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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Victoria Mutual Wealth Management Unit Trust: Bond Fund II ("the Fund"), set out on pages 4 to 28, which comprise the statement of financial position as at December 31, 2018, 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, 2018, and of its financial performance and 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.

R. Tarun Handa
Cynthia L. Lawrence
Rajan Trehan
Norman O. Rainford
Nigel R. Chambers

W. Gihan C. De Mel
Nyssa A. Johnson
Wilbert A. Spence
Rochelle N. Stephenson



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

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.
- 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.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

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

Auditors' Responsibilities for the Audit of the Financial Statements (Continued)

- 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.

A handwritten signature of the KPMG firm, written in blue ink.

Chartered Accountants
Kingston, Jamaica

April 30, 2019

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Statement of Financial Position

As at December 31, 2018


(expressed in United States dollars unless otherwise indicated)

	<u>Notes</u>	<u>2018</u> \$'000	<u>2017</u> \$'000
ASSETS			
Cash and cash equivalents		219	838
Resale agreements	5	1,867	250
Investment securities	6	11,208	12,461
Interest receivable		306	300
Accounts receivable	7	<u>835</u>	<u>-</u>
Total assets		<u>14,435</u>	<u>13,849</u>
LIABILITIES			
Due to Victoria Mutual Wealth Management Limited	8	599	841
Accounts payable	9	<u>37</u>	<u>17</u>
Total liabilities		<u>636</u>	<u>858</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		<u>13,799</u>	<u>12,991</u>
Represented by:			
UNIT HOLDERS' FUNDS	10	<u>13,799</u>	<u>12,991</u>
Number of units in issue			
at December 31 (rounded in thousands)	10	<u>13,804</u>	<u>12,930</u>
Value per unit	13	<u>\$0.9996</u>	<u>1.0047</u>

The financial statements on pages 4 to 28 were approved for issue on April 30, 2019, by the Board of Directors of Victoria Mutual Wealth Management Limited, the Fund Manager, and signed on its behalf by:



Courtney Campbell Director



Rezworth Burchenson Director

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

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Statement of Profit or Loss and Other Comprehensive Income

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

	<u>2018</u>	<u>2017</u>
	\$'000	\$'000
Income:		
Interest income calculated using the effective interest method	798	471
Realised (loss)/gain on sale of investment securities	(5)	43
Other income	<u>5</u>	<u>1</u>
	798	515
Net change in fair value of investment securities	<u>(660)</u>	<u>(98)</u>
	<u>138</u>	<u>417</u>
Administration expenses:		
Auditors' remuneration	18	8
Irrecoverable General Consumption Tax	34	19
Management fees	129	74
Trustee fees	59	33
Other expenses	<u>40</u>	<u>5</u>
	<u>280</u>	<u>139</u>
(Loss)/profit for the year, being (decrease)/increase in net assets attributable to unit holders	<u>(142)</u>	<u>278</u>

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

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Statement of Changes in Unit Holders' Funds

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

	<u>Notes</u>	<u>2018</u> \$'000	<u>2017</u> \$'000
Balance at the beginning of the year		12,991	2,865
Contributions and redemptions by holders of redeemable units:			
Issue of redeemable units during the year	10	3,257	12,274
Redemption of units during the year	10	(2,307)	(2,426)
Total contributions and redemptions by holders of redeemable units, net		13,941	12,713
(Loss)/profit for the year, being (decrease)/increase in net assets attributable to unit holders		(142)	278
Unit holders' funds as at December 31		<u>13,799</u>	<u>12,991</u>

