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INDEPENDENT AUDITORS' REPORT

To the Unit Holders of
VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Opinion

We have audited the financial statements of Victoria Mutual Wealth Management Unit Trust: Equity Fund ("the Fund"), set out on pages 4 to 31, which comprise the statement of financial position as at December 31, 2020, 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, 2020, 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 International Code of Ethics for Professional Accountants including International Independence Standards (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.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Unit Holders of
VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

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.



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INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Unit Holders of
VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

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

- 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.

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

Chartered Accountants
Kingston, Jamaica

September 7, 2021

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

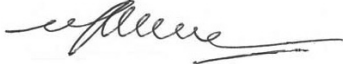
Statement of Financial Position

As at December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

	<u>Notes</u>	<u>2020</u> \$'000	<u>2019</u> \$'000
ASSETS			
Cash and cash equivalents		250,642	42,522
Resale agreements	4	-	325,459
Investment securities	5	4,147,054	5,910,251
Dividend and interest receivable		46,772	36,955
Accounts receivable	6	25,638	40,005
Due from related parties	7	<u>-</u>	<u>44,351</u>
Total assets		<u>4,470,106</u>	<u>6,399,543</u>
LIABILITIES			
Accounts payable	8	7,383	9,869
Due to related parties	7	82,407	-
Margin loan payable	9	<u>357,373</u>	<u>-</u>
Total liabilities		<u>447,163</u>	<u>9,869</u>
NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS		<u>4,022,943</u>	<u>6,389,674</u>
Represented by:			
UNIT HOLDERS' FUNDS	10	<u>4,022,943</u>	<u>6,389,674</u>
Number of units in issue at December 31 (rounded in thousands)	10	<u>2,051,813</u>	<u>2,538,770</u>
Value per unit (\$)	13	<u>1.9607</u>	<u>2.5168</u>

The financial statements on pages 4 to 31 were approved for issue on September 3, 2021, 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: EQUITY FUND

Statement of Profit or Loss and other Comprehensive Income

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

	<u>2020</u> \$'000	<u>2019</u> \$'000
Net interest income and other income		
Interest income calculated using the effective interest method	58,547	27,526
Interest expense calculated using the effective interest method	(23,873)	-
Net interest income	34,674	27,526
Realised gain on financial assets at fair value	22,647	77,551
Net change in fair value of investment securities	(1,332,416)	1,255,938
Operating (loss)/revenue net of interest expense	(1,275,095)	1,361,015
Other income		
Dividend income	56,332	82,589
Other income	2,165	31,562
Total other income	58,497	114,151
Impairment loss on financial assets	(9,390)	-
	(1,225,988)	1,475,166
Administration expenses		
Auditor's remuneration	3,187	6,617
Irrecoverable General Consumption Tax	24,392	20,475
Management fees	110,488	99,409
Trustee fees	23,724	17,942
Registrar fees	11,274	-
Other expenses	8,117	9,545
Total administration expenses	181,182	153,988
(Loss)/profit for the year, being (decrease)/increase in net assets attributable to Unit Holders	(1,407,170)	1,321,178

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Statement of Changes in Unit Holders' Funds

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

	<u>Notes</u>	<u>2020</u> \$'000	<u>2019</u> \$'000
Unit Holders' Funds at the beginning of the year		<u>6,389,674</u>	<u>3,518,988</u>
Contributions and redemptions by holders of redeemable units:			
Issue of redeemable units during the year	10	298,654	1,841,495
Redemption of units during the year	10	<u>(1,258,215)</u>	<u>(291,987)</u>
		<u>(959,561)</u>	<u>1,549,508</u>
(Loss)/profit for the year, being (decrease)/increase in net assets attributable to Unit Holders		<u>(1,407,170)</u>	<u>1,321,178</u>
Unit Holders' Funds at the end of the year		<u>4,022,943</u>	<u>6,389,674</u>

