

Audited Financial Statements.

FINANCIAL STATEMENTS

31 DECEMBER 2017

096

**INDEPENDENT
AUDITOR'S REPORT TO
THE MEMBERS**

105

**CONSOLIDATED
STATEMENT OF
FINANCIAL POSITION**

106

**CONSOLIDATED
INCOME STATEMENT**

107

**CONSOLIDATED
STATEMENT OF
COMPREHENSIVE
INCOME**

108

**CONSOLIDATED
STATEMENT OF
CHANGES IN EQUITY**

109

**CONSOLIDATED
STATEMENT OF CASH
FLOWS**

110

**COMPANY
STATEMENT OF
FINANCIAL POSITION**

111

**COMPANY INCOME
STATEMENT**

112

**COMPANY
STATEMENT OF
COMPREHENSIVE
INCOME**

113

**COMPANY
STATEMENT OF
CHANGES IN EQUITY**

114

**COMPANY
STATEMENT OF CASH
FLOWS**

115

**NOTES TO THE
FINANCIAL
STATEMENTS**



Independent auditor's report

To the Members of GraceKennedy Limited

Report on the audit of the consolidated and stand-alone financial statements

Our opinion

In our opinion, the consolidated financial statements and the stand-alone financial statements give a true and fair view of the consolidated financial position of GraceKennedy Limited (the Company) and its subsidiaries (together 'the Group') and the stand-alone financial position of the Company as at 31 December 2017, and of their consolidated and stand-alone financial performance and their consolidated and stand-alone cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

What we have audited

GraceKennedy Limited's consolidated and stand-alone financial statements comprise:

- the Consolidated and Company statements of financial position as at December 31, 2017;
- the Consolidated and Company income statements for the year then ended;
- the Consolidated and Company statements for comprehensive income for the year then ended;
- the Consolidated and Company statements of changes in equity for the year then ended;
- the Consolidated and Company statements of cash flows for the year then ended; and
- the notes to financial statements, which include significant accounting policies.

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 *Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
T: +1 (876) 922 6230, F: +1 (876) 922 7581, www.pwc.com/jm

L.A. McKnight P.E. Williams A.K. Jain B.L. Scott, B.J. Denning G.A. Reece P.A. Williams R.S. Nathan C.I. Bell-Wisdom G.K. Moore



Our audit approach

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and stand-alone financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements we designed and performed audit procedures over various components. The Group comprised 40 reporting components of which, we selected 18 components which represent the principal business units within the Group and covered entities within Jamaica, Barbados, the Eastern Caribbean, Trinidad and Tobago, Canada, the United Kingdom, the United States of America (USA) and Guyana.

Of the 18 components selected, we performed an audit of the complete financial information of 10 components ("full scope components") which were selected based on their size, risk characteristics or both. For the remaining 8 components ("specific scope components"), we performed audit procedures on specific accounts and or analytical procedures within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either due to the size of these accounts or their risk profile. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

In relation to the remaining components, none of which are individually greater than 4% of the Group's profit before tax we performed other procedures, including analytical review procedures and testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

For components that are in scope of the Group audit, we used component auditors from PwC network firms and non PwC firms who are familiar with the local laws and regulations to perform this audit work. Throughout the audit we had regular meetings and correspondence with management and component auditor teams to follow up progress of work for all components. The group team engagement leader and the senior members of the group engagement team reviewed reports about the audit approach and findings of the component auditors.



Context

The context of our audit is set by the Group's major activities in 2017. The most significant event of the last twelve months has been the acquisition of 100% of the share capital of Consumer Brands Limited, a distributor of recognised international and local third party branded household products in Jamaica. This has therefore become a new key audit matter for our audit in 2017 given the number of significant management estimates and judgements required to account for the transaction; including valuations of acquired assets and liabilities, the impact of acquisition accounting, recognition and measurement of intangible assets identified.

Our other key audit matters relating to goodwill impairment assessment of the United States of America operations, valuation of pension scheme assets and liabilities and credit risk and impairment of loans and advances to customers continue to be areas which are significant to the group and involves significant levels of judgement by management and expert knowledge as in prior year.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and stand-alone financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and stand-alone financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<i>Accounting for business combinations (Group)</i> <i>Refer to notes 2(b), 4(ix) and 39 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimate and balances.</i> On 31 August 2017, the Group acquired 100% of the share capital of Consumer Brands Limited (CBL). Management assessed that the acquisition qualified as a business combination resulting in a bargain purchase gain of \$418.46 million. Valuations of identifiable net assets acquired were performed as part of the purchase price allocation which resulted in the Group recognising intangible assets in the amount of \$576 million and \$61 million for supplier and customer relationships respectively. We focused on this area due to the significance of the bargain purchase gain and due to the nature of business combinations whose requirements can be complex and require management to exercise judgement in determining certain estimates. The most significant is the determination of the Purchase Price Allocation Valuation (PPAV) which encompasses:	We read the share purchase agreement and evaluated the appropriateness of the accounting for the acquisition as a business combination against management's accounting policies and the required accounting standards. We discussed with management to understand and evaluate their basis for selecting assumptions. We were assisted by our valuation expert and assessed the reasonableness of the fair value conclusion derived for assets and liabilities acquired. This included evaluating the appropriateness of valuation methodologies utilised to derive the fair value of identified intangible assets and testing the reasonableness of the underlying valuation assumptions and inputs. We achieved this by corroborating the key variables being the business growth and discount rates to historic and prospective financial, industry and economic information, taking into consideration our knowledge of the Group and its industries. Where possible, considered third party sources to challenge future revenue estimates due to changes in the market or actions by competitors. We recalculated the bargain purchase gain, being the difference between the total net consideration paid and the fair value of the net assets acquired for mathematical accuracy.



Key audit matter

- Identifying the assets and liabilities acquired and determining their fair values and
- Determination of the bargain purchase gain as the valuation methodology involves significant areas of judgement, which are based on the inputs and assumptions in the model, such as business growth rates and discount rates.

Management engaged external experts to assist with the determination of the PPAV on the Group's acquisition concluded during the year.

How our audit addressed the key audit matter

Based on the audit procedures performed, no adjustments were considered necessary.

Goodwill impairment for the United States of America (USA) operations (Group)

Refer to notes 2(g), 4(i) and 11 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimate and balances.

The total carrying value of goodwill is \$1.409 billion of which \$930 million relates to the USA operations.

The assessment of the carrying value of goodwill involves judgement in relation to forecasting future cash flows and is sensitive to growth rates and discount rates applied to the future cash flows.

The USA operations have experienced growth in revenues resulting in profits and the business is almost fully integrated within the Group. As a result, management's focus is now on achieving warehousing and logistics efficiencies. Whilst there has been a reduction compared to prior years, the USA operations continue to receive working capital assistance from the parent company albeit in a reduced capacity, and as such it remains an area of focus.

We tested management's assumptions used in their impairment testing model for goodwill, including the future cash flow projections, discount rates and growth rates applied. The following procedures were performed;

We obtained management's discounted cash flow model (C) including qualitative and quantitative analyses and obtained an understanding of the process used by management to determine fair value of the reporting unit.

We were assisted by our valuation experts to review the appropriateness of the assumptions and methodology used in the DCF.

We tested the mathematical accuracy of the underlying calculations included in the DCF model.

We agreed 31 December 2017 base year financial information to the audited results and compared the current year's forecast to most recent audited results to evaluate management's ability to accurately forecast financial information

We assessed management's key assumptions by comparing them to historical results and economic and industry data where available.

Sensitivity analysis was performed by looking at changes in management's revenue growth rates, gross margin, EBITDA margin and WACC, and changes in working capital requirements.

We considered subsequent events and their impact on the entity's cash flows and forecasts.

We found the assumptions to be consistent and in line with our expectations.



Key audit matter

How our audit addressed the key audit matter

Valuation of pension plan assets and other post-employment obligations (Group and Company)

Refer to notes 2(m), 4(iii) and 14 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimate and balances.

The Group has defined benefit pension plans with pension plan assets and other post-employment obligations which are significant in the context of the overall statement of financial position of the Group and Company. Pension plan assets amounted to \$6.309 billion for both Group and Company and other post-employment obligations amounted to \$5.130 billion and \$2.443 billion for Group and Company respectively.

We focused on this area as the valuation of the pension liabilities requires significant levels of judgement and technical expertise in choosing appropriate assumptions. A number of the key assumptions can have a material impact on the calculation of the liability including;

- salary increases
- inflation
- discount rates and;
- mortality rates

The pension assets include significant pension asset investments, the fair value measurement of which includes some judgement.

Management uses external actuaries to assist in determining these assumptions and in valuing the pension plan assets and other post-employment obligations.

We performed the following procedures on the valuations of the pension plan assets and other post-employment obligations as follows:

We evaluated management's assumptions made in relation to the valuations of the pension assets and other-post employment obligations and the assumptions around salary increases and mortality rates by comparing them to national and industry averages.

We agreed the discount and inflation rates used in the valuation of the other post-employment obligations to those issued by the Institute of Chartered Accountants of Jamaica.

We tested the completeness and accuracy of data extracted and supplied to the Group's actuary, which is used to calculate the pension scheme surplus or deficit.

We engaged our actuarial specialist and liaised with management and their actuary to understand and review the judgements made in determining key economic assumptions used in the calculation of the liability.

Based on the audit evidence obtained, we determined that the data and assumptions used by management in the actuarial valuations and determination of the fair value of the pension plan assets and post-employment obligations were supported by the available audit evidence.

Credit risk and impairment of loans and receivables to customers (Group)

Refer to notes 2(h), 4(viii) and 9 of the consolidated financial statements for disclosures of related accounting policies, judgments and estimate and balances.

We understood and tested the operating effectiveness of controls impacting impairment and focused on:

- credit approval being supported by proper documentation and appropriate loan underwriting in accordance with the Group's policies;
- automated identification of loans classified as delinquent by the system and days outstanding correctly reflected; and



Key audit matter

The Group has loans receivable balances disclosed in Note 9 which are significant in the context of the overall Group statement of financial position representing 21% of total assets.

Included in loan receivables are loans and advances to customers amounting to \$27.054 billion, of which \$1.578 billion is impaired and \$633.3 million is subject to an impairment charge. These loans and advances consist of mortgages, commercial and other loans to customers for which the underlying properties are pledged as collateral.

Impairment is a subjective area due to the level of judgement applied by management in determining provisions.

We focused on the impairment assessment as the assumptions used for estimating both the amount and timing of future cash flows are complex and involve significant judgment by management, including:

- Classification of loans as impaired: we focused on the completeness of the customer accounts that are included in the impairment assessment;
- Valuation of real estate property pledged as collateral: this is the most significant repayment source for impaired mortgages and impaired commercial loans. The estimation of collateral values is impacted by market trends as well as the circumstances of the specific property and involves judgment and specialised skills; and
- The key assumptions and judgments made by management when calculating the provision for individually impaired loans and loan portfolio by sector collectively. Key assumptions and judgments include the estimated costs to sell the collateral, time to liquidate the pledged collateral and the amount and timing of collection of cash flows from other sources than pledged collateral as well as default rates.

How our audit addressed the key audit matter

- adjustments for credit losses are supported, correctly posted and appropriately approved.

We found that these key controls were designed, implemented and operated effectively, and therefore we determined that we could place reliance on these key controls for the purposes of our audit.

In addition, we have performed the following detailed testing procedures:

We understood management's basis for determining whether a loan is impaired as disclosed in Note 2(h) and evaluated the reasonableness using our understanding of the Group's lending portfolios and our broader industry knowledge.

We tested completeness of the loan provision balance based on non-performing loans within the portfolio and considered the reasonableness of management's assumptions in prior year based on the realised value of the security sold.

We tested a sample of performing loans and examined the status of the loan account subsequent to year end to determine if there were any indicators of impairment.

For a sample of non-performing loans we gained an understanding of the latest developments at the borrowers and the basis of measuring the impairment provisions and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation. In addition, we tested key inputs to the impairment calculation including the expected future cash flows and valuation of collateral held, and determined reasonableness of valuation of real estate collateral based on use of our auditors' expert. Where cash flows are from real estate, sensitivity analyses were performed by varying the time taken to sell the property where considered necessary.

We tested management's impairment assessment calculation for loans by sector by evaluating the default rate model, compared inputs to relevant data including historical loss experience for loans with similar risk characteristics. We also tested the calculations for mathematical accuracy, noting no exceptions.

No exceptions requiring management to adjust their provision were noted as a result of the procedures we performed.



Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the consolidated and stand-alone financial statements and our auditor's report thereon), which is expected to be made available to us after this auditor's report date.

Our opinion on the consolidated and stand-alone financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and stand-alone financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated and stand-alone financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated and stand-alone financial statements

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

In preparing the consolidated and stand-alone financial statements, management is responsible for assessing the Group and Company'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 Group, the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group and Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated and stand-alone financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and stand-alone financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 consolidated and stand-alone financial statements.



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

- Identify and assess the risks of material misstatement of the consolidated and stand-alone 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 Group and Company'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 Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and stand-alone 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 auditor's report. However, future events or conditions may cause the Group or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and stand-alone financial statements, including the disclosures, and whether the consolidated and stand-alone financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and stand-alone financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying consolidated and stand-alone financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

The engagement partner on the audit resulting in this independent auditor's report is Peter Williams.

A handwritten signature in blue ink that reads "Peter Williams" with a stylized flourish at the end.