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

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Statement of Cash Flows

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

	<u>Notes</u>	<u>2018</u> \$'000	<u>2017</u> \$'000
Cash flows from operating activities			
(Loss)/profit for the year		(142)	278
Adjustments for:			
Interest income calculated using the effective interest method		(798)	(471)
Realised gain/(loss) on sale of investment securities		5	(43)
Change in fair value of investment securities		<u>660</u>	<u>98</u>
		(275)	(138)
Changes in operating assets and liabilities			
Due to Victoria Mutual Wealth Management Limited		(242)	639
Accounts payable		20	5
Accounts receivable		(835)	-
Resale agreements		588	(250)
Investment securities		(1,617)	(9,752)
Proceeds from issue of new units	10	3,257	12,274
Payments for units encashed	10	<u>(2,307)</u>	<u>(2,426)</u>
		(1,411)	352
Interest received		<u>792</u>	<u>236</u>
Net cash (used)/provided by operating activities, being net (decrease)/increase in cash and cash equivalents		(619)	588
Cash and cash equivalents at beginning of year		<u>838</u>	<u>250</u>
Cash and cash equivalents at end of the year		<u>219</u>	<u>838</u>

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

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

1. The Fund

Bond Fund II (“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 medium 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 and basis of preparation

(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.

This is the first set of the Fund’s financial statements in which IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers* have been applied. Changes to significant accounting policies are described in note 3.

At the date of approval of these financial statements, certain new and amended standards were in issue but had not yet come into effect. The Fund has determined that none of them will have a significant effect on the amounts or disclosures in the financial statements.

(b) Basis of preparation and functional currency:

The financial statements have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss (FVTPL).

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.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

2. Statement of compliance and basis of preparation (continued)

(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 amounts of assets, liabilities, contingent assets, contingent liabilities and the income and expenses. 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 4(i)(iv).

(d) Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency at the reporting date are translated using the rates of exchange ruling on that date.

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

For the purpose of the statement of cash flows, all foreign currency gains and losses recognised in the statement of profit or loss and other comprehensive income are treated as cash items and included in cash flows from investing activities along with movements in the principal balances.

3. Changes in accounting policies

The Fund has initially applied IFRS 9 from January 1, 2018. A number of other new standards are also effective from January 1, 2018 but they did not have a material effect on the Fund's financial statements.

As permitted by the transition provisions of IFRS 9, comparative information throughout these financial statements has not been restated to reflect the requirements of the standard.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

3. Changes in accounting policies (continued)

IFRS 9, *Financial Instruments*

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement* and sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

As a result of the adoption of IFRS 9, the Fund has adopted consequential amendments to IAS 1, *Presentation of Financial Statements*, which require:

- Impairment of financial assets to be presented in a separate line in the statement of changes in net assets available for benefits. Under IAS 39, impairment was recognised when losses were incurred. The Fund did not previously report any incurred losses; and
- Separate presentation in the statement of profit or loss and other comprehensive income of interest revenue calculated using the effective interest method.

Additionally, the Fund has adopted consequential amendments to IFRS 7, *Financial Instruments: Disclosures*, which are applied to disclosures about 2018 but have not been applied to comparative information.

The adoption of IFRS 9 had no material impact on the net assets attributable to unit holders.

(i) Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. The new classification requirements did not have a material impact on the Fund's accounting for investments in debt securities.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

The adoption of IFRS 9 has not had a significant effect on the Fund's accounting policies related to financial liabilities and derivative financial instruments.

The following table and the accompanying notes explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Fund's financial assets as at January 1, 2018.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

3. Changes in accounting policies (continued)

IFRS 9, Financial Instruments (continued)

(i) Classification and measurement of financial assets and financial liabilities (continued)

	<u>Original classification under IAS 39</u>	<u>New classification under IFRS 9</u>	<u>Original carrying amount under IAS 39</u>	<u>Remeasurement</u>	<u>IFRS 9 carrying amount at January 1, 2018</u>
			\$	\$	\$
Financial assets					
Cash and cash equivalents	Loans and receivables	Amortised cost	838	-	838
Resale agreements	Loans and receivables	Amortised cost	250	-	250
Investment securities	Designated as FVTPL	Mandatory at FVTPL	<u>12,461</u>	<u>-</u>	<u>12,461</u>
Total financial assets			<u>13,549</u>	<u>-</u>	<u>13,549</u>

(ii) Impairment of financial assets

IFRS 9 replaces the ‘incurred loss’ model in IAS 39 with a forward-looking ‘expected credit loss’ (ECL) model. The new impairment model applies to financial assets measured at amortised cost and investments at FVOCI, except for investments in equity instruments. Under IFRS 9, credit loss allowances are recognised earlier than under IAS 39.