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Statement of Cash Flow

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

	<u>Notes</u>	<u>2020</u> \$'000	<u>2019</u> \$'000
Cash flows from operating activities			
(Loss)/profit for the year		(1,407,170)	1,321,178
Adjustments for:			
Dividend income		(56,332)	(82,589)
Interest income		(58,547)	(27,526)
Interest expense		23,873	-
Impairment loss on financial assets	6	9,390	-
Change in fair value of investment securities		1,332,416	(1,255,938)
Gain on sale of investments		<u>(22,647)</u>	<u>(77,551)</u>
		(179,017)	(122,426)
Changes in operating assets and liabilities			
Due (to)/from related parties		126,758	(13,624)
Accounts payable		(2,486)	(7,970)
Accounts receivable		4,977	(24,813)
Resale agreements		325,459	(325,459)
Investment securities		<u>453,428</u>	<u>(1,128,282)</u>
		729,119	(1,622,574)
Dividend received		59,328	69,642
Interest received		<u>45,734</u>	<u>22,291</u>
Net cash provided/(used) by operating activities		<u>834,181</u>	<u>(1,530,641)</u>
Cash flows from financing activities			
Proceeds from issue of new units	10	298,654	1,841,495
Payments for units encashed	10	(1,258,215)	(291,987)
Margin loan payable		<u>333,500</u>	<u>-</u>
Net cash (used)/provided by financing activities		<u>(626,061)</u>	<u>1,549,508</u>
Net cash increase in cash and cash equivalents		208,120	18,867
Cash and cash equivalents at the beginning of the year		<u>42,522</u>	<u>23,655</u>
Cash and cash equivalents at the end of the year		<u><u>250,642</u></u>	<u><u>42,522</u></u>

The accompanying notes form an integral part of the financial statements

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

1. The Fund

Equity Fund (“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, W.I.

The Fund Manager is a wholly-owned subsidiary of Victoria Mutual Investments Limited (“parent company”). The Fund Manager is licenced by the Financial Services Commission (“FSC”) as a Securities Dealer and is also a Member of the Jamaica Stock Exchange (JSE). The ultimate parent is The Victoria Mutual Building Society.

The Fund’s objective is to provide investors with capital appreciation over the medium to long-term by investing primarily in equity securities of companies traded on the Jamaica Stock Exchange. The Fund is promoted as VM Wealth Classic Equity Growth Portfolio in the Offering Circular as of July 1, 2019, with the approval of the Financial Services Commission.

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.

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

Certain new and amended standards came into effect during the current financial year. The Fund has adopted those which are relevant to its operations, but their adoption did not result in any changes to amounts recognised or disclosed in these financial statements.

New and amended standards and interpretations issued but are not yet effective

At the date of authorisation of these financial statements, certain new and amended standards and interpretations were in issue but were not yet effective and had not been early-adopted by the Fund. The Fund has assessed their relevance with respect to its operations and has determined that the following may have an effect on its financial statements:

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020*(Expressed in Jamaica dollars unless otherwise indicated)*2. Statement of compliance and basis of preparation (continued)

(a) Statement of compliance (continued):

New and amended standards and interpretations issued but are not yet effective (continued)

Amendments to IAS 1 *Presentation of Financial Statements*, will apply retrospectively for annual reporting periods beginning on or after 1 January 2023. The amendments promote consistency in application and clarify the requirements on determining if a liability is current or non-current.

Under existing IAS 1 requirements, entities classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the requirement for a right to be unconditional has been removed and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period. An entity classifies a liability as non-current if it has a right to defer settlement for at least twelve months after the reporting period. It has now been clarified that a right to defer exists only if the entity complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date.

With the amendments, convertible instruments may become current. In light of this, the amendments clarify how an entity classifies a liability that includes a counterparty conversion option, which could be recognised as either equity or a liability separately from the liability component under IAS 32. Generally, if a liability has any conversion options that involve a transfer of the entity's own equity instruments, these would affect its classification as current or non-current. It has now been clarified that an entity can ignore only those conversion options that are recognised as equity when classifying liabilities as current or non-current.

The Fund does not expect the amendment to have a significant impact on its financial statements.

(b) Basis of preparation and functional currency:

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

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

Management continues to have a reasonable expectation that the Fund has adequate resources to continue in operation for at least the next 12 months and that the going concern basis of accounting remains appropriate. The preparation of the financial statements in conformity with IFRS assumes that the Fund will continue in operational existence for the foreseeable future. This means, in part, that the statements of financial position and profit or loss and other comprehensive income assume no intention or necessity to liquidate or terminate operations. This is commonly referred to as the going concern basis.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

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

(c) Critical accounting judgments and key sources of estimation uncertainty:

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 3(p)(iv).