Chartered Accountants
1 March 2018
Kingston, Jamaica

GraceKennedy Limited

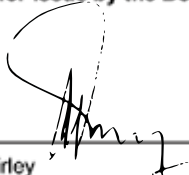
Consolidated Statement of Financial Position

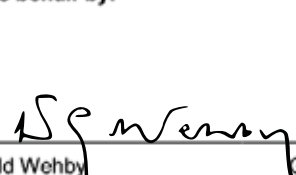
31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 \$'000	2016 \$'000
Assets			
Cash and deposits	5	12,084,245	12,276,647
Investment securities	6	31,853,036	23,874,246
Pledged assets	6	4,927,305	15,419,427
Receivables	7	15,848,567	13,688,237
Inventories	8	11,253,140	11,461,283
Loans receivable	9	27,548,329	25,928,057
Taxation recoverable		798,690	424,239
Investments in associates	10	1,798,220	1,743,984
Investment properties	38	618,000	584,000
Intangible assets	11	4,398,127	4,024,272
Fixed assets	12	11,715,661	10,111,671
Deferred tax assets	13	836,477	801,008
Pension plan asset	14	6,308,843	6,142,078
Total Assets		129,988,640	126,479,149
Liabilities			
Deposits		33,530,523	30,653,888
Securities sold under agreements to repurchase		3,792,720	12,343,432
Bank and other loans	15	16,515,615	13,242,037
Payables	16	22,210,899	20,325,181
Taxation		427,486	572,331
Deferred tax liabilities	13	1,369,294	1,397,657
Other post-employment obligations	14	5,129,990	4,408,015
Total Liabilities		82,976,527	82,940,541
Equity			
Capital and reserves attributable to the company's owners			
Share capital	17	540,951	534,249
Capital and fair value reserves	18	6,089,245	5,805,054
Retained earnings		32,120,056	29,333,152
Banking reserves	19	3,044,111	2,772,209
Other reserves	20	3,428,449	3,619,261
		45,222,812	42,063,925
Non-Controlling interests	21	1,789,301	1,474,683
Total Equity		47,012,113	43,538,608
Total Equity and Liabilities		129,988,640	126,479,149

Approved for issue by the Board of Directors on 1 March 2018 and signed on its behalf by:


Gordon Shirley Chairman


Donald Wehby Group Chief Executive Officer

GraceKennedy Limited

Consolidated Income Statement

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 \$'000	2016 \$'000
Revenues	23	92,475,652	88,267,589
Expenses	24	(88,944,423)	(84,684,563)
		3,531,229	3,583,026
Other income	25	2,088,006	2,383,733
Profit from Operations		5,619,235	5,966,759
Interest income – non-financial services		378,212	372,276
Interest expense – non-financial services		(662,857)	(676,856)
Share of results of associated companies	10	484,972	441,151
Profit before Taxation		5,819,562	6,103,330
Taxation	27	(1,047,462)	(1,568,468)
NET PROFIT		4,772,100	4,534,862
Attributable to:			
Owners of GraceKennedy Limited	28	4,116,101	4,004,539
Non-Controlling interests	21	655,999	530,323
		4,772,100	4,534,862
		\$	\$
Earnings per Stock Unit for profit attributable to the owners of the company during the year:	30		
Basic		4.15	4.04
Diluted		4.14	4.03

GraceKennedy Limited

Consolidated Statement of Comprehensive Income

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 \$'000	2016 \$'000
Profit for the year		4,772,100	4,534,862
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss:</i>			
Gains on revaluation of land and buildings		23,027	431,032
Remeasurements of post-employment benefit obligations		58,934	664,461
Share of other comprehensive income of associated companies		3,436	24,327
		85,397	1,119,820
<i>Items that may be subsequently reclassified to profit or loss:</i>			
Foreign currency translation adjustments		(201,407)	(346,623)
Fair value gains		250,677	308,665
Share of other comprehensive income of associated companies		(22,903)	80,322
		26,367	42,364
Other comprehensive income for the year, net of tax		111,764	1,162,184
Total comprehensive income for the year		4,883,864	5,697,046
Attributable to:			
Owners of GraceKennedy Limited		4,248,634	5,156,200
Non-Controlling interests	21	635,230	540,846
		4,883,864	5,697,046

GraceKennedy Limited

Consolidated Statement of Changes in Equity

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

		Attributable to owners of the parent					Non-Controlling Interest	Total Equity
	Note	Number of Stock Units '000	Share Capital \$'000	Capital and Fair Value Reserves \$'000	Retained Earnings \$'000	Banking Reserves \$'000	Other Reserves \$'000	\$'000
Balance at 1 January 2016		991,920	567,789	5,132,759	25,971,707	2,588,019	3,787,167	39,373,062
Profit for the year		-	-	-	4,004,539	-	-	4,534,862
Other comprehensive income for the year		-	-	769,791	660,688	-	(278,818)	1,162,184
Total comprehensive income for 2016		-	-	769,791	4,665,227	-	(278,818)	5,697,046
Transactions with owners:								
Issue of shares	17 (b)	2,050	37,668	-	-	-	-	37,668
Sale of treasury shares	17 (c)	324	13,418	-	-	-	-	13,418
Purchase of treasury shares	17 (c)	(5,447)	(205,952)	-	-	-	-	(205,952)
Share-based payments:								
Value of services received	17 (h)	-	-	-	-	-	23,590	23,590
Transfer of treasury shares to employees	17 (c)	3,532	121,326	25,343	-	-	(146,669)	-
Transfer of non-controlling interests	21	-	-	1,983	-	-	-	(1,983)
Dividends paid by subsidiaries to non-controlling interests	21	-	-	-	-	-	-	(390,027)
Dividends paid	29	-	-	-	(1,010,423)	-	-	(1,010,423)
Total transactions with owners		459	(33,540)	27,326	(1,010,423)	-	(123,079)	(1,531,500)
Transfers between reserves:								
From capital reserves		-	-	(124,822)	124,822	-	-	-
To banking reserves		-	-	-	(184,190)	184,190	-	-
To other reserves		-	-	-	(233,991)	-	233,991	-
Balance at 31 December 2016		992,379	534,249	5,805,054	29,333,152	2,772,209	3,619,261	43,538,608
Profit for the year		-	-	-	4,116,101	-	-	4,772,100
Other comprehensive income for the year		-	-	274,506	67,509	-	(209,482)	111,764
Total comprehensive income for 2017		-	-	274,506	4,183,610	-	(209,482)	4,883,864
Transactions with owners:								
Sale of treasury shares	17 (c)	122	5,027	-	-	-	-	5,027
Purchase of treasury shares	17 (c)	(736)	(29,592)	-	-	-	-	(29,592)
Share-based payments:								
Value of services received	17 (h)	-	-	-	-	-	56,337	56,337
Transfer of treasury shares to employees	17 (c)	889	31,267	6,400	-	-	(37,667)	-
Dividends paid by subsidiaries to non-controlling interests	21	-	-	-	-	-	-	(321,235)
Dividends paid	29	-	-	-	(1,121,519)	-	-	(1,121,519)
Total transactions with owners		275	6,702	6,400	(1,121,519)	-	18,670	(1,410,359)
Transfers between reserves:								
To capital reserves		-	-	3,285	(3,285)	-	-	-
To banking reserves		-	-	-	(271,902)	271,902	-	-
Balance at 31 December 2017		992,654	540,951	6,089,245	32,120,056	3,044,111	3,428,449	47,012,113

GraceKennedy Limited

Consolidated Statement of Cash Flows

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 \$'000	2016 \$'000
SOURCES/(USES) OF CASH:			
Operating Activities	31	(493,760)	11,122,250
Financing Activities			
Loans received		5,284,480	2,949,444
Loans repaid		(2,568,620)	(2,995,936)
Dividends paid by subsidiary to non-controlling interests	21	(321,235)	(390,027)
Purchase of treasury shares	17	(29,592)	(205,952)
Sale of treasury shares	17	5,027	13,418
Issue of shares	17	-	37,668
Interest paid – non financial services		(674,091)	(689,416)
Dividends	29	(1,121,519)	(1,010,423)
		574,450	(2,291,224)
Investing Activities			
Additions to fixed assets ^(a)	12	(2,839,331)	(1,818,363)
Proceeds from disposal of fixed assets		65,518	42,899
Additions to investment properties		-	(38,643)
Additions to investments		(8,087,043)	(6,549,167)
Cash outflow on acquisition of subsidiary	39	(641,970)	-
Proceeds from sale of investments		10,265,348	2,470,937
Net proceeds from disposal of associated company		55,506	-
Additions to intangibles	11	(334,599)	(390,751)
Interest received – non financial services		379,809	373,094
		(936,762)	(5,909,994)
(Decrease)/increase in cash and cash equivalents		(856,072)	2,921,032
Cash and cash equivalents at beginning of year		10,310,801	7,074,059
Exchange and translation (losses)/gains on net foreign cash balances		(52,434)	315,710
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	9,402,295	10,310,801

The principal non-cash transactions include:

^(a) Acquisition of fixed assets under finance lease of \$32,647,000 (2016: \$109,862,000). (Note 12).

GraceKennedy Limited

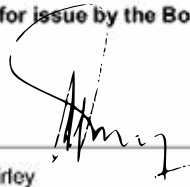
Company Statement of Financial Position

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 \$'000	2016 \$'000
Assets			
Cash and deposits	5	1,944,451	2,600,811
Investment securities	6	6,513,598	6,761,609
Receivables	7	1,434,445	1,352,108
Inventories	8	2,521,134	2,689,643
Loans receivable	9	3,359,306	3,175,183
Subsidiaries	34	1,063,372	479,762
Taxation recoverable		231,969	191,885
Investments in associates	10	49,698	49,698
Investments in subsidiaries		15,756,643	14,648,540
Intangible assets	11	222,025	130,014
Fixed assets	12	299,359	299,284
Pension plan asset	14	6,308,843	6,142,078
Total Assets		39,704,843	38,520,615
Liabilities			
Bank and other loans	15	4,053,268	4,446,639
Payables	16	2,544,670	2,600,965
Subsidiaries	34	3,403,955	2,784,294
Deferred tax liabilities	13	882,998	981,093
Other post-employment obligations	14	2,443,443	2,163,271
Total Liabilities		13,328,334	12,976,262
Equity			
Share capital	17	540,951	534,249
Capital and fair value reserves	18	404,977	356,298
Retained earnings		25,365,279	24,585,435
Other reserves	20	65,302	68,371
Total Equity		26,376,509	25,544,353
Total Equity and Liabilities		39,704,843	38,520,615

Approved for issue by the Board of Directors on 1 March 2018 and signed on its behalf by:



Gordon Shirley

Chairman



Donald Wehby

Group Chief Executive Officer

GraceKennedy Limited

Company Income Statement

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 \$'000	2016 \$'000
Revenue	23	17,623,999	16,974,486
Cost of goods sold		(13,746,257)	(13,239,361)
Gross Profit		3,877,742	3,735,125
Other income	25	4,618,770	4,799,017
Administration expenses		(7,115,923)	(7,147,063)
Profit from Operations		1,380,589	1,387,079
Interest income		541,547	549,282
Interest expense		(342,156)	(355,206)
Profit before Taxation		1,579,980	1,581,155
Taxation	27	154,744	156,086
NET PROFIT	28	1,734,724	1,737,241

GraceKennedy Limited

Company Statement of Comprehensive Income

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	2017 \$'000	2016 \$'000
Profit for the year	1,734,724	1,737,241
Other comprehensive income:		
<i>Items that will not be reclassified to profit or loss:</i>		
Gains on revaluation of land and buildings	-	7,534
Remeasurements of post-employment benefit obligations	166,639	713,131
	166,639	720,665
<i>Items that may be subsequently reclassified to profit or loss:</i>		
Fair value gains	42,279	70,192
	42,279	70,192
Other comprehensive income for the year, net of tax	208,918	790,857
Total comprehensive income for the year	1,943,642	2,528,098

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in Note 27.

GraceKennedy Limited

Company Statement of Changes in Equity

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Number of Stock Units '000	Share Capital \$'000	Capital and Fair Value Reserves \$'000	Retained Earnings \$'000	Other Reserves \$'000	Total \$'000
Balance at 1 January 2016		991,920	567,789	253,229	23,347,752	-	24,168,770
Profit for the year		-	-	-	1,737,241	-	1,737,241
Other comprehensive income for the year		-	-	77,726	713,131	-	790,857
Total comprehensive income for 2016		-	-	77,726	2,450,372	-	2,528,098
Transactions with owners:							
Issue of shares	17 (b)	2,050	37,668	-	-	-	37,668
Sale of treasury shares	17 (c)	324	13,418	-	-	-	13,418
Purchase of treasury shares	17 (c)	(5,447)	(205,952)	-	-	-	(205,952)
Share-based payments:							
Value of services received	20	-	-	-	-	12,774	12,774
Transfer of treasury shares to employees	17 (c)	3,532	121,326	25,343	-	(146,669)	-
Dividends paid	29	-	-	-	(1,010,423)	-	(1,010,423)
Total transactions with owners		459	(33,540)	25,343	(1,010,423)	(133,895)	(1,152,515)
Transfers between reserves:							
To other reserves		-	-	-	(202,266)	202,266	-
Balance at 31 December 2016		992,379	534,249	356,298	24,585,435	68,371	25,544,353
Profit for the year		-	-	-	1,734,724	-	1,734,724
Other comprehensive income for the year		-	-	42,279	166,639	-	208,918
Total comprehensive income for 2017		-	-	42,279	1,901,363	-	1,943,642
Transactions with owners:							
Sale of treasury shares	17 (c)	122	5,027	-	-	-	5,027
Purchase of treasury shares	17 (c)	(736)	(29,592)	-	-	-	(29,592)
Share-based payments:							
Value of services received	20	-	-	-	-	34,598	34,598
Transfer of treasury shares to employees	17 (c)	889	31,267	6,400	-	(37,667)	-
Dividends paid	29	-	-	-	(1,121,519)	-	(1,121,519)
Total transactions with owners		275	6,702	6,400	(1,121,519)	(3,069)	(1,111,486)
Balance at 31 December 2017		992,654	540,951	404,977	25,365,279	65,302	26,376,509

GraceKennedy Limited

Company Statement of Cash Flows

Year ended 31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2017 \$'000	2016 \$'000
SOURCES/(USES) OF CASH:			
Operating Activities	31	1,979,304	2,474,065
Financing Activities			
Loans received		1,805,086	609,344
Loans repaid		(1,108,119)	(1,121,365)
Purchase of treasury shares	17	(29,592)	(205,952)
Sale of treasury shares	17	5,027	13,418
Issue of shares	17	-	37,668
Interest paid		(348,989)	(365,490)
Dividends	29	(1,121,519)	(1,010,423)
		(798,106)	(2,042,800)
Investing Activities			
Additions to fixed assets	12	(90,808)	(109,236)
Proceeds from disposal of fixed assets		20,630	3,782
Additions to investments		(1,138,110)	(316,802)
Loans receivable, net		(184,123)	(41,437)
Proceeds from sale of investments		1,305,128	220,877
Investment in subsidiary		(1,108,170)	(100,000)
Proceeds from disposal of subsidiary		10,597	53,703
Additions to intangibles	11	(155,400)	(65,343)
Interest received		543,143	550,102
		(797,113)	195,646
Increase in cash and cash equivalents		384,085	626,911
Cash and cash equivalents at beginning of year		1,546,002	868,036
Exchange and translation (losses)/gains on net foreign cash balances		(16,461)	51,055
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	1,913,626	1,546,002

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

1. Identification

GraceKennedy Limited (the company) is a company limited by shares, incorporated and domiciled in Jamaica. The registered office of the company is located at 73 Harbour Street, Kingston, Jamaica.

