



INTERIM REPORT

**(SIX MONTHS)
30 JUNE 2018**

INTERIM REPORT TO OUR STOCKHOLDERS

The Directors are pleased to present the unaudited results of the Group for the six months ended June 30, 2018. The Group achieved revenues of J\$48.4 billion, representing an increase of 4.3% or J\$2.0 billion over the corresponding period of 2017. Net profit for the period was J\$2.5 billion, an increase of J\$266.1 million or 12.2% compared with the corresponding period of 2017. Net profit attributable to the stockholders of the Company was 14.0% or J\$264.4 million higher than that of the corresponding period of 2017.

Earnings per stock unit for the period ended was J\$2.17 (2017: J\$ 1.90). Shareholders' equity increased by J\$1.1 billion to J\$46.4 billion over the six-month period, which resulted in a book value per share of J\$46.70. The GraceKennedy stock price closed at J\$52.21 on June 29, 2018 representing a 19.1% increase since the start of the year.

As GraceKennedy Limited approaches its 100th birthday in 2022, the business has embarked upon a multi-year transformational journey aimed at improving performance and shareholder value. Since the beginning of the year the Group has been taking a closer look at overall organizational design, cost structure, and business processes at all levels. These initiatives are expected to achieve sustainable efficiency, greater agility and revenue growth. We are confident that the organisational changes will leverage our existing competitive advantages and help us to achieve our vision and strategy.

The Food Trading segment grew in revenue and pretax profits over the corresponding period of 2017 due to improved performance in our Jamaican foods business. Our Domestic business experienced growth in sales due primarily to the performance of Consumer Brands Limited which continues to perform well. While showing an increase in revenue over the corresponding period in 2017 our international foods business experienced a decline in pre-tax profits as compared to the corresponding period of 2017. This was primarily due to the performance of Grace Foods UK Limited.

Grace Foods UK Limited is making significant investments in the Nurishment and Aloe brands, through strengthened promotional activities, expanded product lines and increased distribution throughout our various channels. It is expected that this will lead to sustained growth in brand value and a stronger market share for these products. The performance of the company was impacted by the costs associated with these activities. Expansion into Europe continues with growth seen in a number of our markets including France and Spain. Grace Foods UK also expanded its presence and distribution of Grace and Grace-Owned brands throughout the multiples with new listings in Tesco, Sainsbury and Asda.

GraceKennedy Foods (USA) LLC realized strong growth in sales of our existing Grace-branded products led by Grace Tropical Rhythms and of our new products. Our popular Grace Patties continues to show significant growth in sales in our distribution channels. The company's relationship with key chain stores further strengthened through increased sales and product listings.

Grace Foods Canada Inc.'s expansion into Western Canada is well underway and is being supported by our newly established third party logistics warehouse. The company successfully increased its product offering on Amazon with the commencement of sales of five additional products, including Grace Coconut Milk Powder and Grace Pure Coconut Water. This is in keeping with our strategic objective to expand our online presence and increase our customer base throughout Canada.

Subject to the satisfactory completion of due diligence GraceKennedy Limited will acquire a 35% share in Catherine's Peak bottled pure spring water business. GraceKennedy was also appointed the exclusive distributor for the Catherine's Peak brand, which will immediately benefit from GraceKennedy's extensive distribution network in Jamaica. This transaction forms part of GraceKennedy's strategic growth initiative to acquire top Jamaican brands with broad consumer appeal capable of growing both locally and internationally. This line of products will expand our healthy product alternatives portfolio which fits well into the GraceKennedy's healthy road map that focuses on providing alternatives in keeping with the changing lifestyle needs of our consumers.

The GraceKennedy Financial Group experienced a decline in both revenue and pre-tax profits.

The Banking and Investments segment experienced a decline in both revenue and pre-tax profits compared to the corresponding period of 2017. While First Global Bank Limited's (FGB) performance was impacted by the reduction in the bank's loan portfolio, the outlook for loan growth is positive based on FGB's current pipeline of loans and enhancements to our loan process such as improved turnaround time. FGB, in continuing its financial inclusion strategy, opened its fourth satellite location in Hopewell, Hanover, Jamaica under the First Global Money Link brand. This brings the total number of FGB locations to twelve. The performance of the segment was positively impacted by improved performance of GK Capital Management Limited (GKCM) and GK Investments Limited. GKCM realized significant growth in stockbrokerage fees, largely resulting from the re-introduction to its clients of a real time web-based trading platform for U.S stocks during the quarter. The company also experienced double digit growth in its major business lines.