Estimates that can cause a significant adjustment to the carrying amounts of assets and liabilities in the next financial year and judgements that have a significant effect on the amounts recognised in the financial statements, are in respect of the following:

Fair value of financial instruments

There are no quoted market prices for some of the Fund's financial assets. Accordingly, fair values of these financial assets are estimated using prices obtained from a yield curve. The yield curve is, in turn, obtained from a pricing source which uses indicative prices submitted to it by licensed financial institutions in Jamaica. There is significant uncertainty inherent in this approach and the fair values determined in this way are classified as Level 2 fair values. Some other fair values are estimated based on quotes published by broker/dealers, and these are also classified as Level 2. The estimates of fair value arrived at from these sources may be significantly different from the price of the instrument in an actual arm's length transaction (see notes 5 and 12).

(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.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

3. Significant accounting policies

The Fund has consistently applied the following accounting policies to all periods presented in their financial statements.

(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:

Investment securities includes investments measured at fair value and amortised cost. Movements in value occasioned by market conditions are included in the statement of profit or loss and other comprehensive income and debt securities measured at amortised cost are initially measured at fair value plus incremental direct transaction costs, and subsequently at amortised cost using the effective interest method.

(c) Accounts receivable:

Accounts receivable are measured at amortised cost less impairment losses.

(d) Related party transactions and balances:

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related party transactions and balances are recognised and disclosed (note 14) for the following:

(i) Enterprises and individuals owning directly or indirectly an interest in the voting power of the entity that gives them significant influence over the entity's affairs and close members of the families of these individuals.

(ii) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including directors and officers and close members of the families of these individuals.

(e) 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 amortised cost.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(f) Accounts payable:

Accounts payable are measured at amortised cost.

(g) Margin loan payable:

Margin loan payable are recognised initially at cost less attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, with any difference between cost and redemption value recognised in the statement of profit or loss and other comprehensive income on the effective interest basis.

(h) Revenue recognition:

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 expected credit losses (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.

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.

(i) 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. The redeemable units are classified as equity.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(j) Other income:

Other income is recognised in the statement of profit or loss and other comprehensive income as income derived from activities unrelated to the main activities of the Fund's operation, such as from conversion gain/loss and dividend income.

(k) Net change in fair value of investment securities:

Net change in fair value of investment securities classified as fair value through profit or loss includes all unrealised fair value changes and foreign exchange differences, but excludes interest and dividend income.

(l) Management fee expenses:

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

(m) Irrecoverable General Consumption Tax (GCT):

Irrecoverable GCT is consumption tax charged on expenses for services received and cannot be recovered because the Fund is exempt from income tax under Section 12(t) of the Income Tax Act. The Fund records this as an expense in the statement of profit or loss and other comprehensive income on the accrual basis.

(n) Expenses:

Expenses, including trustee and audit fees, are recognised in the statement of profit or loss and other comprehensive income on the accrual basis when the services are received.

(o) Interest expense:

Interest expense is recognised in the statement of profit or loss and other comprehensive income using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to the amortised cost of the financial liability.

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 issue of financial liability.

The 'amortised cost' of a financial liability is the amount at which the financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

The effective interest rate of a financial liability is calculated on initial recognition of a financial liability. In calculating interest expense, the effective interest rate is applied to the amortised cost of the liability.

Interest expense presented in the statement of profit or loss and other comprehensive income.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(p) 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, due from related parties and accounts receivable. Similarly, financial liabilities include balance due to related parties, accounts and margin loan payable.

(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 balance due from related parties on the date when they are originated. The origination date is the effective transaction date. All other financial assets and financial liabilities are initially recognised on the trade date, which is the date on which the Fund becomes a party to the contractual provision of the instrument.

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 the statement of profit or loss and other comprehensive income .

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:

The Fund 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: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

3. Significant accounting policies (continued)

(p) Financial instruments - Classification, recognition, derecognition and measurement:

(iii) Classification and subsequent remeasurement:

The classification requirements for debt and equity instruments are held as financial assets by the Fund 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 3(p)(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 fair value through other comprehensive income (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.