The company is a publicly listed company having its primary listing on the Jamaica Stock Exchange, with further listing on the Trinidad and Tobago Stock Exchange.

The Group is organised into two divisions namely, GK Foods and GK Financial Group. The GK Foods division comprises all the food related companies while the GK Financial Group division comprises all the financial services companies in the Group. For the purpose of segment reporting the Group reports its results under the four segments described below.

The principal activities of the company, its subsidiaries and its associated companies (the Group) are as follows:

Food Trading -

Merchandising of general goods and food products, both locally and internationally; processing and distribution of food products; and the operation of a chain of supermarkets.

Banking and Investments -

Commercial banking; stock brokerage; corporate finance; advisory services; and lease financing.

Insurance -

General insurance and insurance brokerage.

Money Services -

Operation of money transfer services, cambio operations and bill payment services.

2. Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied for all the years presented, unless otherwise stated.

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of certain fixed and financial assets, investment properties and financial liabilities.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Standards, interpretations and amendments to published standards effective in the current year

Certain amendments and clarifications to existing standards have been published that became effective during the current financial year. The Group has assessed the relevance of all such new amendments and clarifications and has put into effect the following, which are immediately relevant to its operations.

- Amendments to IAS 12, 'Income Taxes' (effective for annual periods beginning on or after 1 January 2017). The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. Deferred tax assets are assessed in combination with other deferred tax assets where the tax law does not restrict the source of taxable profits against which particular types of deferred tax assets can be recovered. Where restrictions apply, deferred tax assets are assessed in combination only with other deferred tax assets of the same type. The amendment also clarifies that tax deductions resulting from the reversal of deferred tax assets are excluded from the estimated future taxable profit that is used to evaluate the recoverability of those assets. There was no impact from the adoption of this amendment.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, interpretations and amendments to published standards effective in the current year (continued)

- Amendments to IAS 7, 'Statement of Cash flows' (effective for annual periods beginning on or after 1 January 2017). The amendment introduces an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved. An entity is required to disclose information that will allow users to understand changes in liabilities arising from financing activities. This includes changes arising from cash flows, such as drawdowns and repayments of borrowings; and non-cash changes, such as acquisitions, disposals and unrealised exchange differences. The reconciliation of changes in liabilities arising from financing activities is disclosed in (Note 31).
- Annual improvements to IFRSs 2014 – 2016 cycles. The amendment to IFRS 12, 'Disclosure of interests in other entities' (effective for annual periods beginning on or after 1 January 2017) clarifies that the disclosure requirements of IFRS 12 apply to interests in entities that are classified as held for sale, except for the summarised information. There was no impact from the adoption of this amendment as the Group does not have interests in entities classified as held for sale.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

At the date of authorisation of these financial statements a number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at FVPL with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at FVPL. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

The Group is in the process of assessing the impact of IFRS 9 on its financial statements. A Group Steering Committee with representation from a number of functional areas and lead by the Group Finance Unit was created to oversee the implementation project. The project involves three main phases:

- Phase 1: Key decisions; this includes identification of key decisions, deciding on the measurement and classification for all instruments, determining stage migration and cure rate thresholds;
- Phase 2: Scenario Modelling; this includes determination of relevant forward looking scenarios, estimating probabilities of default (PDs) and expected credit losses (ECL);
- Phase 3: Embedding – This includes integration of the new accounting standard into the existing reporting structure, including modifications to processes and systems as required, staff training, converting and validating data, and drafting disclosures for the financial statements.

The Group has substantially completed Phase 1 and Phase 2 and key decisions around classification and measurement, forward looking information and PDs are currently being reviewed.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

• IFRS 9 (continued)

Classification and measurement

Debt instruments

The standard introduces new requirements to determine the measurement basis of financial assets, involving the cash flow characteristics of assets and the business models under which they are managed.

- *Investment securities*

The Group currently classifies its investment securities as available for sale. Based on the conditions for classification, the Group expects that majority of its investments will meet the 'solely payments of principal and interest' (SPPI) criteria. Debt instruments are largely held to collect contractual cash flows or are liquidated to meet liquidity requirements or maintain a specific interest yield profile. These instruments will be measured at either amortised cost or FVOCI. The change to amortised cost will result in the reversal of cumulative fair value gains/(losses) for related instruments as at 1 January 2018. There is no impact for investments measured at FVOCI.

- *Loans and receivables*

The Group currently classifies its loans and receivables at amortised cost. Based on the conditions for classification, the Group expects that majority of its loans and receivables will meet the SPPI criteria. Loans and receivables are largely held to collect contractual cash flows and will continue to be measured at amortised cost.

Equity instruments

The Group currently classifies its equity instruments as available for sale. With the adoption of IFRS 9, the Group has concluded on the following:

- Measure all trading equity instruments at FVPL. The change will result in related fair value gains/(losses) being transferred from the fair value reserve to retained earnings for instruments measured at FVPL on 1 January 2018.
- The Group has elected to irrevocably designate at FVOCI its existing non-trading equity portfolio. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed.

Financial liabilities

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at FVPL and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

Impairment

The new impairment model requires the recognition of impairment provisions based on ECL rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts.

Application of the General Model

The adoption of IFRS 9 will have a significant impact on the Group's impairment methodology. The Group has applied the 'general model' as required under IFRS 9 for debt instruments other than trade receivables. Under this model, the Group is required to assess on a forward-looking basis the ECL associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The ECL will be recognised in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model. The measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. The probability-weighted outcome considers multiple scenarios based on reasonable and supportable forecasts. Under current guidance, impairment amount represents the single best outcome; the time value of money; and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

IFRS 9 considers the calculation of ECL by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- IFRS 9 (continued)

IFRS 9 Impairment model uses a three stage approach based on the extent of credit deterioration since origination:

Stage 1 – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk since origination and are not credit impaired. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months. For those assets with a remaining maturity of less than 12 months, a PD is used that corresponds to remaining maturity. This Stage 1 approach is different than the current approach which estimates a collective allowance to recognise losses that have been incurred but not reported on performing loans.

Stage 2 – When a financial asset experiences a significant increase in credit risk subsequent to origination but is not credit impaired, it is considered to be in Stage 2. This requires the computation of ECL based on lifetime PD that represents the probability of default occurring over the remaining estimated life of the financial asset. Provisions are higher in this stage because of an increase in risk and the impact of a longer time horizon being considered compared to 12 months in Stage 1.

Stage 3 – Financial assets that have an objective evidence of impairment will be included in this stage. Similar to Stage 2, the allowance for credit losses will continue to capture the lifetime ECL.

Some of the key concepts in IFRS 9 that have the most significant impact and require a high level of judgement are:

Assessment of Significant Increase in Credit Risk

The assessment of a significant increase in credit risk is done on a relative basis. To assess whether the credit risk on a financial asset has increased significantly since origination, the Group compares the risk of default occurring over the expected life of the financial asset at the reporting date to the corresponding risk of default at origination, using key risk indicators that are used in the Group's existing risk management processes. At each reporting date, the assessment of a change in credit risk will be individually assessed for those considered individually significant and at the segment level for retail exposures. This assessment is symmetrical in nature, allowing credit risk of financial assets to move back to Stage 1 if the increase in credit risk since origination has reduced and is no longer deemed to be significant.

Macroeconomic Factors, Forward Looking Information and Multiple Scenarios

IFRS 9 requires an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

Macroeconomic factors and forward looking information are required to be incorporated into the measurement of ECL as well as the determination of whether there has been a significant increase in credit risk since origination. Measurement of ECLs at each reporting period should reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group will use three scenarios that will be probability weighted to determine ECL.

Expected Life

When measuring ECL, the Group must consider the maximum contractual period over which the Group is exposed to credit risk. All contractual terms should be considered when determining the expected life, including prepayment options and extension and rollover options. For certain revolving credit facilities that do not have a fixed maturity, the expected life is estimated based on the period over which the Group is exposed to credit risk and where the credit losses would not be mitigated by management actions.

Application of the Simplified Approach

IFRS 9 permits the use of a simplified approach for trade receivables. For trade receivables that do not contain a significant financing component, the impairment provision is measured at initial recognition and throughout the life of the receivables using a lifetime ECL. As a practical expedient, a provision matrix can be utilised in determining the lifetime ECLs for trade receivables.

The simplified approach may be utilised for companies within the Group with trade receivables. The lifetime ECLs are determined by taking into consideration historical rates of default for each segment of aged receivables as well as the estimated impact of forward looking information.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- IFRS 9 (continued)

Presentation and disclosure requirements

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of adoption of the new standard.

Transitional Approach

The Group will apply the modified retrospective approach as allowed under IFRS 9. Under this approach, cumulative retrospective adjustments will be made against opening retained earnings as at 1 January 2018. Comparatives for 2017 will not be restated.

The estimated impact relates primarily to the implementation of the ECL requirements. As part of phase 2 and 3, the Group will continue to revise, refine and validate the impairment models and related process controls.

- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

The Group is in the process of assessing the impact of IFRS 15 on its financial statements. A Group Steering Committee with representation from a number of functional areas and lead by the Group Finance Unit was created to oversee the implementation project. The project involves three phases:

- Phase 1: Impact assessment to determine the key potential areas of impact and to develop a plan to address these points throughout the project;
- Phase 2: Conversion assessment to focus on key areas of impact identified in the first phase and quantification of the required changes to the financial statements; and
- Phase 3: Embedding - The third phase will integrate the new accounting standard into the existing reporting structure and will ensure that all new processes are in place to effectively report under the new requirements. This will include training staff to be familiar with the new requirements, converting and validating data, and drafting disclosures for the financial statements.

The Group has completed Phase 1 of the project, and key decisions around the transition approach, practical expedients and data and system needs are currently being reviewed. Some aspects of data gathering have commenced for Phase 2 to assist with the determination of the potential financial impact.

Based on Phase 1 of the implementation project, The Group has assessed the effects of applying the new standard on its financial statements and has identified the main areas of impact as follows:

Variable consideration

A number of contracts with customers provide a right of return, trade discounts or volume rebates. Currently, the Group recognises revenue from the sale of goods measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- IFRS 15 (continued)

Such provisions give rise to variable consideration under IFRS 15, and will be required to be estimated at contract inception and updated thereafter. IFRS 15 requires the estimated variable consideration to be constrained. As such the application of the constraint may result in more revenue being deferred than under current IFRS.

- (i) *Trade discounts, volume rebates and other incentives*

When a contract with a customer provides for volume discounts or other incentives, the Group recognises an adjustment to revenue at the point in time when the discount or incentive is provided to the customer. Under IFRS 15, the Group is required to recognise an adjustment to the transaction price in accordance with the Group's assessment of the estimated level of discounts and other incentives expected to be provided under the contract. This is expected to result in earlier recognition of discounts and other incentives.

- (ii) *Rights of return*

When a contract with a customer provides a right to return the good within the specified period, the Group currently recognises a provision for sales returns based on historical experience. Under IFRS 15, because the contract allows the customer to return the products, the consideration received from the customer is variable. The Group is assessing the method that will be utilized to estimate the goods that will be returned.

Customer loyalty programs

The Group currently allocates total consideration received to loyalty points using the residual value method. IFRS 15 requires that the total consideration received must be allocated to the points based on relative stand-alone selling prices rather than based on the residual value method. This is expected to result in higher amounts being allocated to the goods sold and result in an earlier recognition of a portion of the revenue.

Impact on the financial services segment

Areas most affected include, but are not limited to, credit cards – interchange, annual and loyalty scheme fees, commissions, advisory contracts and bundled products. The Group is currently reviewing contracts in the scope of IFRS 15 for the financial services segment to ascertain applicability and to assess the potential financial impact.

Presentation and disclosure requirements

IFRS 15 introduces expanded disclosure requirements and changes in presentation. The Group expects that the notes to the financial statements will be expanded to include items such as disclosure of significant judgements made when determining the transaction price of those contracts that include variable consideration and how the transaction price has been allocated to the performance obligations.

As a part of phase 2 and 3 of the implementation project, the Group will test the systems, controls, and processes required to collect and disclose the required information.