The Fund has determined that the application of IFRS 9 requirements at January 1, 2018 did not result in an impairment allowance.

(iii) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied effective January 1, 2018. The Fund has taken advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement as well as assets changes. There are no differences in the carrying amounts of financial assets resulting from the adoption of IFRS 9. Accordingly, the information presented for 2017 is comparable to the information presented for 2018 under IFRS 9.

4. Significant accounting policies

Except for the change explained in note 3, the Fund has consistently applied the following accounting policies to all periods presented in their financial statements.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018*(expressed in United States dollars unless otherwise indicated)*4. Significant accounting policies (continued)

(a) Resale agreements:

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

(b) Investment securities:

Investments are measured at fair value. Movements in value occasioned by market conditions are included in the statement of profit or loss.

(c) Accounts receivable:

Accounts receivable are measured at amortised cost less impairment losses.

(d) Cash and cash equivalents:

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

(e) Accounts payable:

Accounts payable are measured at amortised cost.

(f) Revenue recognition:

Policy applicable from January 1, 2018

Interest income is recognised in the statement of profit or loss and other comprehensive income on financial assets measured at amortised cost using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to its gross carrying amount.

In calculating effective interest income for financial assets, the Fund estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. The effective interest rate is applied to the gross carrying amount of the asset.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

4. Significant accounting policies (continued)

(f) Revenue recognition (continued):

Policy applicable from January 1, 2018 (continued)

If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition of a financial asset.

The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

Policy applicable before January 1, 2018

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

(g) 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.

(h) Management fee expenses:

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

(i) Financial instruments – Classification, recognition, derecognition and measurement:

(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 cash and cash equivalents, investment securities, resale agreements and accounts receivable. Similarly, financial liabilities include balance due to VM Wealth Management Limited and accounts payable.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018*(expressed in United States dollars unless otherwise indicated)*4. Significant accounting policies (continued)

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

(ii) Recognition and initial measurement:

The Fund recognises a financial instrument when it becomes a party to the contractual terms of the instrument. The Fund initially recognises accounts receivable and balances due from VM Wealth Management Limited on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

Policy applicable from January 1, 2018

At initial recognition, the Fund measures a financial asset or financial liability at its fair value, plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss.

Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

(iii) Classification and subsequent remeasurement

From January 1, 2018, the Fund has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL); or
- Amortised cost.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

4. Significant accounting policies (continued)

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

(iii) Classification and subsequent remeasurement (continued)

Policy applicable from January 1, 2018 (continued)

The classification requirements for debt and equity instruments are described below:

(a) Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer’s perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- the Fund’s business model for managing the asset; and
- the cash flow characteristics of the asset.

Based on these factors, the Fund classifies its debt instruments into one of the following measurement categories:

- *Amortised cost:* Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest (‘SPPI’), and that are not designated at FVTPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described at [note 4(i)(v)]. Interest income from these financial assets is included in ‘Interest and similar income’ using the effective interest method.
- *Fair value through profit or loss:* Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. Interest income from these financial assets is included in interest income using the effective interest method.

Business model: the business model reflects how the Fund manages the assets in order to generate cash flows. That is, whether the Fund’s objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of ‘other’ business model and measured at FVTPL.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

4. Significant accounting policies (continued)

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

(iii) Classification and subsequent re-measurement (continued)

Policy applicable from January 1, 2018 (continued)

(a) Debt instruments (continued)

Factors considered by the Fund in determining the business model for a group of assets include:

1. Past experience on how the cash flows for these assets were collected;
2. How the asset's performance is evaluated and reported to key management personnel;
3. How risks are assessed and managed; and
4. How managers are compensated.