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;

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

3. Significant accounting policies (continued)

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

(iii) Classification and subsequent remeasurement (continued):

(a) *Debt instruments (continued)*:

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 period.

(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 'Realised Gains on sale of investment securities' line in the statement of profit or loss.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

3. Significant accounting policies (continued)

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

(iii) Classification and subsequent remeasurement (continued):

(c) *Deferred shares*

Deferred shares are measured at fair value on initial recognition and subsequently at amortised cost.

(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.

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.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

3. Significant accounting policies (continued)

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

(iv) Fair value measurement (continued):

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 the statement of profit or loss and other comprehensive income on an appropriate basis over the life of the instrument.

All changes in fair value are recognised in the statement of profit or loss and other comprehensive income.

(v) Identification and measurement of impairment:

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: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020*(Expressed in Jamaica dollars unless otherwise indicated)*3. Significant accounting policies (continued)

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

(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.

4. 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 \$Nil (2019: \$341,732,000).

5. Investment securities

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
At fair value through profit or loss:		
Equity securities (i)	3,828,150	5,576,852
Corporate bonds	201,844	224,756
Amortised cost:		
VMBS deferred shares	<u>117,060</u>	<u>108,643</u>
	<u>4,147,054</u>	<u>5,910,251</u>

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

5. Investment securities (continued)

(i) <u>Description</u>	2020		2019	
	<u>Stock units</u>	<u>Fair value</u> \$'000	<u>Stock units</u>	<u>Fair value</u> \$'000
Ordinary shares:				
138 Student Living Jamaica Limited	-	-	417,002	1,597
Barita Investments Limited	18,255	1,537	-	-
CAC 2000 Limited	5,963,220	59,632	5,963,220	77,522
Caribbean Cement Company Limited	7,193,037	432,302	6,951,157	590,848
Caribbean Producers Jamaica Limited	685,542	1,728	685,542	3,359
Carreras Limited	22,376,381	162,005	22,126,381	180,330
Dolphin Cove Limited	139,564	1,228	139,564	1,549
Elite Diagnostic Limited	2,161,708	6,399	3,390,939	16,785
Eppley Caribbean Property Fund Limited	125,644	6,147	-	-
General Accident Insurance Company Jamaica Limited	1,399,300	8,634	1,399,300	9,165
GraceKennedy Limited	930,482	59,551	2,044,727	149,265
Indies Pharma Jamaica Limited	13,695,613	36,978	15,000,000	52,350
JMMB Group Limited	12,671,766	430,206	12,414,266	594,643
Jamaica Broilers Group Limited	8,487,248	231,532	8,245,883	337,669
Jamaica Producers Group Limited	1,208,798	25,385	1,123,961	32,314
Jamaica Stock Exchange Limited	17,495,181	355,502	17,471,192	486,922
The Limners and Bards Limited	823,155	2,535	823,155	2,453
Lasco Distributors Limited	-	-	7,939,156	26,993
Lasco Manufacturing Limited	-	-	9,489,794	43,653
Mayberry Investments Limited	3,699,799	20,534	3,699,799	30,745
Medical Disposables and Supplies Limited	2,968,948	12,381	2,968,948	19,892
NCB Financial Group Limited	2,733,965	393,691	2,711,965	545,376
PanJam Investment Limited	5,955,618	404,922	5,879,945	590,935
Paramount Trading (Jamaica) Limited	-	-	720,740	1,514
Portland JSX Limited	11,265,868	90,127	11,265,868	79,650
Radio Jamaica Limited	2,344,242	3,938	-	-
Sagikor Group Jamaica Limited	2,458,722	122,813	5,776,636	450,289
Sagikor Select Funds Limited	2,554,565	1,558	2,554,565	2,861
Sagikor Real Estate X Fund Limited	9,713,391	80,135	13,212,482	132,125
Salada Foods Jamaica Limited	147,574	3,689	147,574	5,165
Seprod Limited	5,786,571	370,456	5,786,571	283,542
Scotia Group Jamaica Limited	70,513	3,119	2,173,556	124,110
Stanley Motta Limited	117,500	640	-	-
Sterling Investments Limited	3,169,166	8,430	3,169,466	9,382
Sweet River Abattoir and Supplies Company Limited	-	-	4,713,213	12,961
Transjamaican Highway Limited	708,836	943	-	-
Total carried forward to page 21	<u>149,070,172</u>	<u>3,338,677</u>	<u>180,406,567</u>	<u>4,895,964</u>