- Amendment to IFRS 15, 'Revenue from contracts with customers' (effective for annual periods beginning on or after 1 January 2018). These amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- IFRS 16 'Leases' (effective for annual periods beginning on or after 1 January 2019). This standard replaces the current guidance in IAS 17. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The standard includes an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. For lessors, the accounting stays almost the same. The Group is currently assessing the impact of IFRS 16.
- Amendments to IFRS 4 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2018). This amendment addresses the concerns of insurance companies about the different effective dates of IFRS 9, 'Financial instruments', and the forthcoming new insurance contracts standard. The amendment to IFRS 4 provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level); and the 'overlay approach'. Both approaches are optional. IFRS 4 (including the amendments that have now been issued) will be superseded by the forthcoming new insurance contracts standard. Accordingly, both the temporary exemption and the 'overlay approach' are expected to cease to be applicable when the new insurance standard becomes effective. The Group is currently assessing whether to use temporary exemption or overlay approach as permitted under the standard.
- Amendments to IFRS 2, 'Share-based Payment' (effective for annual periods beginning on or after 1 January 2018). The amendment addresses the accounting for cash-settled, share-based payments and equity-settled awards that include a 'net settlement' feature in respect of withholding taxes. The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. The Group is currently assessing the impact of this amendment.
- Amendment to IAS 40, 'Investment property' (effective for annual periods beginning on or after 1 January 2018). These amendments clarify that to transfer to, or from investment properties, there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.
- IFRIC 22, 'Foreign currency transactions and advance consideration' (effective for annual periods beginning on or after 1 January 2018). This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. The Group is currently assessing the impact of this amendment.
- Annual improvements to IFRSs 2014 – 2016 cycles. The amendment to IAS 28, 'Investments in associates and joint ventures' (effective for annual periods beginning on or after 1 January 2018) clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition. The Group will apply this amendment where applicable to future transactions.
- IFRS 17, 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2021). This standard was issued as replacement for IFRS 4 'Insurance contracts' and requires a current measurement model where estimates are re-measured each reporting period. The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts. The Group is currently assessing the impact of this standard.
- Amendment to IFRS 9, 'Financial instruments on prepayment features with negative compensation' (effective for annual periods beginning on or after 1 January 2019). This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. The Group is currently assessing the impact of this amendment.
- Amendments to IAS 28, 'Investments in associates and joint ventures' (effective for annual periods beginning on or after 1 January 2019). These amendments clarify that companies account for long term interests in an associate or joint venture to which the equity method is not applied using IFRS 9. The Group currently applies the equity method to its associated companies.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- IFRIC 23, 'Uncertainty over income tax treatments' (effective for annual periods beginning on or after 1 January 2019). This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income taxes' are applied where there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether the treatment will be accepted by the tax authority. The Group is currently assessing the impact of this interpretation.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

(b) Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss. Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest over the fair value of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation (continued)

Entity	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares held by the parent company %	Proportion of ordinary shares held by the Group %	Proportion of ordinary shares held by non-controlling interests %
Consumer Brands Limited	Jamaica	General goods distributor	100	100	-
GK Investments Limited and its subsidiary –	Jamaica	Lease financing	100	100	-
Greenfield Media Productions Limited	Jamaica	Media rights holder	-	55	45
GraceKennedy Financial Group Limited and its subsidiaries –	Jamaica	Holding company	100	100	-
Allied Insurance Brokers Limited	Jamaica	Insurance brokerage	-	100	-
GK General Insurance Company Limited	Jamaica	General Insurance	-	100	-
GraceKennedy Money Services Caribbean SRL and its subsidiary –	Barbados	Holding company	-	75	25
GraceKennedy Remittance Services Limited and its subsidiaries –	Jamaica	Money services	-	75	25
Grace Kennedy Currency Trading Services Limited	Jamaica	Money services	-	75	25
GraceKennedy Payment Services Limited	Jamaica	Money services	-	75	25
GraceKennedy Money Services (Anguilla) Limited	Anguilla	Money services	-	75	25
GraceKennedy Money Services (Antigua & Barbuda) Limited	Antigua & Barbuda	Money services	-	75	25
GraceKennedy Money Services (Montserrat) Limited	Montserrat	Money services	-	75	25
GraceKennedy Money Services (St. Kitts & Nevis) Limited	St. Kitts & Nevis	Money services	-	75	25
GraceKennedy Money Services (St. Vincent and the Grenadines) Limited	St. Vincent and the Grenadines	Money services	-	75	25
GraceKennedy Money Services (BVI) Limited	British Virgin Islands	Money services	-	75	25
GraceKennedy Money Services (Cayman) Limited	Cayman Islands	Money services	-	75	25
GraceKennedy Money Services (Turks & Caicos Islands) Limited	Turks & Caicos Islands	Money services	-	75	25
Grace, Kennedy Remittance Services (Guyana) Limited	Guyana	Money services	-	75	25
GraceKennedy (Trinidad & Tobago) Limited	Trinidad and Tobago	Money services	-	75	25
GK Insurance (Eastern Caribbean) Limited (formerly EC Global Insurance Company Limited)	St. Lucia	General Insurance	-	89.3	10.7
GK Insurance Brokers Limited	Turks & Caicos	Insurance brokerage	-	100	-
Knutsford Re	Turks & Caicos	Insurance	-	100	-
First Global Holdings Limited and its subsidiaries –	Jamaica	Holding company	25	100	-
First Global Bank Limited	Jamaica	Banking	-	100	-
GK Capital Management Limited	Jamaica	Investment manager	-	100	-
GraceKennedy Properties Limited	Jamaica	Property rental	-	100	-
Grace Foods International Limited	Jamaica	Dormant	100	100	-
GK Foods & Services Limited	Jamaica	Food trading	100	100	-
International Communications Limited	Jamaica	Dormant	100	100	-

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation (continued)

Entity	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares held by the parent company %	Proportion of ordinary shares held by the Group %	Proportion of ordinary shares held by non- controlling interests %
Grace Foods Limited	St. Lucia	Brand owner	100	100	-
GraceKennedy (Belize) Limited	Belize	Food trading	100	100	-
Grace Foods Canada Inc. (formerly GraceKennedy (Ontario) Inc.)	Canada	Food trading	100	100	-
Grace Kennedy (Guyana) Limited	Guyana	Dormant	100	100	-
Grace Kennedy (USA) Inc. and its subsidiary –	USA	Food trading	100	100	-
Grace Foods (USA) Inc. and its subsidiary –	USA	Food trading	-	100	-
GraceKennedy Foods (USA) LLC	USA	Food trading	-	100	-
GraceKennedy (St. Lucia) Limited and its subsidiaries –	St. Lucia	Holding company	100	100	-
Graken Holdings Limited	Turks & Caicos	Dormant	-	100	-
	United Kingdom (UK)	Food trading	-	100	-
GK Foods (UK) Limited and its subsidiaries –					
Grace Foods UK Limited	UK	Food trading	-	100	-
Enco Products Limited	UK	Food trading	-	100	-
Funnybones Foodservice Limited	UK	Food trading	-	100	-
Chadha Oriental Foods Limited	UK	Food trading	-	100	-
GraceKennedy Ghana Limited	Ghana	Food trading	-	100	-
GK Foods Limited	Nigeria	Food trading	-	100	-

The special purpose entity consolidated is the company's employee investment trust.

During the year the Group acquired 100% of the share capital of Consumer Brands Limited (Note 39).

The Group liquidated Grace, Kennedy Remittance Services (Trinidad & Tobago) Limited and Horizon Shipping Limited during the year. This resulted in a gain being realised on liquidation which is included in Other Income within *gain on disposal of investments* (Note 25).

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of results of associated companies' in the income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising in investments in associates are recognised in the income statement.

In the company's statement of financial position, investment in associates is shown at cost.

The Group's associated companies are as follows:

	Financial Reporting Year-end	Country of Incorporation	Nature of Business	Group's Percentage Interest	
				2017	2016
CSGK Finance Holdings Limited	31 December	Barbados	Banking	40.0	40.0
Dairy Industries (Jamaica) Limited	31 December	Jamaica	Food trading	50.0	50.0
Trident Insurance Company Limited	30 June	Barbados	Insurance	-	30.0
Telecommunications Alliance Limited	31 December	Jamaica	Dormant	49.0	49.0

The results of associates with financial reporting year-ends that are different from the Group are determined by prorating the results for the audited period as well as the period covered by management accounts to ensure that a year's result is accounted for where applicable.

The Group disposed of its 30% interest in Trident Insurance Company Limited during the year (Note 10).

(d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee that makes strategic decisions.

(e) Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Jamaican dollars, which is the company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement in other income.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(e) Foreign currency translation (continued)

Foreign exchange gains and losses are presented in the income statement within 'other income'.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are recognised in other comprehensive income.

Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (c) all resulting exchange differences are recognised in other comprehensive income.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

(f) Fixed assets

All fixed assets are initially recorded at cost. Freehold land and buildings are subsequently shown at market valuation based on biennial valuations by external independent valuers, less subsequent depreciation of buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount. All other fixed assets are carried at cost less accumulated depreciation.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

Increases in carrying amounts arising on revaluation are credited to other comprehensive income and shown in capital reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against capital reserves directly in equity; all other decreases are charged to the income statement.

Depreciation is calculated on the straight line basis to allocate assets' cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Freehold buildings and leasehold buildings and improvements	10 - 60 years
Plant, machinery, equipment, furniture and fixtures	3 - 10 years
Vehicles	3 - 5 years

Land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(f) Fixed assets (continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining profit. When revalued assets are sold, the amounts included in capital and fair value reserves are transferred to retained earnings.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

(g) Intangible assets

Goodwill

Goodwill is recorded at cost and represents the excess of the value of consideration paid over the Group's interest in net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

Computer software

Acquired computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful life of the software, which ranges from 3 to 5 years.

Distribution channel agreements

Distribution channel agreements are recorded at cost and represent the value of the consideration paid to acquire rights to distribute beverages in specified routes. These costs are amortised over the estimated useful life of the agreements, which is 10 years.

Policy contracts

Policy contracts are amortised over their estimated useful life which is 15 years and are carried at cost less accumulated amortisation. The cost of policy contracts comprises its purchase price and professional fees directly attributed to acquiring the asset.

Brands

Brands are recorded at cost and represent the value of the consideration paid to acquire several well established and recognised beverage and ethnic food brands. These costs are amortised over the estimated useful life of the brands, which ranges from 5 to 20 years.

Customer relationships

Customer relationships are recorded at cost and represent the value of the consideration paid to acquire customer contracts and the related customer relationships with several outlet operators and insurance clients. These costs are amortised over the estimated useful life of the relationships, which is between 5 to 15 years.

Supplier relationships

Supplier relationships are recorded at cost and represent the value of the consideration paid to acquire rights to distribute consumer products in specified locations. These costs are amortised over the estimated useful life of the relationships, which is between 10 to 12 years.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(h) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The accounting policy for trade and insurance receivables is dealt with in Note 2 (o). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are classified as such in the statement of financial position.

Financial assets classified as loans and receivables either meet the definition of loans and receivables at the date of acquisition, or at the date of reclassification from another category (fair value through profit or loss or available-for-sale), under the provisions of IAS 39 (Amendment). Financial assets which have been reclassified to this category, meet the definition of loans and receivables as a result of the market for these securities becoming inactive during the financial year.

A provision for credit losses is established if there is objective evidence that a loan is impaired. A loan is considered impaired when management determines that it is probable that the full amounts due will not be collected according to the original contractual terms. When a loan has been identified as impaired, the carrying amount of the loan is reduced, by recording specific provisions for credit losses, to its estimated recoverable amount, which is the present value of expected future cash flows including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan.

The provision for credit losses also covers situations where there is objective evidence that probable losses are present in components of the loan portfolio at the statement of financial position date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

For non-performing and impaired loans the accrual of interest income based on the original terms of the loan is discontinued. The Bank of Jamaica regulations require that interest on non-performing bank loans be taken into account on the cash basis. IFRS requires the increase in the present value of impaired loans due to the passage of time to be reported as interest income. The difference between the Jamaican regulatory basis and IFRS was assessed to be immaterial.

Write-offs are made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Write-offs are charged against previously established provisions for credit losses and reduce the principal amount of a loan. Recoveries in part or in full of amounts previously written-off are credited to credit loss expense in the income statement.

Statutory and other regulatory loan loss reserve requirements that exceed IFRS provisions which are charged to the income statement are dealt with in a non-distributable loan loss reserve as an appropriation of retained earnings.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in investment securities on the statement of financial position.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(h) Financial assets (continued)

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in other comprehensive income.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments previously recognised in other comprehensive income are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of revenue, other income and finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(i) Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of the underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risk. The Group transacts derivatives to manage its own exposure to foreign exchange risk and interest rate risk.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each statement of financial position date. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Assets and liabilities are set off where the contracts are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through profit or loss.

Gains and losses from the changes in the fair value of derivatives are included in the income statement.

(j) Investments in subsidiaries

Investments in subsidiaries are stated at cost.

(k) Impairment of non-financial assets

Fixed assets and other assets, excluding goodwill, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(l) Income taxes

Taxation expense in the income statement comprises current and deferred tax charges.

Current tax charges are based on taxable profit for the year, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Group's liability for current tax is calculated at tax rates that have been enacted or substantively enacted at statement of financial position date in the countries where the company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(l) Income taxes (continued)

Deferred tax is the tax expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted or substantively enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Investment tax credits are benefits received for investments in specific qualifying assets related to capitalised expenditure. Any portion of these tax credits which are received but not fully utilised in the same year are carried forward for offset against future taxes and are recognised similarly to unused tax credits as a deferred tax asset.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited to other comprehensive income or equity, in which case, deferred tax is also dealt with in other comprehensive income or equity.

(m) Employee benefits

Pension obligations

The Group participates in a defined contribution plan whereby it pays contributions to a privately administered fund. Once the contributions have been paid, the Group has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and are included in staff costs.

Pension plan assets

The Group also operates a defined benefit plan. The scheme is generally funded through payments to a trustee-administered fund as determined by periodic actuarial calculations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation.

The asset or liability in respect of defined benefit pension plans is the difference between the present value of the defined benefit obligation at the statement of financial position date and the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of Government securities which have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in income.

