
Interest from loans	2,333	3,283
Key management personnel:		
Interest from loans	6,940	7,388
Interest expense	(1,165)	(865)
Subsidiaries:		
Interest and dividends from investments	99,367	45,359
Interest on loans	8,012	6,500
Other operating revenue	21,848	20,840
Interest expense	(17,735)	(21,491)
Other operating expenses	(211,013)	(198,492)

36. RELATED PARTY TRANSACTIONS (CONT"D)

(d) Key management personnel compensation:

In addition to directors' fees paid to non-executive directors (note 33), compensation of key management personnel, included in personnel costs (note 32), is as follows:

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Short-term employee benefits	113,100	83,670	92,896	74,581
Post employment benefits	557	544	557	544
	113,657	84,214	93,453	75,125

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.

37. COMMITMENTS

(a) Operating lease commitments at the date of the statement of financial position expire as follows:

	Group		Society	
	2010	2009	2010	2009
	$'000	$'000	$'000	$'000
Within one year after that date	15,862	6,967	14,772	24,076
Subsequent years	12,415	10,713	6,529	10,145

(b) Commitments for capital expenditure for the Group and the Society amount to approximately $11,362,000 (2009: $17,055,000) 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.

38. FOREIGN EXCHANGE RATES

The Group uses the average of Bank of Jamaica's buying and selling rates (2009: buying) for balances denominated in foreign currencies [see policy 4(s)]; the rates are as follows:

	2010	2009
	J$	J$
United States Dollar	85.60	89.06
Canadian Dollar	84.34	83.25
Pound Sterling	132.27	141.68

2010 HIGHLIGHTS

VMBS FLORIDA – OUR NEWEST FINANCIAL SERVICES HUB

The VMBS Florida Representative Office was officially opened with a Ribbon Cutting & Dedication Ceremony, on March 30, 2010, further expanding the range of key financial services available to Jamaicans in the Diaspora. Among those in attendance were Sandra Grant Griffiths, Jamaica Consul General in Miami and other Florida local and state officials including State Representative Hazel P. Rogers and Mayor Shirley Gibson of Miami Gardens.

To further commemorate the occasion, the VMBS Team unveiled its Inaugural Community Forum at the Signature Grand Hotel in Davie, Florida. This served as an opportunity for guest speaker Mr. Joseph Matalon CD, President of the PSOJ to update guests on the economic outlook for Jamaica and the Caribbean as well as for Victoria Mutual to update the Diaspora on its strategic outlook for 2010 and beyond.

STAYING IN TOUCH WITH JAMAICANS IN THE DIASPORA

For over a century, Victoria Mutual has maintained a long-standing relationship with Jamaicans in the Diaspora. As one of the oldest and most well-respected financial institutions in Jamaica with Members residing in over 50 countries around the world, there is hardly a Jamaican family that has not benefited from the financial solutions offered by Victoria Mutual.

During 2010, Victoria Mutual continued to play an active part in reaching out to the Diaspora in the USA, Canada and UK.

Team Members from the UK Representative Office at the Victoria Mutual sponsored Jamaican Basic School Charity Ball. Senior Vice-President, Group Strategy, Allan Lewis (2nd left) gave the Sponsor's Remarks on behalf of Victoria Mutual. Event proceeds have been slated for use in assisting basic schools across Jamaica.

The Canadian Representative Office took time out to celebrate the festive season with its Members during a Christmas Cocktail Reception. The Team used the opportunity to express their appreciation to Members for their support in 2010.

Suzette Rochester, Manager, VMBS Florida Representative Office greets Deputy Prime Minister of Jamaica and Minister of Foreign Affairs and Trade, the Hon Dr. Kenneth Baugh at the Buy Jamaica, Brand We Love Exposition in Florida.

Manager, Florida Representative Office, Suzette Rochester takes time out to read to children at the Parkway Baptist Wee Care Pre School in Miami, Florida during our 131st Anniversary Celebration.




ONE LESS = MORE

In 2010, VMBS launched a new savings campaign themed, "ONE LESS = MORE", geared towards educating the public on the value of savings, and reiterated the idea that small sacrifices can make a big impact on their financial outcome. President and CEO, Victoria Mutual, Mr. Richard K. Powell remarked that the savings campaign underscores the Society's commitment to creating value for our Members and customers. The campaign launch was held at the VM New Kingston location and included an outdoor broadcast, concert, prizes and giveaways.

CONVERSATIONS IN THE GARDEN




The South Eastern Regional Team hosted a series of cocktail receptions for new and existing Members entitled "Conversations in the Garden". The Team thanked the existing Members for their loyalty to the Society over the years and shared information about the various savings and loans options available from VMBS with potential Members. They also seized the opportunity to update guests about the many benefits of becoming a Member of the Society.

FINANCIAL EMPOWERMENT WORKSHOP

Victoria Mutual hosted personalized financial workshops under the theme "Paving the Road to Financial Empowerment: Small Steps. Life Changing Results" during 2010. The aim of these workshops was to create personalized solutions for individuals during these uncertain financial times.

The presentation focused on practical exercises reflecting real-life situations and outlined the importance of setting goals, exploring multiple sources of income, debt management, risk mitigation and planning with a financial advisor.





VICTORIA MUTUAL

2011 Corporate Data

SENIOR MANAGEMENT TEAM

Richard K. Powell, M.B.A., 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., M.B.A., B.Sc.
Senior Vice-President, Group Strategy

Janice E. McKenley, F.C.C.A., F.C.A., M.B.A. (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

Beverley Strachan, M.B.A., Dip Ed., B.Sc (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, Group Information & Communication Technology

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

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

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

Densey Davis-Lumsden, PMP, M.Sc., B. Sc.
Head, Programme Management Office

MANAGERS OF SUBSIDIARIES

- Joan Latty, B.Sc (Hons.) Dip. Mgmt. Studies
  Actg. General Manager
  Victoria Mutual Property Services
- Natasha Service, B.Sc., Grad Dip.
  Actg. General Manager
  VM Money Transfer Services Ltd.
- Devon Barrett, M.B.A., 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 - WESTERN REGION

- Jeanne P. Robinson-Foster,
  C.L.E., LL.B (Hons), B.A.
- Hon. Roylan Barrett, C.D., A.C.I.I.,J.P.
- Dalkeith Hannah, F.R.I.C.S., F.J.I.Q.S.

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 Chief Justice Kenneth Smith, O.J.
  (deceased)
- 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., M.B.A., B.Sc (Hons)
- Miss Megan Dean, M.B.A., 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
Citibank N.A.
First Caribbean International Bank of Jamaica Ltd.
National Commercial Bank Jamaica Ltd.
RBTT 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

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