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

5. Investment securities (continued)

(i) <u>Description (continued)</u>	<u>2020</u>		<u>2019</u>	
	<u>Stock units</u>	<u>Fair value</u> <u>\$'000</u>	<u>Stock units</u>	<u>Fair value</u> <u>\$'000</u>
Total brought forward from page 20	149,070,172	3,338,677	180,406,567	4,895,964
Ordinary shares:				
Victoria Mutual Investments Limited	4,791,347	28,365	4,791,347	42,643
Wigton Windfarm Limited	40,476,183	29,953	30,476,183	29,562
Wisynco Group Limited	<u>3,627,871</u>	<u>58,808</u>	<u>7,107,871</u>	<u>166,680</u>
	<u>197,965,573</u>	<u>3,455,803</u>	<u>222,781,968</u>	<u>5,134,849</u>
Preference shares:				
Facey Telecom 9.00%	301,407,414	301,407	300,000,000	300,000
JMMB Group Limited 7.25%	50,000,000	70,940	50,000,000	99,000
Ready Communications Limited 9.5%	<u>-</u>	<u>-</u>	<u>41,750,000</u>	<u>43,003</u>
	<u>351,407,414</u>	<u>372,347</u>	<u>391,750,000</u>	<u>442,003</u>
Total	<u>549,372,987</u>	<u>3,828,150</u>	<u>614,531,968</u>	<u>5,576,852</u>

(ii) These investment securities mature, in relation to the reporting date, as follows:

	<u>2020</u> <u>\$'000</u>	<u>2019</u> <u>\$'000</u>
From 3 months to 1 year	12,844	12,671
From 1 years to 5 years	189,000	212,085
Thereafter/no maturity	<u>3,945,210</u>	<u>5,685,495</u>
	<u>4,147,054</u>	<u>5,910,251</u>

(iii) Equity securities of \$798,613,000 (2019: \$Nil) have been pledge as collateral for margin loan payable (see note 9).

6. Accounts receivable

	<u>2020</u> <u>\$'000</u>	<u>2019</u> <u>\$'000</u>
Equity settlement account	9,390	9,390
Other receivables	<u>25,638</u>	<u>30,615</u>
	35,028	40,005
Less: allowance for impairment loss [note 11(b)(iii)]	<u>(9,390)</u>	<u>-</u>
	<u>25,638</u>	<u>40,005</u>

7. Due (to)/from related parties

	<u>2020</u> <u>\$'000</u>	<u>2019</u> <u>\$'000</u>
Victoria Mutual Wealth Management Limited (i)	(52,407)	44,351
Victoria Mutual Wealth Management Unit Trust: Property Fund (ii)	<u>(30,000)</u>	<u>-</u>
	<u>(82,407)</u>	<u>44,351</u>

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

7. Due (to)/from related parties (continued)

- (i) 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.
- (ii) This represents the amount due to Victoria Mutual Wealth Management Unit Trust Property Fund for transactions settled on its behalf.

8. Accounts payable

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Audit fees	1,366	5,448
Settlement account	3,905	1,669
Trustee fees	2,068	656
Consultancy fees	-	214
Withholding tax	-	28
Other payables	<u>44</u>	<u>1,854</u>
	<u>7,383</u>	<u>9,869</u>

9. Margin loan payable

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Margin loan payable	333,500	-
Margin loan interest payable	<u>23,873</u>	<u>-</u>
	<u>357,373</u>	<u>-</u>

On March 18, 2020 the Fund entered into a five-year revolving loan facility with Victoria Mutual Wealth Management Limited, of \$333,500,000. The drawn down amount bears interest of 9% and is secured by 5,943,945 units of PanJam Investment Limited and 945,000 NCB Financial Group Limited shares, with total securities valued at J\$798,613,000 as at the reporting date (see note 5). The loan is repayable at the option of the borrower at any time but no later than the facility expiration date.