The Insurance segment maintained growth in revenue and pre-tax profits over the corresponding period of 2017. The increase in profitability was led largely by the performance of GK Insurance. The company's result was positively impacted by growth within the motor, property and engineering portfolios. The GKGOOnline channel continues to show strong growth.

The Money Services segment experienced a decline in both revenue and pre-tax profits when compared to the corresponding period of 2017. This was primarily due to a reduction in transaction volumes in our remittance business in Jamaica stemming from the implementation of enhanced compliance measures. While these strengthened compliance measures have impacted our business, it is anticipated that the company will benefit from increased competitive advantage through a stronger network of agencies. We have embarked on a customer win-back strategy which is expected to strengthen our existing market share. The segment continues to focus on providing a wide range of innovative solutions to meet our customers' needs across the Caribbean. In April 2018, Jamaica became the first territory to deploy

westernunion.com in the Caribbean and Latin America. This website, deployed by GraceKennedy and Western Union, provides consumers with 24/7 access to send funds electronically to over 200 countries.

In partnership with Western Union, GraceKennedy Money Services hosted its Town Hall Series in New York and Florida during the period May 17-19, 2018 under the theme “The Caribbean Diaspora: In Pursuit of a Better Tomorrow...Today”. The keynote speaker for this year’s forum was the Honourable Bruce Golding, former Prime Minister of Jamaica.

GraceKennedy Limited was pleased to announce the appointment of Indianna Minto-Coy, PhD and Honourable Peter Moses CD, OJ to its Board of Directors, effective 26th June 2018. Dr Minto-Coy is a Senior Research Fellow at the Mona School of Business and Management at the University of the West Indies, Mona Campus. Mr. Moses is Chairman of the Board of First Global Bank Limited, a Director of the GraceKennedy Financial Group Limited, and has had a distinguished career in banking, having served as the head of Citibank N.A, Jamaica. The addition of two directors at this time is in keeping with our plans for orderly succession planning, maintaining an appropriate balance of skills and experience, and strengthening of the Board in areas of competence required to support new opportunities in our domestic and international markets.

GraceKennedy is delighted to have won the 2017 Jamaica Chamber of Commerce’s Best of Chamber Award in the Extra Large Category. The award is presented to an outstanding member company that has displayed the highest levels of sector performance and best practices in the areas of corporate leadership, product and service quality, human resource development, marketing innovation, corporate citizenship and sustained growth.

As we work together in building a stronger GraceKennedy we will always be guided by our core values of Honesty, Integrity and Trust.



Gordon V. Shirley, O.J.
Chairman



Donald G. Wehby, C.D.
Group Chief Executive Officer

July 31, 2018

GraceKennedy Limited

CONSOLIDATED INCOME STATEMENT

SIX MONTHS ENDED 30 JUNE 2018

(Unaudited)

	3 months to 6/30/2018 \$'000	6 months to 6/30/2018 \$'000	3 months to 6/30/2017 \$'000	6 months to 6/30/2017 \$'000
Revenue from products and services	22,442,828	46,328,882	21,611,736	44,240,866
Interest revenue	1,015,671	2,039,681	1,069,539	2,133,749
Revenues (Note 2)	23,458,499	48,368,563	22,681,275	46,374,615
Direct and operating expenses	(22,641,101)	(46,762,540)	(21,630,777)	(44,347,627)
Net impairment losses on financial assets	(93,229)	(169,841)	(94,348)	(151,558)
	724,169	1,436,182	956,150	1,875,430
Other income	717,585	1,451,390	447,361	903,881
Profit from Operations	1,441,754	2,887,572	1,403,511	2,779,311
Interest income – non-financial services	112,681	213,316	92,930	187,369
Interest expense – non-financial services	(141,908)	(285,737)	(170,782)	(334,451)
Share of results of associated companies	27,407	287,331	61,027	320,224
Profit before Taxation	1,439,934	3,102,482	1,386,686	2,952,453
Taxation	(302,386)	(651,521)	(344,881)	(767,638)
Net Profit for the period	1,137,548	2,450,961	1,041,805	2,184,815
Profit attributable to:				
Owners of GraceKennedy Limited	959,305	2,153,694	880,994	1,889,309
Non-controlling interests	178,243	297,267	160,811	295,506
	1,137,548	2,450,961	1,041,805	2,184,815

Earnings per Stock Unit for profit attributable to the

owners of the company during the period:

(expressed in \$ per stock unit):