For example, securities held for trading are held principally for the purpose of selling in the near term or are part of a portfolio of financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. These securities are classified in the 'other' business model and measured at FVTPL.

Solely payments of principal and interest (SPPI): Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Fund Manager assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Fund Manager considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Fund reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the year.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

4. Significant accounting policies (continued)

- (i) Financial instruments – Classification, recognition, derecognition and measurement (continued):

- (iii) Classification and subsequent remeasurement (continued)

Policy applicable from January 1, 2018 (continued)

- (b) Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Fund subsequently measures all equity investments at fair value through profit or loss, except where the Fund Manager has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income.

Gains and losses on equity investments at FVTPL are included in the 'Gains on sale of investment securities' line in the statement of profit or loss.

Policy applicable under IAS 39 before January 1, 2018

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 profit or loss.

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.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018*(expressed in United States dollars unless otherwise indicated)*4. Significant accounting policies (continued)

- (i) Financial instruments – Classification, recognition, derecognition and measurement (continued):

- (iv) Fair value measurement (continued):

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.

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 instrument.

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 are recognised in profit or loss.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

4. Significant accounting policies (continued)

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

(v) Identification and measurement of impairment:

Policy applicable from January 1, 2018

The Fund recognises loss allowances for ECL on financial assets that are not measured at FVTPL.

The Fund measures loss allowances at an amount equal to lifetime ECL, except for cash and cash equivalents and receivables that are determined to have low credit risk at the reporting date, for which they are measured as 12-month ECL.

The Fund considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of ‘investment grade’. The Fund does not apply the low credit risk exemption to any other financial instruments.

12-month ECL are the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as ‘Stage 1 financial instruments’.

Lifetime ECL is the ECL that results from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which is not credit-impaired is referred to as ‘Stage 2 financial instruments’.

Measurement of ECL

ECL is a probability-weighted estimate of credit losses, measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Fund in accordance with the contract and the cash flows that the Fund expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

4. Significant accounting policies (continued)

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

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

Policy applicable under IAS 39 before January 1, 2018

At each reporting date, the Fund Manager 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.

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.

5. 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, collateral held for resale agreements had a fair value of \$2,587,000 (2017: \$262,500).

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

6. Investment securities

	<u>2018</u>	<u>2017</u>
	\$'000	\$'000
At fair value through profit or loss:		
Government of Jamaica bonds	1,025	783
Other sovereign bonds	4,463	5,148
Corporate bonds	5,720	5,727
VMBS deferred shares	<u>-</u>	<u>803</u>
	<u>11,208</u>	<u>12,461</u>

7. Accounts receivable

	<u>2018</u>	<u>2017</u>
	\$'000	\$'000
Due from VMBS	800	-
Client settlement account	<u>35</u>	<u>-</u>
	<u>835</u>	<u>-</u>

8. Due to Victoria Mutual Wealth Management Limited

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

9. Accounts payable

	<u>2018</u>	<u>2017</u>
	\$'000	\$'000
Accrued audit fees	15	10
Trustee fees	6	1
Withholding tax payable	<u>16</u>	<u>6</u>
	<u>37</u>	<u>17</u>

10. 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 medium 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.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

10. Unit holders' funds (continued)

	<u>2018</u>	<u>2017</u>
	\$'000	\$'000
Balance at the beginning of year	12,991	2,865
(Loss)/profit for the year	(142)	278
Proceeds from issue of new units	<u>3,257</u>	<u>12,274</u>
	16,106	15,417
Units encashed and repaid during the year	(2,307)	(2,426)
Balance as at the end of the year	<u>13,799</u>	<u>12,991</u>

	Thousands of units <u>2018</u>	Thousands of units <u>2017</u>
Redeemable units:		
Balance at the beginning of the year	12,930	3,004
Issued during the year	3,168	12,370
Redeemed during the year	(2,294)	(2,444)
Balance as at the end of the year	<u>13,804</u>	<u>12,930</u>

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

11. 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.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

11. Financial instruments – Risk management (continued)

(a) Introduction and overview (continued)

The Audit, Risk and Conduct Review Committee is responsible for monitoring compliance with the Fund Manager'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.