For defined contribution plans, the Group pays contributions to privately administered pension plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations

Some Group companies provide post-employment health care benefits, group life, gratuity and supplementary plans for their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

Equity compensation benefits

The Group operates equity-settled, share-based compensation plans. Directors, senior executives, management and key employees are awarded stock options and/or restricted stock grants. The fair value of the employee services received in exchange for the grant of the options or restricted units is recognised as an expense. The total amount expensed over the vesting period is determined by reference to the fair value of the options or restricted units granted, excluding the impact of non-market vesting conditions. When options are exercised or restricted units are vested, the proceeds received net of any transaction costs or the value transferred are credited to share capital.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(m) Employee benefits (continued)

Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after statement of financial position date are discounted to present value.

Incentive plans

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to the company's owners after certain adjustments. The Group recognises a provision where contractually obliged or where there is past practice that has created a constructive obligation.

(n) Inventories

Inventories are stated at the lower of average cost and net realisable value. In the case of the company, cost represents invoiced cost plus direct inventory-related expenses. For the subsidiaries, costs are determined by methods and bases appropriate to their operations. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

(o) Trade and insurance receivables

Trade and insurance receivables are carried at original invoice amount (which represents fair value) less provision made for impairment of these receivables. A provision for impairment of these receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement. Impairment testing of trade receivables is described in Note 3.

(p) Cash and cash equivalents

Cash and cash equivalents are carried on the statement of financial position at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within bank and other loans on the statement of financial position.

(q) Payables

Payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Payables are initially recognised at fair value and subsequently stated at amortised cost.

(r) Insurance business provisions

Claims outstanding

Provision is made to cover the estimated cost of settling claims arising out of events which have occurred by the statement of financial position date, including claims incurred but not reported, less amounts already paid in respect of these claims. Provision for reported claims is based on individual case estimates.

Insurance reserves

Provision is made for that proportion of premiums written in respect of risks to be borne subsequent to the year-end under contracts of insurance entered into on or before the statement of financial position date. Provision is also made to cover the estimated amounts in excess of unearned premiums required to meet future claims and expenses on business in force.

Reinsurance ceded

The insurance subsidiary cedes insurance premiums and risk in the normal course of business in order to limit the potential for losses arising from longer exposures. Reinsurance does not relieve the originating insurer of its liability. Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses and ceded unearned premiums. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the statement of financial position unless the right of offset exists.

Deferred policy acquisition costs

The costs of acquiring and renewing insurance contracts, including commissions, underwriting and policy issue expenses, which vary with and are directly related to the contracts, are deferred over the unexpired period of risk carried. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and at the end of each accounting period.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed; for example, under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(t) Deposits

Deposits are recognised initially at the nominal amount when funds are received. Deposits are subsequently stated at amortised cost using the effective yield method.

(u) Securities purchased/sold under resale/repurchase agreements

The purchase and sale of securities under resale and repurchase agreements are treated as collateralised lending and borrowing transactions. The related interest income and expense are recorded on the accrual basis.

(v) Borrowings

Bank loans and overdrafts are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

(w) Borrowings costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(x) Leases

As lessee

Leases of fixed assets where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in finance lease obligations. The interest element of the finance charge is charged to the income statement over the lease period. The fixed asset acquired under finance leasing contracts is depreciated over the useful life of the asset.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

As lessor

When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned income. Lease income is recognised over the term of the lease so as to reflect a constant periodic rate of return.

(y) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's owners until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the company's owners.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(z) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of General Consumption Tax or applicable sales tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods – wholesale

The Group manufactures and sells a range of general and food items in the wholesale market. Sales of goods are recognised when a Group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance have been satisfied. The general and food items are often sold with volume discounts; customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of up to 90 days, which is consistent with the market practice.

(ii) Sales of goods – retail

The Group operates a chain of retail outlets for selling general and food items. Sales of goods are recognised when a Group entity sells a product to the customer. Retail sales are usually in cash or by credit. It is the Group's policy to sell its products to the retail customer with a right to return within 30 days. Accumulated experience is used to estimate and provide for such returns at the time of sale. The Group operates a loyalty programme in which the parent company has contracted certain subsidiaries to participate in the programme in the capacity of an issuer and/or redeemer of loyalty points. Under this programme, customers accumulate points for purchases made at certain subsidiaries within the Group, which entitle them to goods and services at redeeming subsidiaries and/or third party suppliers. Commission is recognised by the participating subsidiaries in their capacity as agents at the point the parent company is obligated to supply the awards and is entitled to receive consideration for doing so, that is, when points are issued. Revenue is recognised on a gross basis by the parent company in the capacity of principal at the point at which the company has fulfilled its obligations in respect of the awards, that is when points are issued. Amounts payable to participating subsidiaries and third parties for acting as suppliers in the programme are recognised by the parent company as an expense. One of the Group's subsidiaries operates a loyalty programme under similar arrangements to that of the parent company.

(iii) Sales of services

The Group sells insurance and financial services to the general public. These services are provided on a time and fixed-price contract, with contract terms generally ranging from less than one year to three years. Revenue is generally recognised at the contractual rates. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed. If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management. Fees and commission income are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective interest on the loan. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised ratably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

(iv) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

(v) Dividend income

Dividend income is recognised when the right to receive payment is established.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(aa) **Dividends**

Dividends are recorded as a deduction from equity in the period in which they are approved.

(ab) **Investment properties**

Investment properties, principally comprising land and buildings, are held for long-term rental yields and capital appreciation and are treated as long-term investments. They are measured initially at cost, including related transaction costs and are subsequently carried at fair value.

Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to income during the financial period in which they are incurred. Fair value gains or losses are recorded in income.

(ac) **Discontinued operations**

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management

The Group's activities expose it to a variety of insurance and financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors is ultimately responsible for the establishment and oversight of the Group's risk management framework. It provides policies for overall risk management, as well as principles and procedures covering the specific areas of risk. The Board has established committees/departments for managing and monitoring risks, such as foreign exchange risk, interest rate risk, credit risk and liquidity risk, as follows:

(i) Audit Committee

The Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Audit Committee is assisted in its oversight role by Group Risk Management and Internal Audit. Group Risk Management establishes a framework within which the opportunities and risks affecting the Group may be measured, assessed, and effectively controlled. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(ii) Corporate Governance Committee

The Corporate Governance Committee assists the Board in enhancing the Group's system of corporate governance by establishing, monitoring and reviewing the principles of good governance with which the Group and its directors will comply. The Committee promotes high standards of corporate governance based on the principles of openness, integrity and accountability taking into account the Group's existing legal and regulatory requirements. It establishes such procedures, policies and codes of conduct to meet these aims as it considers appropriate. Qualified individuals are identified and recommended by the Board to become members. It also leads the Board of Directors in its annual review of the Board's performance.

(iii) Asset and Liability Committees/Investment Committees

The Asset and Liability Committees (ALCOs) and Investment Committees are management committees responsible for monitoring and formulating investment portfolios and investment strategies within the Insurance, Banking and Investment, and Corporate divisions. The ALCOs are also responsible for monitoring adherence to trading limits, policies and procedures that are established to ensure that there is adequate liquidity as well as monitoring and measuring capital adequacy for regulatory and business requirements. To discharge these responsibilities, the ALCOs establish asset and liability pricing policies to protect the liquidity structure as well as assesses the probability of various liquidity shocks and interest rate scenarios. They also establish and monitor relevant liquidity ratios and statement of financial position targets. Overall, the Committees ensure compliance with the policies related to the management of liquidity risk, interest rate risk, and foreign exchange risk.

(iv) Corporate Finance Department

The Corporate Finance Department is responsible for managing the Group's assets and liabilities and the overall capital structure. It is also primarily responsible for the funding and liquidity risks of the Group. Corporate Finance identifies, evaluates and manages financial risks in close co-operation with the Group's operating business units.

The most important types of risk are insurance risk, reinsurance risk, credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk

The Group issues contracts that transfer insurance risk. This section summarises the risk and the way it is managed by the Group.

Insurance risk for the Group attributable to policies sold by its general insurance underwriting subsidiaries, is borne by those subsidiaries. The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore, unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claim payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits is greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the level established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Factors that increase insurance risk include lack of risk diversification in terms of type and amount of risk and geographical location.

Management maintains an appropriate balance between commercial and personal policies and type of policies based on guidelines set by the Board of Directors. Insurance risk arising from the Group's insurance contracts is, however, concentrated within Jamaica.

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. Where applicable, contracts are underwritten by reference to the commercial replacement value of the properties or other assets and contents insured. Claims payment limits are always included to cap the amount payable on occurrence of the insured event. Cost of rebuilding properties, of replacement or indemnity for other assets and contents and time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies.

Management sets policy and retention limits based on guidelines set by the Board of Directors of the subsidiaries. The policy limit and maximum net retention of any one risk for each class of insurance per customer for the year are as follows:

	2017		2016	
	Policy Limit	Maximum Net Retention	Policy Limit	Maximum Net Retention
	\$'000	\$'000	\$'000	\$'000
Commercial property:				
Fire and consequential loss	1,243,041	9,944	1,279,391	10,235
Boiler and machinery	615,305	6,992	639,696	7,197
Engineering	615,305	6,992	639,696	7,197
Burglary, money and goods in transit	31,076	31,076	31,985	22,389
Glass and other	31,076	31,076	31,985	22,389
Liability	383,817	38,382	383,817	38,382
Marine, aviation and transport	74,582	1,865	76,763	3,838
Motor	31,000	16,000	31,000	16,000
Pecuniary loss:				
Fidelity	31,076	31,076	31,985	22,389
Surety/Bonds	142,950	28,590	50,000	10,000
Personal accident	31,076	31,076	31,985	22,389
Personal property	1,243,041	9,944	1,279,391	10,235

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

Sensitivity Analysis of Actuarial Liabilities

The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in those assumptions could have a significant effect on the valuation results. These factors are discussed below.

Actuarial Assumptions

(i) In applying the noted methodologies, the following assumptions were made:

- Claims inflation has remained relatively constant and there have been no material legislative changes in the Jamaican civil justice system that would cause claim inflation to increase dramatically.
- There is no latent environmental or asbestos exposure embedded in the loss history.
- The case reserving and claim payments rates have and will remain relatively constant.
- The overall development of claims costs gross of reinsurance is not materially different from the development of claims costs net of reinsurance. This assumption is supported by:
 - The majority of the reinsurance program consists of proportional reinsurance agreements.
 - The non-proportional reinsurance agreements consist primarily of high attachment points.
- Claims are expressed at their estimated ultimate undiscounted value, in accordance with the requirement of the insurance regulations.

(ii) Provision for adverse deviation assumptions

The basic assumptions made in establishing insurance reserves are best estimates for a range of possible outcomes. To recognise the uncertainty in establishing these best estimates, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the appointed actuary is required to include a margin for adverse deviation in each assumption.

Reserves have been calculated on an undiscounted basis as well as on a discounted basis with a risk load added in. Where the undiscounted reserve was larger than the discounted reserve including the calculated provision for adverse deviation, the undiscounted amount was chosen. This assumes that holding reserves at an undiscounted amount includes an implicit risk load.

(iii) Scenario testing

The two major assumptions that determine reserve levels are:

- The selection of a-priori loss ratios within the Bornhuetter-Ferguson methods (Note 4).
- The selection of loss development factors.

These factors have been stochastically modelled using various confidence intervals to determine the impact on the net reserves. The net reserves of \$2,844,404,000 were determined at the 50% confidence interval. Had the confidence interval increased/(decreased) by 10%, the net reserves would increase/(decrease) by \$103,886,000/(\$104,113,000).

Development Claim Liabilities

In addition to sensitivity analysis, the development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The table below illustrates how the Group's estimate of the ultimate claims liability for accident years 2008 - 2016 has changed at successive year-ends, up to 2017. Updated unpaid claims and adjustment expenses (UCAE) and claims incurred but not reported (IBNR) estimates in each successive year, as well as amounts paid to date are used to derive the revised amounts for the ultimate claims liability for each accident year, used in the development calculations.

Notes to the Financial Statements

31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

(a) Insurance risk (continued)

Development Claims Liabilities (continued)

138

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(b) Reinsurance risk

To limit its exposure to potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. The Group selects reinsurers which have established capability to meet their contractual obligations and which generally have high credit ratings. The credit ratings of reinsurers are monitored.

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programmes used by the Group are summarised below:

- The retention limit or maximum exposure on insurance policies under the reinsurance treaties range between \$1,865,000 and \$38,382,000 (2016: \$3,838,000 and \$38,382,000).
- The Group utilises reinsurance treaties to reduce its net retained risk. The risk is spread over several reinsurers all of whom are AM Best or S&P rated at A or better.
- Excess of loss reinsurance is also purchased to cover the retained risk in the event of a catastrophe as well as for large motor losses.
- The amount of reinsurance recoveries recognised during the period is as follows:

	Group	
	2017	2016
	\$'000	\$'000
Property	1,936,168	715,955
Motor	41,163	29,903
Marine	997	3,281
Liability	(1,293)	18,419
Pecuniary loss	(1,219)	(2,588)
Accident	(1,857)	1,458
	1,973,959	766,428

(c) Financial risk

The Group is exposed to financial risk through its financial assets, reinsurance assets and insurance liabilities. The most important components of this financial risk are credit risk, cash flow risk and market risk (interest rate risk and currency risk).

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Group primarily faces due to the nature of its investments and liabilities are interest rate risk and currency risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Credit risk

The Group takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the Group by failing to discharge their contractual obligations. Credit exposures arise principally from the Group's receivables from customers, principals, agents, the amounts due from reinsurers, amounts due from insurance contract holders and insurance brokers, lending and investment activities. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments.

Credit-related commitment risks arise from guarantees which may require payment on behalf of customers. Such payments are collected from customers based on the terms of the letters of credit. They expose the Group to similar risks to loans and these are mitigated by the same control policies and processes.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Credit review process

The Group has established a credit quality review process and has credit policies and procedures which require regular analysis of the ability of borrowers and other counterparties to meet interest, capital and other repayment obligations.