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 to long-term.

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Balance at the beginning of the year	6,389,674	3,518,988
(Loss)/profit for the year	(1,407,170)	1,321,178
Proceeds from issue of new units	<u>298,654</u>	<u>1,841,495</u>
	5,281,158	6,681,661
Units encashed and repaid during the year	<u>(1,258,215)</u>	<u>(291,987)</u>
Balance at the end of the year	<u>4,022,943</u>	<u>6,389,674</u>

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020*(Expressed in Jamaica dollars unless otherwise indicated)*10. Unit Holders' funds (continued)

	<u>Number of units</u>	
	<u>2020</u>	<u>2019</u>
	'000	'000
Redeemable units:		
Balance at the beginning of the year	2,538,770	1,836,049
Issued during the year	132,613	831,111
Redeemed during the year	(619,570)	(128,390)
Balance at end of the year	<u>2,051,813</u>	<u>2,538,770</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 [the ultimate parent company (see note 1)] and its subsidiaries.

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:

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020*(Expressed in Jamaica dollars unless otherwise indicated)*11. Financial instruments - Risk management (continued)

(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:

- 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 short term Government of Jamaica debt securities. 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.

- Accounts receivable

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

Maximum exposure to credit risk

The Fund's maximum exposure to credit risk at year end was as follows:

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Cash and cash equivalents	250,642	42,522
Resale agreements	-	325,459
Investment securities	318,904	333,399
Dividend and interest receivable	46,772	36,955
Accounts receivable	25,638	40,005
Due to related parties	-	<u>44,351</u>
	<u>641,956</u>	<u>822,691</u>

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

11. Financial instruments - Risk management (continued)

(b) Credit risk (continued):

(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.

As at December 31, 2020, the Fund recognised an impairment allowance of \$9,390 (2019: \$Nil) on accounts receivable, no impairment was recognised on cash and cash equivalents and resale agreements.

(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 related parties and margin loan payable. The accounts payable and due to related parties are repayable within one month at the carrying amounts reflected on the statement of financial position. The margin loan payable is repayable at any time but no later than the facility expiration date (see note 9).

There has been no change in the Fund's exposure to liquidity risk or the manner in which it measures and manages risk.

The tables below present the residual contractual maturities of undiscounted cash flows (both interest and principal cash flows) of the Fund's financial liabilities.

	2020			
	<u>Within 3 months</u> \$'000	<u>3 to 12 months</u> \$'000	<u>Contractual cash flows</u> \$'000	<u>Carrying amount</u> \$'000
Accounts payable	7,383	-	7,383	7,383
Due to related parties	82,407	-	82,407	82,407
Margin loan payable	-	<u>333,500</u>	<u>357,373</u>	<u>357,373</u>
	<u>89,790</u>	<u>333,500</u>	<u>447,163</u>	<u>447,163</u>

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

11. Financial instruments - Risk management (continued)

(c) Liquidity risk (continued):

	<u>2019</u>		
	<u>Within</u>	<u>Contractual</u>	<u>Carrying</u>
	<u>3 months</u>	<u>cash flows</u>	<u>amount</u>
	\$'000	\$'000	\$'000
Accounts payable	<u>9,869</u>	<u>9,869</u>	<u>9,869</u>

(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 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) Equity price risk:

Equity price risk arises from equity securities held by the Fund as part of its investment fund. Management monitors the mix of equity securities in its investment portfolio based on market expectations. The primary goal of the Fund's investment strategy is to maximise investment returns while managing risk.

An increase of 5% (2019: 10%) or decrease of 10% (2019: 10%) in share prices on the Jamaica Stock Exchange would result in an increase or a decrease, respectively, in Unit Holders' funds of \$191,310,000 (2019: \$520,451,000) and \$382,621,000 (2019: \$520,451,000).

