

**VICTORIA MUTUAL WEALTH MANAGEMENT
UNIT TRUST – BOND FUND III**

FINANCIAL STATEMENTS

DECEMBER 31, 2017



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INDEPENDENT AUDITORS' REPORT

To the Directors of Victoria Mutual Wealth Management Limited
VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: BOND FUND III

Opinion

We have audited the financial statements of Victoria Mutual Wealth Management Unit Trust: Bond Fund III ("the Fund"), set out on pages 4 to 22, which comprise the statement of financial position as at December 31, 2017, the statements of profit or loss and other comprehensive income, changes in unit holders' funds and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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



INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Directors of Victoria Mutual Wealth Management Limited
VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: BOND FUND III

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Directors of Victoria Mutual Wealth Management Limited
VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: BOND FUND III

Auditors' Responsibilities for the Audit of the Financial Statements (Cont'd)

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Chartered Accountants
Kingston, Jamaica

June 8, 2018


VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Statement of Financial Position

As at December 31, 2017*(expressed in United States dollars unless otherwise indicated)*

	<u>Notes</u>	<u>2017</u> \$'000	<u>2016</u> \$'000
ASSETS			
Cash		219	1,071
Resale agreements	3	1,150	-
Investment securities	4	17,044	4,985
Interest receivable		426	112
Due from Victoria Mutual Wealth Management Limited	5	<u>661</u>	<u>-</u>
Total assets		<u>19,500</u>	<u>6,168</u>
LIABILITIES			
Bank overdraft		-	641
Due to Victoria Mutual Wealth Management Limited	5	-	326
Accounts payable	6	<u>73</u>	<u>26</u>
Total liabilities		<u>73</u>	<u>993</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		<u>19,427</u>	<u>5,175</u>
Represented by:			
UNIT HOLDERS' FUNDS	7	<u>19,427</u>	<u>5,175</u>
Number of units in issue			
at December 31, 2017 (rounded in thousands)	7	<u>19,042</u>	<u>5,388</u>
Value per unit	10	<u>\$1.0202</u>	<u>0.9604</u>

The financial statements on pages 4 to 22 were approved for issue on June 8, 2018, by the Board of Directors of Victoria Mutual Wealth Management Limited, the Fund Manager, and signed on its behalf by:


 _____ Chairman
 Michael McMorris


 _____ Managing Director
 Devon Barrett

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

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Statement of Profit or Loss and Other Comprehensive Income

Year ended to December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Income:		
Interest income	615	47
Realised gain on sale of investment securities	<u>138</u>	<u>-</u>
	753	47
Net change in fair value of investment securities	(118)	(105)
	<u>635</u>	<u>(58)</u>
Administration expenses:		
Auditors' remuneration	19	19
Irrecoverable General Consumption Tax	30	5
Management fees	108	7
Trustee fees	48	4
Other expenses	<u>4</u>	<u>3</u>
	<u>209</u>	<u>38</u>
Profit/(loss) for the year/period, being total comprehensive income/(loss)	<u>426</u>	<u>(96)</u>

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

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Statement of Changes in Unit Holders' Funds

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)*(expressed in United States dollars unless otherwise indicated)*

	<u>Notes</u>	<u>2017</u> \$'000	<u>2016</u> \$'000
Balance at the beginning of the year		5,175	-
Contributions and redemptions by holders of redeemable units:			
Issue of redeemable units during the year/period	7	14,970	5,323
Redemption of units during the year/period	7	(1,144)	(52)
Total contributions and redemptions by holders of redeemable units, net		19,001	5,271
Profit/(loss) for the year/period, being total comprehensive income/(loss)		<u>426</u>	<u>(96)</u>
Unit holders' funds as at December 31, 2017		<u>19,427</u>	<u>5,175</u>