(a) Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The credit policy states that each customer must be analysed individually for creditworthiness prior to the Group offering them a credit facility. Customers may be required to provide a banker's guarantee and credit limits are assigned to each customer. These limits are reviewed at least twice per year. The Group has procedures in place to restrict customer orders if the order will exceed their credit limits. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis.

Customer credit risks are monitored according to credit characteristics such as whether it is an individual or company, geographic location, industry, ageing profile, and previous financial difficulties. Special negotiated arrangements may extend the credit period to a maximum of 3 months. Trade and other receivables relate mainly to the Group's retail and direct customers.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

The Group's average credit period for the sale of goods is 1 month. The Group has provided fully for all receivables over 6 months based on historical experience which dictates that amounts past due beyond 6 months are generally not recoverable. Trade receivables between 3 and 6 months are provided for based on an estimate of amounts that would be irrecoverable, determined by taking into consideration past default experience, current economic conditions and expected receipts and recoveries once impaired.

(b) Loans and leases

The Group assesses the probability of default of individual counterparties using internal ratings. Customers of the Group are segmented into three rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

Group's internal rating scale:

Group's rating	Description of the grade	
1	Low risk	– Excellent credit history
2	Standard risk	– Generally abides by credit terms
3	Sub-Standard	– Late paying with some level of impairment

Exposure to credit risk is managed in part by obtaining collateral and corporate and personal guarantees. Counterparty limits are established by the use of a credit classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risk to which it is exposed and take corrective action.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

(c) Reinsurance

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. The insurance subsidiaries' Risk and Reinsurance Department assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information.

(d) Premium and other receivables

The respective credit committees within the Group examine the payment history of significant contract holders with whom they conduct regular business. Management information reported to the Group includes details of provisions for impairment on loans and receivables and subsequent write-offs. Internal Audit makes regular reviews to assess the degree of compliance with the Group procedures on credit. Exposures to individual policyholders and groups of policyholders are collected within the on-going monitoring of the controls associated with regulatory solvency. Where there exists significant exposure to individual policyholders, or homogenous groups of policyholders, a financial analysis is carried out by the insurance subsidiaries' Risk and Reinsurance Department.

(e) Investments

The Group limits its exposure to credit risk by investing mainly in liquid securities, with counterparties that have high credit quality. Accordingly, management does not expect any counterparty to fail to meet its obligations.

Collateral and other credit enhancements

The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of different types of collateral.

The main types of collateral obtained are as follows:

Loans and leases - mortgages over residential and commercial properties, charges over business assets such as premises, equipment, inventory and accounts receivable and charges and hypothecations over deposit balances and financial instruments such as debt securities and equities.

Securities lending and reverse repurchase transactions – cash or securities.

The Group also obtains guarantees from parent companies for loans to their subsidiaries and from individual owners for loans to their companies.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral held during its annual reviews of individual credit facilities as well as during its review of the adequacy of the provision for credit losses.

Impairment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 3 months or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, infringement of the original terms of the contract, or impairment of collateral.

The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Impairment (continued)

Individually assessed allowances are provided for financial assets that are above materiality thresholds based on a review conducted at least annually, or more regularly, when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at statement of financial position date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

Collectively assessed allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by taking into consideration historical losses on the portfolio, current economic conditions and expected receipts and recoveries once impaired.

The internal rating systems described above focus more on credit-quality mapping from the inception of lending activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the statement of financial position date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

The impairment provision shown in the statement of financial position at year-end is derived from each of the three internal rating grades. However, the impairment provision comes from the last rating class (sub-standard). The tables below show the Group's and company's loans, leases, premium and trade receivables and the associated impairment provision for each internal rating class:

Group's rating

	2017		2016	
	Loans, Leases, Premium and Trade Receivables \$'000	Impairment Provision \$'000	Loans, Leases, Premium and Trade Receivables \$'000	Impairment Provision \$'000
Low risk	6,712	-	37,663	-
Standard risk	40,244,889	-	36,460,525	-
Sub-Standard	2,173,335	1,086,977	1,942,934	1,002,470
	42,424,936	1,086,977	38,441,122	1,002,470

Company's rating

	2017		2016	
	Loans, Leases, Premium and Trade Receivables \$'000	Impairment Provision \$'000	Loans, Leases, Premium and Trade Receivables \$'000	Impairment Provision \$'000
Standard risk	4,620,466	-	4,351,693	-
Sub-Standard	170,145	70,672	172,236	100,448
	4,790,611	70,672	4,523,929	100,448

Maximum exposure to credit risk before collateral held or other credit enhancements

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets as reported in the statement of financial position.

This represents a worst case scenario of credit risk exposure to the Group and company at 31 December 2017 and 2016, without taking account of any collateral held or other credit enhancements.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit Risk (continued)

Loans and leases, premium and trade receivables

Credit quality of loans and leases, premium, trade and other receivables are summarised as follows:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Neither past due nor impaired -				
Low risk	6,712	37,663	-	-
Standard risk	37,189,410	33,561,765	4,436,202	4,192,639
	37,196,122	33,599,428	4,436,202	4,192,639
Past due but not impaired	3,055,479	2,898,760	184,264	159,054
Impaired	2,173,335	1,942,934	170,145	172,236
Gross	42,424,936	38,441,122	4,790,611	4,523,929
Less: provision for credit losses	(1,086,977)	(1,002,470)	(70,672)	(100,448)
Net	41,337,959	37,438,652	4,719,939	4,423,481

Ageing analysis of loans and leases, premium and trade receivables that are past due but not impaired:

Loans and leases, premium and trade receivables that are less than 3 months past due are not considered impaired. As of 31 December 2017, loans and leases, premium and trade receivables of \$3,055,479,000 (2016: \$2,898,760,000) and \$184,264,000 (2016: \$159,054,000) for the Group and company respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these loans and leases, premium and trade receivables is as follows:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Less than 1 month	1,454,582	1,420,277	-	-
Within 1 to 3 months	844,494	1,002,915	148,685	145,587
Over 3 months	756,403	475,568	35,579	13,467
	3,055,479	2,898,760	184,264	159,054

As of 31 December 2017, loans and leases, premium and trade receivables of \$2,173,335,000 (2016: \$1,942,934,000) and \$170,145,000 (2016: \$172,236,000) for the Group and company respectively were impaired. The amount of the provision was \$1,086,977,000 (2016: \$1,002,470,000) and \$70,672,000 (2016: \$100,448,000) for the Group and company respectively. There are no financial assets other than loans, leases, premium and trade receivables that are past due.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

The individually impaired receivables mainly relate to wholesalers who are in unexpected difficult economic situations. It was assessed that a portion of the receivables is expected to be recovered.

The ageing of the impaired loans and lease receivables is as follows:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
3 to 6 months	539,744	-	-	-
Over 6 months	1,045,543	1,457,568	-	-
	1,585,287	1,457,568	-	-

Movements on the provision for impairment of loans and leases are as follows:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
At 1 January	588,904	377,325	-	-
Provision for receivables impairment	51,452	325,311	-	-
Receivables written off during the year as uncollectible	-	(113,732)	-	-
Unused amounts reversed	(68)	-	-	-
At 31 December	640,288	588,904	-	-

The ageing of the impaired premium and trade receivables is as follows:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
3 to 6 months	291,063	148,103	88,305	56,284
Over 6 months	296,985	337,263	81,840	115,952
	588,048	485,366	170,145	172,236

Movements on the provision for impairment of premium and trade receivables are as follows:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
At 1 January	413,566	338,254	100,448	97,981
Provision for receivables impairment	181,900	177,865	13,710	24,033
Receivables written off during the year as uncollectible	(115,197)	(77,363)	(28,439)	(11,575)
Unused amounts reversed	(33,580)	(25,190)	(15,047)	(9,991)
At 31 December	446,689	413,566	70,672	100,448

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

The overall ageing of the impaired loans and leases, premium and trade receivables is as follows:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
3 to 6 months	830,807	148,103	88,305	56,284
Over 6 months	1,342,528	1,794,831	81,840	115,952
	2,173,335	1,942,934	170,145	172,236

Movements on the provision for impairment of loans and leases, premium and trade receivables are as follows:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
At 1 January	1,002,470	715,579	100,448	97,981
Provision for receivables impairment	233,352	503,176	13,710	24,033
Receivables written off during the year as uncollectible	(115,197)	(191,095)	(28,439)	(11,575)
Unused amounts reversed	(33,648)	(25,190)	(15,047)	(9,991)
At 31 December	1,086,977	1,002,470	70,672	100,448

The creation and release of provisions for impaired receivables have been included in expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

There are no financial assets other than those listed above that were individually impaired.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Loans and Leases, Premium and Trade receivables

The following table summarises the Group's and company's credit exposure for loans and leases, premium and trade receivables at their carrying amounts, as categorised by the customer sector:

	Group		Company	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Public sector	624,461	171,852	-	-
Professional and other services	4,912,337	4,568,848	-	-
Personal	10,142,129	8,732,161	120,978	163,169
Agriculture, fishing and mining	798,016	762,855	-	-
Construction and real estate	1,416,054	1,519,896	25,005	30,000
Electricity, gas and water	1,578,671	1,202,447	-	-
Distribution	3,347,061	4,084,067	2,976,332	2,778,044
Manufacturing	2,095,016	2,318,411	-	-
Transportation	3,103,536	2,403,631	-	-
Tourism and entertainment	1,938,084	1,624,079	196,306	194,408
Financial and other money services	1,448,080	2,059,656	191,389	191,349
Brokers and agents	1,691,442	1,680,620	-	-
Reinsurers and coinsurers	1,830,415	740,516	-	-
Supermarket chains	2,046,520	1,784,489	313,796	319,463
Wholesalers	1,506,222	1,196,302	372,972	314,153
Retail and direct customers	3,039,363	2,918,837	438,797	363,806
Other	695,067	511,737	108,723	155,569
	42,212,474	38,280,404	4,744,298	4,509,961
Less: Provision for credit losses	(1,086,977)	(1,002,470)	(70,672)	(100,448)
	41,125,497	37,277,934	4,673,626	4,409,513
Interest receivable	212,462	160,718	46,313	13,968
	41,337,959	37,438,652	4,719,939	4,423,481

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Financial assets – individually impaired

Financial assets that are individually impaired before taking into consideration the cash flows from collateral held are as follows:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Loans and leases	1,585,287	1,457,568	-	-
Trade and other receivables	588,048	485,366	170,145	172,236

There are no financial assets other than those listed above that were individually impaired.

Reposessed collateral

The Group and the company obtained assets by taking possession of collateral held as security. Repossessed collateral is sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness.

A number of cases are in the courts awaiting judgments. The impairment provision has not been adjusted for these claims.

Debt securities

The following table summarises the Group's and company's credit exposure for debt securities at their carrying amounts, as categorised by issuer:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Government of Jamaica:				
Available-for-sale securities	12,944,286	17,883,313	2,995,852	3,531,448
Fair value through profit or loss	-	86,223	-	-
Corporate:				
Available-for-sale securities	9,472,499	6,720,538	1,954,336	1,608,075
Other government				
Available-for-sale securities	885,415	799,671	-	-
Bank of Jamaica	9,912,692	10,587,210	-	-
Other (Note 6)	2,954,634	2,845,341	1,514,573	1,562,237
	36,169,526	38,922,296	6,464,761	6,701,760

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Liquidity risk management process

The Group's liquidity management process, as carried out within the Group through the ALCOs and treasury departments, includes:

- (i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required.
- (ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- (iii) Maintaining committed lines of credit;
- (iv) Optimising cash returns on investment;
- (v) Monitoring statement of financial position liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities;
- (vi) Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Group. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial liabilities cash flows

The table below presents the undiscounted cash flows payable (both interest and principal cash flows) of the Group's and company's financial liabilities based on contractual repayment obligations. The Group expects that many customers will not request repayment on the earliest date the Group could be required to pay.

	Group				
	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
As at 31 December 2017:					
Deposits	28,907,369	4,717,593	7,572	-	33,632,534
Securities sold under agreements to repurchase	2,767,417	-	1,123,018	-	3,890,435
Bank and other loans	6,441,014	4,559,816	5,828,619	733,385	17,562,834
Trade and other payables	17,762,670	1,603,825	-	-	19,366,495
Total financial liabilities (contractual dates)	55,878,470	10,881,234	6,959,209	733,385	74,452,298

	Group				
	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
As at 31 December 2016:					
Deposits	25,380,849	5,395,693	16,338	-	30,792,880
Securities sold under agreements to repurchase	9,353,969	203,488	3,032,050	-	12,589,507
Bank and other loans	3,678,663	4,701,019	5,048,588	1,071,760	14,500,030
Trade and other payables	16,843,073	718,910	-	-	17,561,983
Total financial liabilities (contractual dates)	55,256,554	11,019,110	8,096,976	1,071,760	75,444,400

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial liabilities cash flows (continued)

	Company				
	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
As at 31 December 2017:					
Bank and other loans	884,789	1,942,958	1,608,014	112,170	4,547,931
Trade and other payables	2,544,670	-	-	-	2,544,670
Subsidiaries	3,403,955	-	-	-	3,403,955
Total financial liabilities (contractual dates)	6,833,414	1,942,958	1,608,014	112,170	10,496,556

	Company				
	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
As at 31 December 2016:					
Bank and other loans	1,939,198	1,465,329	1,347,775	79,304	4,831,606
Trade and other payables	2,600,965	-	-	-	2,600,965
Subsidiaries	2,784,294	-	-	-	2,784,294
Total financial liabilities (contractual dates)	7,324,457	1,465,329	1,347,775	79,304	10,216,865

The assets available to meet all of the liabilities and to cover outstanding loan commitments include: cash, Central Bank balances, items in the course of collection, investment securities and other eligible bills, loans and advances to banks, and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, debt securities and treasury and other bills have been pledged to secure liabilities. The Group is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from other financing institutions. The Group and the company have the following undrawn committed borrowing facilities:

	Group		Company	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Floating rate –				
Expiring within one year	9,860,401	9,075,887	6,032,827	6,371,215

The facilities expiring within one year are annual facilities subject to review at various dates during the subsequent year. The other facilities have been arranged to help finance the Group's activities.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Off-statement of financial position items

The table below shows the contractual expiry periods of the Group's contingent liabilities and commitments.