Basic	\$0.97	\$2.17	\$0.89	\$1.90
Diluted	\$0.97	\$2.17	\$0.89	\$1.90

GraceKennedy Limited

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SIX MONTHS ENDED 30 JUNE 2018

(Unaudited)

	3 months to 6/30/2018 \$'000	6 months to 6/30/2018 \$'000	3 months to 6/30/2017 \$'000	6 months to 6/30/2017 \$'000
Profit for the period	1,137,548	2,450,961	1,041,805	2,184,815
Other comprehensive income:				
<i>Items that will not be reclassified to profit or loss:</i>				
Losses on revaluation of land and buildings	-	-	-	(170)
Changes in fair value of equity instruments at fair value through other comprehensive income	11,567	(5,071)	-	-
Remeasurements of post-employment benefit obligations	249,099	76,648	(336,383)	321,363
Share of other comprehensive income of associated companies	-	-	-	1,050
	260,666	71,577	(336,383)	322,243
<i>Items that may be subsequently reclassified to profit or loss:</i>				
Foreign currency translation adjustments	210,875	365,129	27,689	57,298
Changes in fair value of debt instruments at fair value through other comprehensive income	(102,896)	(216,820)	-	-
Changes in fair value of available-for-sale financial assets	-	-	51,340	128,074
Share of other comprehensive income of associated companies	29,264	36,519	1,527	2,601
	137,243	184,828	80,556	187,973
Other comprehensive income for the period, net of tax	397,909	256,405	(255,827)	510,216
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,535,457	2,707,366	785,978	2,695,031
Total comprehensive income attributable to:				
Owners of GraceKennedy Limited	1,338,375	2,388,009	624,751	2,402,311
Non-controlling interests	197,082	319,357	161,227	292,720
	1,535,457	2,707,366	785,978	2,695,031

GraceKennedy Limited

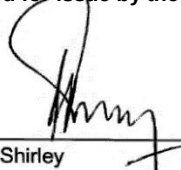
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 JUNE 2018

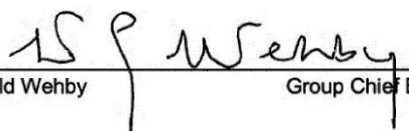
(Unaudited)

	June 30 2018 \$'000	December 31 2017 \$'000	June 30 2017 \$'000
ASSETS			
Cash and deposits	12,195,249	12,084,245	11,214,049
Investment securities	32,542,487	31,853,036	27,409,131
Pledged assets	7,178,607	4,927,305	12,562,995
Receivables	17,257,445	15,848,567	13,742,000
Inventories	10,751,092	11,253,140	10,757,006
Loans receivable	25,281,385	27,548,329	26,580,841
Taxation recoverable	386,659	798,690	468,980
Investments in associates	2,014,963	1,798,220	1,895,073
Investment properties	618,000	618,000	584,000
Intangible assets	4,239,965	4,398,127	3,940,220
Fixed assets	12,321,256	11,715,661	10,790,265
Deferred tax assets	1,329,160	836,477	766,901
Pension plan asset	6,404,083	6,308,843	6,455,692
Total Assets	132,520,351	129,988,640	127,167,153
LIABILITIES			
Deposits	35,791,409	33,530,523	32,632,376
Securities sold under agreements to repurchase	5,788,359	3,792,720	10,690,593
Bank and other loans	13,216,177	16,515,615	12,866,285
Payables	22,233,429	22,210,899	18,536,804
Taxation	208,405	427,486	377,374
Deferred tax liabilities	1,270,205	1,369,294	1,460,786
Other post-employment obligations	5,548,306	5,129,990	4,635,593
Total Liabilities	84,056,290	82,976,527	81,199,811
EQUITY			
Capital & reserves attributable to the company's owners			
Share capital	546,068	540,951	545,444
Capital and fair value reserves	5,437,067	6,089,245	5,833,121
Retained earnings	33,477,418	32,120,056	31,148,386
Banking reserves	3,044,111	3,044,111	2,972,208
Other reserves	3,854,227	3,428,449	3,700,780
	46,358,891	45,222,812	44,199,939
Non-Controlling Interests	2,105,170	1,789,301	1,767,403
Total Equity	48,464,061	47,012,113	45,967,342
Total Equity and Liabilities	132,520,351	129,988,640	127,167,153

Approved for issue by the Board of Directors on 31 July 2018 and signed on its behalf by:


Gordon Shirley

Chairman


Donald Wehby
Group Chief Executive Officer

GraceKennedy Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SIX MONTHS ENDED 30 JUNE 2018

(Unaudited)