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

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Statement of Cash Flows

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

	<u>Notes</u>	<u>2017</u> \$'000	<u>2016</u> \$'000
Cash flows from operating activities			
Profit/(loss) for the year/period		426	(96)
Adjustments for:			
Interest income		(615)	(47)
Realised gain on sale of investment securities		(138)	-
Change in fair value of investment securities		<u>118</u>	<u>105</u>
		(209)	(38)
Changes in operating assets and liabilities			
Due to Victoria Mutual Wealth Management Limited		(326)	326
Accounts payable		47	26
Resale agreements		(1,150)	-
Investment securities		(12,039)	(5,090)
Due from Victoria Mutual Wealth Management		(661)	-
Interest receivable on acquired investments		-	(109)
Proceeds from issue of units	7	14,970	5,323
Payments for units encashed	7	<u>(1,144)</u>	<u>(52)</u>
		(512)	386
Interest received		<u>301</u>	<u>44</u>
Net cash provided by operating activities, being net increase in cash resources		(211)	430
Cash and cash equivalents at the beginning of the year		<u>430</u>	-
Cash and cash equivalents at the end of the year		<u><u>219</u></u>	<u><u>430</u></u>
Comprising:			
Cash and bank balances		219	1,071
Bank overdraft		<u>-</u>	<u>(641)</u>
		<u><u>219</u></u>	<u><u>430</u></u>

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

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

1. The Fund

Bond Fund III (“the Fund”) is a portfolio in the Victoria Mutual Wealth Management Unit Trust (“the Trust”), which was established by Trust Deed dated December 11, 2013 and registered in Jamaica on September 24, 2015 as a Unit Trust Scheme under the Unit Trust Act. The Trust is an open-ended fund comprising a diversified portfolio of investments. The Fund is managed by Victoria Mutual Wealth Management Limited, (“the Fund Manager”), and the Trustee is JCSD Trustee Services Limited. Both companies are incorporated and domiciled in Jamaica. The registered office of the Fund is located at 75 Half Way Tree Road, Kingston, Jamaica, WI.

The Fund Manager is a wholly-owned subsidiary of Victoria Mutual Investments Limited (“parent company”). The ultimate parent is The Victoria Mutual Building Society.

The Fund’s objective is to provide investors with capital appreciation over the long term by investing primarily in bonds issued by Sovereign and corporate entities across Caricom, USA, Canada and Europe that are denominated in United States dollars.

The income of the Fund is exempt from income tax under Section 12(t) of the Income Tax Act.

2. Statement of compliance, basis of preparation and significant accounting policies

(a) Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

At the date of approval of these financial statements, certain new and amended standards were in issue but had not yet come into effect. They were not adopted early and therefore have not been taken into account in preparing these financial statements. Those which are relevant to the Fund are set out below:

- (i) IFRS 9, *Financial Instruments*, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL) - are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements (Continued)

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(a) Statement of compliance (continued):

(i) IFRS 9, *Financial Instruments* (continued)

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with an ‘expected credit loss’ model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

The Fund Manager has examined the effects of IFRS 9 in order to determine the qualitative and quantitative impacts of the implementation. The Fund considered that the overall impact of the implementation of IFRS 9 will not have a significant impact on its financial statements.

(ii) IFRS 15, *Revenue From Contracts With Customers*, effective for accounting periods beginning on or after January 1, 2018, replaces IAS 11, *Construction Contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter Transactions Involving Advertising Services*. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two entities in the same line of business exchange non-monetary assets to facilitate sales to other parties.

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

There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The Fund Manager is assessing the impact that these amendments will have on the Fund’s 2018 financial statements.

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

- Prepayment features with negative compensation:

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

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements (Continued)

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(a) Statement of compliance (continued):

(iii) Amendments to IFRS 9, *Financial Instruments* (continued)

• Modifications to financial liabilities:

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

The Fund Manager is assessing the impact that this amendment will have on its 2019 financial statements.

(b) Basis of preparation and functional currency:

The financial statements are presented in United States dollars, which is the functional currency of the Fund, rounded to the nearest thousand (\$'000), unless otherwise stated.

(c) Use of estimates and judgements:

The preparation of the financial statements to conform to IFRS requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, contingent assets and contingent liabilities at the reporting date, and the income and expense for the period then ended. Actual amounts could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in both current and future periods, as appropriate.