	Group			
	No Later Than 1 Year \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Total \$'000
As at 31 December 2017:				
Loan commitments	1,443,956	-	-	1,443,956
Guarantees, acceptances and other financial facilities	267,678	-	-	267,678
Capital commitments	2,126,181	-	-	2,126,181
Operating lease commitments	1,403,165	3,525,894	1,258,585	6,187,644
	5,240,980	3,525,894	1,258,585	10,025,459
As at 31 December 2016:				
Loan commitments	1,090,931	-	-	1,090,931
Guarantees, acceptances and other financial facilities	189,585	-	-	189,585
Capital commitments	2,352,326	-	-	2,352,326
Operating lease commitments	1,309,118	3,703,535	1,238,355	6,251,008
	4,941,960	3,703,535	1,238,355	9,883,850

(iii) Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the research and treasury departments which carry out extensive research and monitor the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the Canadian dollar, UK pound and the Euro.

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The Group further manages this risk by maximising foreign currency earnings and holding foreign currency balances.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Currency risk (continued)

Concentrations of currency risk

The table below summarises the Group and company exposure to foreign currency exchange rate risk at 31 December.

	Group						
	Jamaican\$ J\$'000	US\$ J\$'000	GBP J\$'000	CAN\$ J\$'000	EURO J\$'000	Other J\$'000	Total J\$'000
As at 31 December 2017:							
Financial Assets							
Cash and deposits	6,372,877	4,261,822	408,957	105,791	76,570	858,228	12,084,245
Investment securities and pledged assets	12,327,152	23,904,163	44,731	12,389	-	491,926	36,780,341
Trade and other receivables	4,842,197	5,061,631	1,667,149	479,965	223,030	1,515,656	13,789,630
Loans receivable	20,678,545	6,865,060	-	-	-	4,724	27,548,329
Total financial assets	44,220,771	40,092,676	2,120,837	598,125	299,600	2,870,536	90,202,545
Financial Liabilities							
Deposits	16,352,761	16,762,672	276,535	85,567	52,988	-	33,530,523
Securities sold under agreements to repurchase	1,746,757	2,045,963	-	-	-	-	3,792,720
Bank and other loans	7,303,113	8,104,344	861,183	170,957	-	76,018	16,515,615
Trade and other payables	7,142,533	7,898,384	1,887,841	582,707	186,627	1,668,403	19,366,495
Total financial liabilities	32,545,164	34,811,363	3,025,559	839,231	239,615	1,744,421	73,205,353
Net financial position	11,675,607	5,281,313	(904,722)	(241,106)	59,985	1,126,115	16,997,192

	Group						
	Jamaican\$ J\$'000	US\$ J\$'000	GBP J\$'000	CAN\$ J\$'000	EURO J\$'000	Other J\$'000	Total J\$'000
As at 31 December 2016:							
Financial Assets							
Cash and deposits	5,242,740	3,981,704	360,448	123,375	1,362,803	1,205,577	12,276,647
Investment securities and pledged assets	11,183,407	27,748,662	36,849	11,658	-	313,097	39,293,673
Trade and other receivables	4,225,984	4,314,861	1,718,676	453,663	173,800	623,611	11,510,595
Loans receivable	19,926,453	6,001,564	40	-	-	-	25,928,057
Total financial assets	40,578,584	42,046,791	2,116,013	588,696	1,536,603	2,142,285	89,008,972
Financial Liabilities							
Deposits	11,350,884	17,551,420	284,545	97,599	1,369,440	-	30,653,888
Securities sold under agreements to repurchase	5,223,496	7,119,936	-	-	-	-	12,343,432
Bank and other loans	7,087,161	5,345,352	559,059	213,973	-	36,492	13,242,037
Trade and other payables	8,001,988	5,468,031	2,738,693	629,981	80,892	642,398	17,561,983
Total financial liabilities	31,663,529	35,484,739	3,582,297	941,553	1,450,332	678,890	73,801,340
Net financial position	8,915,055	6,562,052	(1,466,284)	(352,857)	86,271	1,463,395	15,207,632

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Currency risk (continued)

Concentrations of currency risk (continued)

	Company						
	Jamaican\$ J\$'000	US\$ J\$'000	GBP J\$'000	CAN\$ J\$'000	EURO J\$'000	Other J\$'000	Total J\$'000
As at 31 December 2017:							
Financial Assets							
Cash and deposits	1,434,333	504,851	-	-	-	5,267	1,944,451
Investment securities	2,578,496	3,935,102	-	-	-	-	6,513,598
Trade and other receivables	1,336,610	24,023	-	-	-	-	1,360,633
Subsidiaries	888,062	175,310	-	-	-	-	1,063,372
Loans receivable	1,520,015	1,839,291	-	-	-	-	3,359,306
Total financial assets	7,757,516	6,478,577	-	-	-	5,267	14,241,360
Financial Liabilities							
Bank and other loans	2,008,673	2,044,595	-	-	-	-	4,053,268
Trade and other payables	1,778,631	765,674	365	-	-	-	2,544,670
Subsidiaries	2,577,600	817,557	2,211	3,003	3,584	-	3,403,955
Total financial liabilities	6,364,904	3,627,826	2,576	3,003	3,584	-	10,001,893
Net financial position	1,392,612	2,850,751	(2,576)	(3,003)	(3,584)	5,267	4,239,467

	Company						
	Jamaican\$ J\$'000	US\$ J\$'000	GBP J\$'000	CAN\$ J\$'000	EURO J\$'000	Other J\$'000	Total J\$'000
As at 31 December 2016:							
Financial Assets							
Cash and deposits	1,685,459	909,804	-	-	-	5,548	2,600,811
Investment securities	2,294,564	4,467,045	-	-	-	-	6,761,609
Trade and other receivables	1,228,915	19,383	-	-	-	-	1,248,298
Subsidiaries	344,208	129,251	-	6,303	-	-	479,762
Loans receivable	1,823,080	1,352,103	-	-	-	-	3,175,183
Total financial assets	7,376,226	6,877,586	-	6,303	-	5,548	14,265,663
Financial Liabilities							
Bank and other loans	2,863,002	1,583,637	-	-	-	-	4,446,639
Trade and other payables	1,677,103	923,862	-	-	-	-	2,600,965
Subsidiaries	1,710,476	1,073,266	552	-	-	-	2,784,294
Total financial liabilities	6,250,581	3,580,765	552	-	-	-	9,831,898
Net financial position	1,125,645	3,296,821	(552)	6,303	-	5,548	4,433,765

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Currency risk (continued)

Foreign currency sensitivity

The following tables indicate the currencies to which the Group and company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rates below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents the changes in carrying amounts of outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 4% increase (2016: 6%) and a 2% decrease (2016: 1%) in foreign currency rates to arrive at the corresponding impact on profit. The sensitivity analysis includes cash and deposits, investment securities, receivables, loans receivable, deposits, securities sold under agreements to repurchase, bank and other loans, and payables. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact due to changes in variables, variables had to be assessed on an individual basis.

Group				
	% Change in Currency Rate	Effect on Profit before Taxation 2017 \$'000	% Change in Currency Rate	Effect on Profit before Taxation 2016 \$'000
	2017		2016	
Currency:				
USD	+4%	199,229	+6%	393,382
GBP	+4%	934	+6%	3,579
CAN	+4%	1,179	+6%	2,140
EURO	+4%	64	+6%	(1,123)
USD	-2%	(99,614)	-1%	(65,564)
GBP	-2%	(467)	-1%	(597)
CAN	-2%	(590)	-1%	(357)
EURO	-2%	(32)	-1%	187

Company				
	% Change in Currency Rate	Effect on Profit before Taxation 2017 \$'000	% Change in Currency Rate	Effect on Profit before Taxation 2016 \$'000
	2017		2016	
Currency:				
USD	+4%	115,662	+6%	199,600
GBP	+4%	(103)	+6%	(33)
CAN	+4%	(120)	+6%	378
EURO	+4%	(140)	+6%	-
USD	-2%	(57,831)	-1%	(33,267)
GBP	-2%	51	-1%	6
CAN	-2%	60	-1%	(63)
EURO	-2%	70	-1%	-

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Group to cash flow interest risk, whereas fixed rate instruments expose the Group to fair value interest risk.

The Group manages interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments and also manages the maturities of interest bearing financial assets and liabilities. The respective boards within the Group set limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored by the ALCOs and Investment Committees.

The following tables summarise the Group's and the company's exposure to interest rate risk. It includes the Group and company financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Group						
	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non-rate Sensitive \$'000	Total \$'000
At 31 December 2017:							
Assets							
Cash and deposits	4,593,987	1,060,369	-	-	-	6,429,889	12,084,245
Investment securities and pledged assets	3,753,642	3,014,131	6,113,348	7,504,049	10,445,646	5,949,525	36,780,341
Loans receivable	230,696	2,956,959	1,992,321	8,769,984	13,468,069	130,300	27,548,329
Trade and other receivables	-	-	-	-	-	13,789,630	13,789,630
Total financial assets	8,578,325	7,031,459	8,105,669	16,274,033	23,913,715	26,299,344	90,202,545
Liabilities							
Deposits	22,215,453	6,651,516	4,656,186	7,368	-	-	33,530,523
Securities sold under agreements to repurchase	2,627,377	135,503	-	1,029,840	-	-	3,792,720
Bank loans	5,463,855	3,152,184	4,661,854	2,877,712	360,010	-	16,515,615
Trade payables	-	-	-	-	-	19,306,495	19,366,495
Total financial liabilities	30,306,685	9,939,203	9,318,040	3,914,920	360,010	19,366,495	73,205,353
Total interest repricing gap	(21,728,360)	(2,907,744)	(1,212,371)	12,359,113	23,553,705	6,932,849	16,997,192

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

	Group						
	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non-rate Sensitive \$'000	Total \$'000
At 31 December 2016:							
Assets							
Cash and deposits	4,844,448	1,472,961	-	-	-	5,959,238	12,276,647
Investment securities and pledged assets	5,950,118	3,051,031	5,666,743	12,476,099	10,118,178	2,031,504	39,293,673
Loans receivable	354,924	4,532,882	1,064,389	8,304,625	11,508,068	163,169	25,928,057
Trade and other receivables	-	-	-	-	-	11,510,595	11,510,595
Total financial assets	11,149,490	9,056,874	6,731,132	20,780,724	21,626,246	19,664,506	89,008,972
Liabilities							
Deposits	19,507,412	5,839,221	5,291,894	15,361	-	-	30,653,888
Securities sold under agreements to repurchase	7,824,770	1,513,897	200,073	2,804,692	-	-	12,343,432
Bank loans	2,757,872	3,781,867	4,025,766	1,852,603	823,929	-	13,242,037
Trade payables	-	-	-	-	-	17,561,983	17,561,983
Total financial liabilities	30,090,054	11,134,985	9,517,733	4,672,656	823,929	17,561,983	73,801,340
Total interest repricing gap	(18,940,564)	(2,078,111)	(2,786,601)	16,108,068	20,802,317	2,102,523	15,207,632

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

	Company						
	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non-rate Sensitive \$'000	Total \$'000
At 31 December 2017:							
Assets							
Cash and deposits	202,184	766,901	-	-	-	975,366	1,944,451
Investment securities	-	847,000	1,633,761	1,690,978	2,293,024	48,835	6,513,598
Loans receivable	-	313,372	1,659,863	582,943	-	803,128	3,359,306
Trade and other receivables	-	-	-	-	-	1,360,633	1,360,633
Subsidiaries	-	-	-	-	-	1,063,372	1,063,372
Total financial assets	202,184	1,927,273	3,293,624	2,273,921	2,293,024	4,251,334	14,241,360
Liabilities							
Bank loans	759,275	1,128,910	2,165,083	-	-	-	4,053,268
Trade payables	-	-	-	-	-	2,544,670	2,544,670
Subsidiaries	-	-	-	-	-	3,403,955	3,403,955
Total financial liabilities	759,275	1,128,910	2,165,083	-	-	5,948,625	10,001,893
Total interest repricing gap	(557,091)	798,363	1,128,541	2,273,921	2,293,024	(1,697,291)	4,239,467

	Company						
	Within 1 Month \$'000	1 to 3 Months \$'000	3 to 12 Months \$'000	1 to 5 Years \$'000	Over 5 Years \$'000	Non-rate Sensitive \$'000	Total \$'000
At 31 December 2016:							
Assets							
Cash and deposits	451,998	1,252,320	-	-	-	896,493	2,600,811
Investment securities	-	1,106,518	1,762,220	1,529,364	2,303,659	59,848	6,761,609
Loans receivable	-	281,169	1,418,694	630,000	-	845,320	3,175,183
Trade and other receivables	-	-	-	-	-	1,248,298	1,248,298
Subsidiaries	-	-	-	-	-	479,762	479,762
Total financial assets	451,998	2,640,007	3,180,914	2,159,364	2,303,659	3,529,721	14,265,663
Liabilities							
Bank loans	1,790,092	1,547,695	1,106,220	2,632	-	-	4,446,639
Trade payables	-	-	-	-	-	2,600,965	2,600,965
Subsidiaries	-	-	-	-	-	2,784,294	2,784,294
Total financial liabilities	1,790,092	1,547,695	1,106,220	2,632	-	5,385,259	9,831,898
Total interest repricing gap	(1,338,094)	1,092,312	2,074,694	2,156,732	2,303,659	(1,855,538)	4,433,765

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

Interest rate sensitivity

The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Group's and company's income statement and equity.