(ii) 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 portfolio and margin loan payable.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

11. Financial instruments - Risk management (continued)

(d) Market risk (continued):

(ii) Interest rate risk (continued):

At the reporting date, the interest profile of the interest-bearing financial instruments was:

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Financial assets:		
Variable rate financial instruments	215,000	205,655
Fixed rate financial instruments	86,844	109,583
Resale agreements	<u>-</u>	<u>325,459</u>
Financial liability:		
Margin loan payable	<u>333,500</u>	<u>-</u>

Fair value sensitivity analysis for variable 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>2020</u>		<u>2019</u>	
	100bps <u>Increase</u> \$'000	100bps <u>Decrease</u> \$'000	50bps <u>Increase</u> \$'000	50bps <u>Decrease</u> \$'000
Effect on profit	(326)	328	(2,239)	2,207

Cash flow sensitivity of variable rate financial instrument

An increase or decrease of basis points in interest rates at the reporting date would have an (adverse)/positive impact as follows:

	<u>2020</u>		<u>2019</u>	
	100bps <u>Increase</u> \$'000	100bps <u>Decrease</u> \$'000	50bps <u>Increase</u> \$'000	50bps <u>Decrease</u> \$'000
Effect on profit	<u>2,092</u>	<u>(2,092)</u>	<u>2,057</u>	<u>(2,057)</u>

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

(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.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

12. Fair value of financial instruments

Financial instruments that are measured at fair value are grouped into levels based on the degree to which 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
Corporate bonds	<ul style="list-style-type: none"> • Obtain bid yield from yield curve provided by a recognised pricing source. • 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 1 of the fair value hierarchy, except for corporate bonds which was determined as level 2 of the fair value hierarchy.

Financial assets and liabilities for which fair values are not disclosed are short-term in nature and fair value approximates to carrying amounts. These are included in level 2 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.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

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.

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.

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020

(Expressed in Jamaica dollars unless otherwise indicated)

14. Related parties (continued)

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

(i) Victoria Mutual Wealth Management Limited:	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Accounts receivable	-	44,351
Accounts payable	52,407	-
Resale agreements	<u>-</u>	<u>325,459</u>
(ii) The Victoria Mutual Building Society:	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Cash and cash equivalents	2,723	20,748
Deferred shares	<u>117,060</u>	<u>108,643</u>
(iii) Victoria Mutual Wealth Management Unit Trust	<u>2020</u>	<u>2019</u>
Property Fund:	\$'000	\$'000
Accounts payable	<u>30,000</u>	<u>-</u>

Resale agreements, cash and cash equivalents, accounts receivable and deferred shares are deemed to have low credit risk. Resale agreements are due on the contractual agreement date at the agreed interest and are secured.

Accounts receivable and payable have arisen in the normal course of business.

- (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>2020</u>	<u>2019</u>
	\$'000	\$'000
Victoria Mutual Wealth Management Limited		
Registrar fees	11,274	-
Management fees	<u>110,488</u>	<u>99,409</u>

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

	<u>2020</u>	<u>2019</u>
	\$'000	\$'000
Key management personnel of the Fund Manager and its ultimate parent	40,232	48,547
Victoria Mutual Investments Limited	-	207,392
The Victoria Mutual Building Society	<u>2,492,273</u>	<u>3,141,947</u>

VICTORIA MUTUAL WEALTH MANAGEMENT UNIT TRUST: EQUITY FUND

Notes to the Financial Statements (Continued)

Year ended December 31, 2020*(Expressed in Jamaica dollars unless otherwise indicated)*15. Impact of COVID-19

The World Health Organization declared the novel Coronavirus (COVID-19) outbreak a pandemic on March 11, 2020 and the Government of Jamaica declared the island a disaster area on March 13, 2020. The pandemic and the measures to control its human impact have resulted in disruptions to economic activity, business operations and asset prices. In response to the pandemic, Management has adopted several measures specifically around financial risk management. These measures include:

- (i) Creation of a cross-functional COVID-19 Response Team that focuses on mitigating Occupational Health and Safety, Marketing and Sales, Supply Chain Monitoring and Communications risks, as well as reducing the financial impact of the coronavirus on operations. The COVID-19 Response Team meet weekly to discuss strategies and plans for managing the liquidity and the capital needs of the Fund during the pandemic.
- (ii) On-going monitoring of assets which included sensitivity analyses to determine:
 - The impact of a downward adjustment in asset values on regulatory ratios; and
 - The impact of a downward adjustment in asset values on the projected profitability.