Judgements that have a significant effect on the financial statements are made by Management in the application of IFRS. Estimates with a significant risk of material adjustment in the next financial year are in respect of the fair value of investments, as discussed in note 2(1)(iv).

(d) Resale agreements:

Resale agreements (reverse repos) are short-term contracts under which securities are bought with simultaneous agreements to resell them on specified dates and at specified prices.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements (Continued)

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(d) Resale agreements (continued):

The difference between the purchase and resale considerations is recognised on the accrual basis over the period of the agreements, using the effective interest method and is included in interest income.

(e) Investment securities:

Investments are carried at fair value. Where fair value cannot be reliably determined, they are measured at cost. Movements in value occasioned by market conditions are included in the statement of profit or loss.

(f) Accounts receivable:

Accounts receivable are measured at amortised cost less impairment losses, which also reflects fair value.

(g) Cash:

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

(h) Accounts payable:

Accounts payable are measured at amortised cost, which also reflects fair value.

(i) Revenue recognition:

Interest income is recorded as it accrues, unless collectability is in doubt, and is recognised in profit or loss using the effective interest method.

(j) Unit holders' funds:

The Fund classifies financial instruments issued as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. The redeemable units issued by the Fund provide investors with the right to require redemption for cash at a value proportionate to the investor's share in the Fund's net assets at the redemption date and also in the event of the Fund's liquidation.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements (Continued)

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(k) Management fee expenses:

Management fee expenses are recorded on the accrual basis, in accordance with the terms of the contractual agreements with the Fund Manager.

(l) Financial assets and financial liabilities:

(i) General:

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. For the purposes of the financial statements, financial assets have been determined to include investment securities and accounts receivable. Similarly, financial liabilities include accounts payable.

(ii) Recognition and initial measurement:

Financial assets and liabilities are recognised initially on the settlement date at which the Fund becomes a party to the contractual terms of the instrument.

Financial assets at fair value through profit or loss are measured initially at fair value. Other transaction costs, if any, are recognised in the statement of profit or loss.

(iii) Classification:

The Fund has classified financial assets and financial liabilities at fair value through profit or loss.

Where a quoted market price is not available, the fair value is estimated using pricing models or discounted cash flow techniques or a generally accepted alternative method.

(iv) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, Management measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on arm's length basis.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements (Continued)

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(I) Financial assets and financial liabilities (continued):

(iv) Fair value measurement (continued):

If a market for a financial instrument is not active, Management establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same and discounted cash flow analyses.

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Fund, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instruments.

The Fund calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

When a transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument.

All changes in fair value, other than interest income, are recognised in profit or loss.

(v) Identification and measurement of impairment:

At each reporting date, Management assesses whether there is objective evidence that financial assets are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an adverse impact on the future cash flows of the asset that can be estimated reliably.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements (Continued)

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

2. Statement of compliance, basis of preparation and significant accounting policies (continued)

(l) Financial assets and financial liabilities (continued):

(v) Identification and measurement of impairment (continued):

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Fund on terms that the Fund would not otherwise consider, indications that a borrower or issuer will enter bankruptcy or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

(vi) Derecognition:

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

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

3. Resale agreements

The Fund purchases Government of Jamaica Securities and agrees to resell them on specified dates and at specified prices. At the reporting date, the fair value of the underlying Securities approximates the carrying value of the resale agreements.

4. Investment securities

	<u>2017</u> \$'000	<u>2016</u> \$'000
At fair value through profit or loss:		
Bank of Jamaica certificate of deposit	301	-
Government of Jamaica bonds	1,711	2,352
Other sovereign bonds	7,361	1,616
Corporate bonds	7,204	1,017
VMBS deferred shares	<u>467</u>	<u>-</u>
	<u>17,044</u>	<u>4,985</u>

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements (Continued)

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)*(expressed in United States dollars unless otherwise indicated)*5. Due from/to Victoria Mutual Wealth Management Limited

This represents the net balance of current account with the Fund Manager. This include management fee payable and amounts collected from or paid to unit holders for the purchase or redemption of units.