The Group's interest rate risk arises from investment securities, loans receivable, customers' deposits, securities sold under repurchase agreements and borrowings. The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net income based on floating rate financial assets and floating rate liabilities. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates combined with the effect on net profit. The correlation of variables will have a significant effect in determining the ultimate impact on market risk, but to demonstrate the impact, each variable has to be evaluated on an individual basis.

Group					
Change in basis points: 2017	Effect on Profit before Taxation 2017	Effect on Other Components of Equity 2017	Change in basis points: 2016	Effect on Profit before Taxation 2016	Effect on Other Components of Equity 2016
JMD / USD	\$'000	\$'000	JMD / USD	\$'000	\$'000
-100 / -50	44,004	233,261	-100 / -50	49,980	300,303
+100 / +50	(44,004)	(196,323)	+100 / +100	(167,834)	(578,804)

Company					
Change in basis points: 2017	Effect on Profit before Taxation 2017	Effect on Other Components of Equity 2017	Change in basis points: 2016	Effect on Profit before Taxation 2016	Effect on Other Components of Equity 2016
JMD / USD	\$'000	\$'000	JMD / USD	\$'000	\$'000
-100 / -50	3,929	53,842	-100 / -50	(7,190)	62,678
+100 / +50	(3,929)	(51,943)	+100 / +100	7,190	(108,736)

Price Risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group is exposed to equity price risk because of equity investments held and classified on the statement of financial position as either available for sale or at fair value through profit or loss. The Group manages its price risk by trading these instruments when appropriate to reduce the impact of any adverse price fluctuations.

The impact of a 15% (2016: 10%) change in the quoted prices for these equities would be an increase or decrease in the carrying value of \$3,802,000 (2016: \$1,230,000) in income and \$86,954,000 (2016: \$35,329,000) in other comprehensive income.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(d) Capital management

Insurance subsidiaries

The insurance subsidiaries' objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- (i) To comply with the capital requirements set by the regulators of the insurance markets within which the companies operate;
- (ii) To safeguard their ability to continue as going concerns so that they can continue to provide returns for stockholders and benefits for other stakeholders; and
- (iii) To maintain a strong capital base to support the development of business.

Capital adequacy is managed and monitored at the insurance subsidiaries' level by management, the Audit Committee and the Board of Directors. In addition, the companies seek to maintain internal capital adequacy at levels higher than the minimum level of regulatory capital required.

The primary measure used to assess capital adequacy for the Jamaican based general insurance subsidiary is the Minimum Capital Test (MCT). This information is required to be filed with the Financial Services Commission (FSC) on an annual basis. The minimum standard recommended by the regulators for companies is a MCT of 250% (2016: 250%).

The banking and investment subsidiaries

The banking and investment subsidiaries' objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

- (i) To comply with the capital requirements set by the regulators of the banking and investment markets where the entities within the Group operate;
- (ii) To safeguard their ability to continue as going concerns so that they can continue to provide returns for stockholders and benefits for other stakeholders; and
- (iii) To maintain a strong capital base to support the development of business.

Capital adequacy and the use of regulatory capital are monitored monthly by management and the required information is filed monthly with the Bank of Jamaica (BOJ) and the FSC.

The BOJ requires the banking entity to:

- (i) Hold the minimum level of regulatory capital as a percentage of total assets of 8%; and
- (ii) Maintain a ratio of total regulatory capital to risk-weighted assets at or above 10%.

The FSC requires the investment services entity to:

- (i) Hold the minimum level of regulatory capital as a percentage of total assets of 6%; and
- (ii) Maintain a ratio of total regulatory capital to risk-weighted assets at or above 10%.

The regulatory capital as managed by the subsidiaries' ALCOs is divided into two tiers:

- (i) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill and negative fair value reserves are deducted in arriving at Tier 1 capital; and
- (ii) Tier 2 capital: general provisions for loan losses on assets limited to 1.25% of risk-weighted assets.

Risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of and reflecting an estimate of credit, market and other risks associated with each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-statement of financial position exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Group complied with the regulatory capital requirements to which it is subjected.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(d) Capital management (continued)

Companies not requiring external regulatory capital requirements

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Board of Directors monitors the return on equity, which the Group defines as net profit attributable to owners of the company divided by total owners' equity, excluding non-controlling interests. The Board of Directors also monitors the level of dividends to equity owners.

The Group monitors capital on the basis of the debt to equity ratio. This ratio is calculated as debt divided by owners' equity. Debt is calculated as total borrowings as shown in the consolidated statement of financial position. Owners' equity is calculated as capital and reserves attributable to the company's owners as shown in the consolidated statement of financial position.

During 2017, the Group's strategy, which was unchanged from 2016, was to maintain a debt to equity ratio not exceeding 100%. The debt to equity ratios at 31 December 2017 and 2016 were as follows:

	Group	
	2017	2016
	\$'000	\$'000
Total borrowings (Note 15)	16,515,615	13,242,037
Owners' equity	45,222,812	42,063,925
Gearing ratio	36.5%	31.5%

There were no changes to the Group's approach to capital management during the year.

The parent company complied with all externally imposed capital requirements to which it is subjected.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Judgements and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Key sources of estimation uncertainty

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2 (g). The assessment of goodwill impairment involves the determination of the value in use. Determination of value in use involves the estimation of future cash flows from the business taking into consideration the growth rates, inflation rates and the discount rates. Any changes in these variables would impact the value in use calculations. A 1% increase in the discount rate would result in a reduction in the value in use by \$2,858,582,000, which would not result in an impairment of goodwill.

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The Group has recognised deferred tax assets on tax losses carried forward as it anticipates making future taxable income to offset these losses.

(iii) Pension plan assets and post-employment obligations

The cost of these benefits and the present value of the pension and the other post-employment liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost (income) for pension and post-employment benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost (income) recorded for pension and post-employment benefits and may affect planned funding of the pension plans. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investment returns. The appropriate discount rate is determined at the end of each year, which represents the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension and post-employment benefit obligations. In determining the appropriate discount rate, the interest rate of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid are considered, and that have terms to maturity approximating the terms of the related pension liability. The expected rate of increase of medical costs has been determined by comparing the historical relationship of the actual medical cost increases with the rate of inflation in the respective economies. Other key assumptions for the pension and post-employment benefits cost and credits are based in part on current market conditions.

(iv) Liabilities arising from claims made under insurance contracts

The determination of the liabilities under insurance contracts represents the liability for future claims payable by the insurance subsidiaries based on contracts for the insurance business in force at the statement of financial position date using several methods, including the Paid Loss Development method, the Incurred Loss Development method, the Bornhuetter-Ferguson Paid Loss method, the Bornhuetter-Ferguson Incurred Loss method and the Frequency-Severity method. These liabilities represent the amount of future premiums that will, in the opinion of the actuary, be sufficient to pay future claims relating to contracts of insurance in force, as well as meet the other expenses incurred in connection with such contracts. A margin for risk or uncertainty (adverse deviations) in these assumptions is added to the liability. The assumptions are examined each year in order to determine their validity in light of current best estimates or to reflect emerging trends in the insurance subsidiaries' experience.

Claims are analysed separately between those arising from damage to insured property and consequential losses. Claims arising from damage to insured property can be estimated with greater reliability, and the insurance subsidiaries' estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allows the insurance subsidiaries to achieve a higher degree of certainty about the estimated cost of claims, and relatively little IBNR is held at year-end. However, the longer time needed to assess the emergence of claims arising from consequential losses makes the estimation process more uncertain for these claims.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017
(expressed in Jamaican dollars unless otherwise indicated)

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

Key sources of estimation uncertainty (continued)

(v) Investment properties

Investment properties are carried in the statement of financial position at market value. The Group uses independent qualified property appraisers to value its investment properties annually, generally using the income approach. This approach takes into consideration various assumptions and factors including; the level of current and future occupancy, the rate of annual rent increases, the rate of inflation of direct expenses, the appropriate discount rate, and the current condition of the properties together with an estimate of future maintenance and capital expenditures. Reference is also made to recent comparable sales. A change in any of these assumptions and factors could have a significant impact on the valuation of investment properties.

(vi) Land and buildings

Freehold land and buildings are carried in the statement of financial position at fair value, with changes in fair value being recognised in 'capital and fair value reserve' through other comprehensive income. The Group uses independent qualified property appraisers to value its land and buildings bi-annually. Those fair values were derived using:

- The sales comparison approach, which references market-based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property. The most significant input into this valuation approach is price per square foot. Significant increases (decreases) in estimated price per square foot in isolation would result in a significantly higher (lower) fair value.
- The cost approach using observable inputs. The external valuers have determined these inputs based on the size, age and condition of the land and buildings and the state of the economy.

(vii) Fair value of financial instruments

In the absence of quoted market prices, the fair values of a significant portion of the Group's financial instruments were determined using generally accepted alternative methods. The values derived from applying these methods are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. Considerable judgement is required in interpreting market data to arrive at estimates of fair values. Consequently, the estimates arrived at may be significantly different from the actual price of the instruments in an arm's length transaction.

(viii) Impairment losses on loans

The Group reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in arriving at net profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ix) Business combinations

Business combinations are accounted for using the acquisition method. The Group determines the identifiable assets and liabilities using the Purchase Price Allocation method. Under this method, the Group makes estimates about future cash flows which are derived based on factors such as revenue growth, future margins, attrition rates, and discount rates in determining the fair values of the identifiable intangible assets.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

5. Cash and Deposits

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	9,761,362	9,665,440	1,177,550	1,348,491
Deposits	2,322,883	2,611,207	766,901	1,252,320
	12,084,245	12,276,647	1,944,451	2,600,811

Included in deposits is interest receivable of \$7,124,000 (2016: \$7,959,000) and \$4,027,000 (2016: \$6,150,000) for the Group and company, respectively. The weighted average effective interest rate on deposits was 3.71% (2016: 3.17%) and 4.17% (2016: 3.69%) for the Group and company, respectively, and these deposits have an average maturity of under 3 months.

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Cash at bank and in hand	9,761,362	9,665,440	1,177,550	1,348,491
Deposits	2,322,883	2,611,207	766,901	1,252,320
	12,084,245	12,276,647	1,944,451	2,600,811
Bank overdrafts (Note 15)	(2,681,950)	(1,965,846)	(30,825)	(1,054,809)
	9,402,295	10,310,801	1,913,626	1,546,002

GraceKennedy Limited
Notes to the Financial Statements
31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

6. Investment Securities and Pledged Assets

(a) Investment securities

	Group		Company	
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Available-for-sale:				
Quoted equities	579,692	353,294	48,502	59,514
Bank of Jamaica	9,912,692	10,587,210	-	-
Government of Jamaica securities	12,944,286	17,883,313	2,995,852	3,531,448
Foreign government securities	885,415	799,671	-	-
Corporate bonds	9,472,499	6,720,538	1,954,336	1,608,075
Other debt securities	2,954,634	2,845,341	1,514,573	1,562,237
Other	5,779	5,779	335	335
	36,754,997	39,195,146	6,513,598	6,761,609
Financial assets at fair value through profit or loss:				
Derivative financial instruments (Note 37)	-	86,223	-	-
Quoted equities	25,344	12,304	-	-
	25,344	98,527	-	-
Total	36,780,341	39,293,673	6,513,598	6,761,609
Less: Pledged assets (Note 6b)	(4,927,305)	(15,419,427)	-	-
Investment securities in the statement of financial position	31,853,036	23,874,246	6,513,598	6,761,609

Included in investment securities is interest receivable of \$471,149,000 (2016: \$502,858,000) and \$92,605,000 (2016: \$95,233,000) for the Group and the company respectively.

Included in Government of Jamaica securities are instruments which mature between 3 months and 12 months or which the Group intends to realise within 12 months and have an effective interest rate of 5.10% (2016: 5.06%) and 3.03% (2016: 2.75%) for the Group and the company respectively.

Included in Bank of Jamaica securities is \$5,338,710,000 (2016: \$4,131,173,000) held at the Bank of Jamaica under Section 14(1) of the Banking Act, 1992, representing the required ratio of 12% (2016: 12%) for Jamaican dollar cash reserves and 15% (2016: 12%) for United States dollar cash reserves of the banking subsidiary's prescribed liabilities. It is not available for investment, lending or other use by the Group or the banking subsidiary.

Included in investment securities for the Group is \$10,570,440,000 (2016: \$11,669,552,000) and company \$1,564,603,000 (2016: \$1,653,278,000) which matures within the next 12 months.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2017

(expressed in Jamaican dollars unless otherwise indicated)

6. Investment Securities and Pledged Assets (Continued)

(b) Pledged assets

Assets are pledged as collateral under repurchase agreements with customers and other financial institutions and for security relating to overdraft and other facilities with other financial institutions and the Bank of Jamaica.

	Group			
	Asset		Related Liability	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
Total in the statement of financial position (Note 6a)	4,927,305	15,419,427	4,772,630	14,766,833

There were no pledged assets in relation to the company.

Of the assets pledged as security, the following represents the total for those assets pledged for which the transferee has the right by contract or custom to sell or repledge the collateral.

	Group	
	2017 \$'000	2016 \$'000
Pledged assets with right to sell or repledge	4,927,305	15,419,427

(c) Available-for-sale securities

	Group		Company	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
At 1 January	39,196,927	32,862,241	6,761,609	6,317,231
Exchange differences	(687,070)	1,802,804	(135,768)	267,141
Additions	8,068,721	6,462,944	1,138,110	316,802
Disposals	(10,145,254)	(2,401,725)	(1,306,725)	(233,155)
Net transfer to equity	321,673	468,882	56,372	93,590
At 31 December	36,754,997	39,195,146	6,513,598	6,761,609
Less non-current portion	(26,184,557)	(27,525,594)	(4,948,995)	(5,108,331)
Current portion	10,570,440	11,669,552	1,564,603	1,653,278

The Group recognised net gains of \$195,725,000 (2016: \$65,396,000) and the company recognised net losses of \$Nil (2016: \$11,435,000) in the income statement, being reclassified from other comprehensive income on sale.