(ii) Management of credit risk

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

- Cash and cash equivalents

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

- 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 medium term Government of Jamaica debt securities, sovereign bonds, corporate bonds and VMBS deferred shares. Such securities are generally unsecured. However, the Fund Manager does not expect any counterparty to fail to meet its obligations. Corporate bonds are held with reputable companies as the Fund Manager regards these companies as strong.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018*(expressed in United States dollars unless otherwise indicated)*11. Financial instruments – Risk management (continued)

(b) Credit risk (continued)

(ii) Management of credit risk (continued)

• Investment securities (continued)

At the reporting date, the Fund had exposure to credit risk in relation to interest bearing investments amounting to \$13,075,000 (2017: \$12,711,000).

• 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

Impairment on cash and cash equivalents, receivables and resale agreements has been measured on a 12-month expected loss basis. The Fund considers that these exposures have low credit risk based on the external credit ratings of the counterparties.

The Fund Manager monitors changes in credit risk on these exposures by tracking published external credit ratings of the counterparties. To determine whether published ratings remain up to date and to assess whether there has been a significant increase in credit risk at the reporting date that has not been reflected in the published ratings, the Fund Manager reviews changes in bond yields, where available.

On initial application of IFRS 9 as at January 1, 2018, the Fund recognised an impairment allowance of \$Nil on cash and cash equivalents, receivables and resale agreements. The amount of loss allowance did not change during 2018.

(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 Manager'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 and due to Fund Manager 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 II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

11. 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.

(i) 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 interest bearing financial instruments was:

	<u>2018</u>	<u>2017</u>
	\$'000	\$'000
Fixed rate financial instruments	11,208	12,461
Resale agreements	<u>1,867</u>	<u>250</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 an (adverse)/positive impact as follows:

	<u>2018</u>	
	<u>100bps</u>	<u>100bps</u>
	<u>Increase</u>	<u>Decrease</u>
	\$'000	\$'000
Effect on loss	<u>(331)</u>	<u>351</u>
	<u>2017</u>	
	<u>50bps</u>	<u>50bps</u>
	<u>Increase</u>	<u>Decrease</u>
	\$'000	\$'000
Effect on profit	<u>(198)</u>	<u>204</u>

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

11. Financial instruments – Risk management (continued)

(e) 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.

12. 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 in level 2 of the fair value hierarchy, 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

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: Bond Fund II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

12. Fair value of financial instruments (continued)

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

13. Value per unit

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

14. 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 II

Notes to the Financial Statements (Continued)

Year ended December 31, 2018

(expressed in United States dollars unless otherwise indicated)

14. 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>2018</u> \$'000	<u>2017</u> \$'000
(i) Victoria Mutual Wealth Management Limited:		
Amounts payable	(599)	(841)
Resale agreements	<u>1,867</u>	<u>250</u>
(ii) The Victoria Mutual Building Society:		
Cash balance	69	542
Deferred shares	<u>-</u>	<u>803</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>2018</u> \$'000	<u>2017</u> \$'000
Management fees expense –		
Victoria Mutual Wealth Management Limited	<u>129</u>	<u>74</u>

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

	<u>2018</u> \$'000	<u>2017</u> \$'000
Key management personnel of the Fund Manager and its ultimate parent	81	35
Victoria Mutual Wealth Management Limited	<u>71</u>	<u>72</u>