6. Accounts payable

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Accrued audit fees	22	22
Trustee fees	15	4
Withholding tax payable	6	-
Other payable	<u>30</u>	<u>-</u>
	<u>73</u>	<u>26</u>

7. Unit holders' funds

The Fund's capital is represented by the redeemable units outstanding. The fundamental investment objective of the Fund is to provide investors with capital appreciation over the long-term. In keeping with the Fund's investment objectives, the Fund Manager may invest up to 10% of the net assets of the Fund in instruments issued by the same issuer. This restriction shall not apply to securities issued by a government that has received an investment grade credit rating and securities issued or granted by the Government of Jamaica or Bank of Jamaica.

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Balance at the beginning of the year	5,175	-
Profit/(loss) for the year/period	426	(96)
Proceeds from issue of new units	<u>14,970</u>	<u>5,323</u>
Total inflows	20,571	5,227
Units encashed and repaid during the year/period	(1,144)	(52)
Balance as at the end of the year	<u>19,427</u>	<u>5,175</u>
	Thousands of	Thousands of
	<u>units</u>	<u>units</u>
	<u>2017</u>	<u>2016</u>
Redeemable units:		
Balance at the beginning of the year	5,388	-
Issued during the year/period	14,791	5,441
Redeemed during the year/period	(1,137)	(53)
Balance as at the end of the year	<u>19,042</u>	<u>5,388</u>

After the initial offer period, redeemable units are available for subscription and redemption on each day that is a business day in Jamaica at a price equal to the net asset value per unit.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements (Continued)

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

8. Financial instruments – Risk management

(a) Introduction and overview

In this note “Group” refers to The Victoria Mutual Building Society and its subsidiaries. The Victoria Mutual Building Society is the ultimate parent of the Fund Manager.

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

- credit risk
- liquidity risk
- market risk

The Board of Directors of the Fund Manager has overall responsibility for the establishment and oversight of the Fund’s risk management framework. Senior management reports to the Board of Directors on their activities every other month. The Fund’s risk management policies are designed to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Fund Manager regularly reviews its risk management policies and systems to reflect changes in market conditions and product and service offerings.

The Audit, Risk and Conduct Review Committee is responsible for monitoring compliance with the Fund’s risk management policies and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Fund.

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

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

(b) Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from investing activities. Balances arising from these activities include debt securities and resale agreements.

(i) Exposure to credit risk

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

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements (Continued)

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

8. Financial instruments – Risk management (continued)

(b) Credit risk (continued)

(ii) Management of credit risk

The Fund manages the credit risk on financial assets as follows:

- Resale agreements

Collateral is held for all resale agreements.

- Investment securities

The Fund Manager limits the level of risk it undertakes by investing substantially in short term Government of Jamaica debt securities, sovereign bonds, corporate bonds and VMBS deferred shares. Such securities are generally unsecured. However, management does not expect any counterparty to fail to meet its obligations.

At the end of the reporting date, the Fund had exposure to credit risk in relation to interest bearing investments amounting to \$18,194,000 (2016: \$4,985,000).

- Amounts receivable

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

(iii) Impairment

No financial asset was considered impaired at the reporting date.

(c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations from its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due under both normal or stressed conditions.

The Fund Manager aims at maintaining flexibility in funding by having sufficient liquid short term assets to cover its obligations.

The Fund's financial liabilities comprise accounts payable, due to Fund Manager and bank overdraft that are repayable within one month at the carrying amounts reflected on the statement of financial position.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements (Continued)

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

8. Financial instruments – Risk management (continued)

(d) Market risk

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

(e) Interest rate risk

Interest rate risk 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. It arises when there is a mismatch between interest-earning assets and interest-bearing liabilities which are subject to interest rate adjustments 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 Fund is exposed to interest rate risk on its investment fund.

At the reporting date, the interest rate profile of the fund's interest bearing financial was:

	<u>2017</u>	<u>2016</u>
	\$'000	\$'000
Fixed rate financial instruments	17,044	4,985
Resale agreements	<u>1,150</u>	<u>-</u>

Fair value sensitivity analysis for fixed rate instruments

An increase or decrease of basis points in interest rates at the reporting date would have the following impact:

	<u>2017</u>	
	50bps <u>Increase</u> \$'000	50bps <u>Decrease</u> \$'000
Effect on profit	<u>(319)</u>	<u>329</u>
	<u>2016</u>	
	100bps <u>Increase</u> \$'000	50bps <u>Decrease</u> \$'000
Effect on loss	<u>(216)</u>	<u>114</u>

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements (Continued)

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

8. Financial instruments – Risk management (continued)

(f) Management of Unit Holders' Funds

The Fund Manager's objectives when managing the Fund are to safeguard the Fund's ability to continue as a going concern in order to provide optimum returns on funds under management. The Board of Directors and responsible senior management of the Fund Manager monitor the return on the funds under management.

The objective is to maintain a strong fund base so as to sustain future growth. The Fund is not exposed to any externally imposed capital requirements.

9. Fair value of financial instruments

Financial instruments that are measured at fair value are grouped into levels based on the degree to which the fair value inputs are observable or unobservable as follows:

Level 1 – includes quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – includes 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 – includes inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Valuation techniques and significant unobservable inputs:

The following table shows the valuation technique used in measuring fair value of assets, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurement
<ul style="list-style-type: none"> • Government of Jamaica securities (Local and Overseas) • Corporate bonds • Other Sovereign bonds 	<ul style="list-style-type: none"> • Obtain bid yield from yield curve provided by a recognised pricing source (which uses market-supplied indicative bids). • Using this yield, determine price using accepted formula. • Apply price to estimate fair value. 	Not applicable	Not applicable

At the reporting date, fair value of investment securities was determined as level 2 of the fair value hierarchy.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements (Continued)

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

10. Unit prices

The price per unit, computed by dividing the value of the unit holders' funds by the number of units in issue as at December 31, 2017.

11. Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "reporting entity").

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) Has control or joint control over the reporting entity;
 - (ii) Has significant influence over the reporting entity; or
 - (iii) Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions apply:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) Both entities are joint ventures of the same third party;
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;
 - (vi) The entity is controlled, or jointly controlled by a person identified in (a); or;
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity or any member of a group of which it is a part, provides key management services to the entity.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements (Continued)

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)*(expressed in United States dollars unless otherwise indicated)*11. Related parties (continued)

- (b) An entity is related to a reporting entity if any of the following conditions apply (continued):

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

The Fund's key related party relationships are with:

- Victoria Mutual Wealth Management Limited (Fund Manager) and its ultimate parent, The Victoria Mutual Building Society; and
- Other Funds under the Victoria Mutual Wealth Management Unit Trust.

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

	<u>2017</u> \$'000	<u>2016</u> \$'000
(i) Victoria Mutual Wealth Management Limited:		
Amounts receivable/(payable)	661	(326)
Resale agreements	1,150	-
(ii) The Victoria Mutual Building Society:		
Cash balance	121	18
Deferred shares	<u>467</u>	<u>-</u>

- (d) The statement of profit or loss and other comprehensive income includes the following expense incurred in transactions with related parties in the ordinary course of business:

	<u>2017</u> \$'000	<u>2016</u> \$'000
Management fees expense –		
Victoria Mutual Wealth Management Limited	<u>108</u>	<u>7</u>

- (e) The following related parties are unit holders as at December 31 with balances as shown:

	<u>2017</u> \$'000	<u>2016</u> \$'000
Key management personnel of the Fund Manager and its ultimate parent	10	12
Victoria Mutual Wealth Management Limited	<u>134</u>	<u>125</u>

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund III

Notes to the Financial Statements (Continued)

Year ended December 31, 2017

(with comparatives for the period from August 10, 2016 to December 31, 2016)

(expressed in United States dollars unless otherwise indicated)

12. Subsequent event

On June 1, 2018, the Government of Barbados announced that it would be seeking the co-operation of its domestic and external creditors in restructuring its public debt, suspending payments due on debts and to external commercial creditors.

As a consequence, the fair value of the Government of Barbados global bonds held by the Fund has declined to 45 cents on the dollar as at the reporting date. The effect of this decline in the respective prices of the assets held as at December 31, 2017 would have been US\$1,238,990.