	Attributable to owners of the company							Non-controlling interests	Total Equity
	No. of Shares '000	Share Capital \$'000	Capital and Fair Value Reserve \$'000	Retained Earnings \$'000	Banking Reserves \$'000	Other Reserves \$'000	Total \$'000	\$'000	\$'000
Balance at 1 January 2017	992,379	534,249	5,805,054	29,333,152	2,772,209	3,619,261	42,063,925	1,474,683	43,538,608
Profit for the period	-	-	-	1,889,309	-	-	1,889,309	295,506	2,184,815
Other comprehensive income for the period	-	-	128,864	321,363	-	62,775	513,002	(2,786)	510,216
Total comprehensive income for the period	-	-	128,864	2,210,672	-	62,775	2,402,311	292,720	2,695,031
Transactions with owners:									
Sale of treasury shares	75	3,027	-	-	-	-	3,027	-	3,027
Share-based payments	-	-	-	-	-	28,480	28,480	-	28,480
Transfer of treasury shares to employees	239	8,168	1,568	-	-	(9,736)	-	-	-
Dividends paid	-	-	-	(297,804)	-	-	(297,804)	-	(297,804)
Total transactions with owners	314	11,195	1,568	(297,804)	-	18,744	(266,297)	-	(266,297)
Transfers between reserves:									
From capital reserves	-	-	(102,365)	102,365	-	-	-	-	-
To banking reserves	-	-	-	(199,999)	199,999	-	-	-	-
Balance at 30 June 2017	992,693	545,444	5,833,121	31,148,386	2,972,208	3,700,780	44,199,939	1,767,403	45,967,342
Balance at 31 December 2017 as originally presented	992,654	540,951	6,089,245	32,120,056	3,044,111	3,428,449	45,222,812	1,789,301	47,012,113
Effect of adopting new standards	-	-	(605,449)	(301,567)	-	-	(907,016)	(3,488)	(910,504)
Restated balance at 1 January 2018	992,654	540,951	5,483,796	31,818,489	3,044,111	3,428,449	44,315,796	1,785,813	46,101,609
Profit for the period	-	-	-	2,153,694	-	-	2,153,694	297,267	2,450,961
Other comprehensive income for the period	-	-	(221,891)	76,648	-	379,558	234,315	22,090	256,405
Total comprehensive income for the period	-	-	(221,891)	2,230,342	-	379,558	2,388,009	319,357	2,707,366
Transactions with owners:									
Share-based payments	-	-	-	-	-	52,203	52,203	-	52,203
Transfer of treasury shares to employees	139	5,117	866	-	-	(5,983)	-	-	-
Dividends paid	-	-	-	(397,117)	-	-	(397,117)	-	(397,117)
Total transactions with owners	139	5,117	866	(397,117)	-	46,220	(344,914)	-	(344,914)
Transfers between reserves:									
To capital reserves	-	-	174,296	(174,296)	-	-	-	-	-
Balance at 30 June 2018	992,793	546,068	5,437,067	33,477,418	3,044,111	3,854,227	46,358,891	2,105,170	48,464,061

GraceKennedy Limited

CONSOLIDATED STATEMENT OF CASH FLOWS

SIX MONTHS ENDED 30 JUNE 2018

(Unaudited)

	6/30/2018 \$'000	6/30/2017 \$'000
SOURCES/(USES) OF CASH:		
Operating Activities (Note 3)	7,871,655	1,379,049
Financing Activities		
Loans received	1,498,383	2,204,861
Loans repaid	(3,153,765)	(1,905,994)
Sale of treasury shares	-	3,027
Interest paid – non financial services	(287,296)	(340,215)
Dividends	(397,117)	(297,804)
	(2,339,795)	(336,125)
Investing Activities		
Additions to fixed assets	(1,090,046)	(1,130,738)
Proceeds from disposal of fixed assets	18,920	12,566
Additions to investments	(4,763,887)	(3,141,360)
Cash outflow on purchase of interest in associated company	(43,000)	-
Proceeds from sale of investments	1,935,171	2,675,356
Net proceeds from disposal of associated company	-	55,506
Additions to intangibles	(47,642)	(150,249)
Interest received – non financial services	214,401	184,252
	(3,776,083)	(1,494,667)
Increase/(decrease) in cash and cash equivalents	1,755,777	(451,743)
Cash and cash equivalents at beginning of year	9,402,295	10,310,801
Exchange and translation gains on net foreign cash balances	197,978	72,600
CASH AND CASH EQUIVALENTS AT END OF PERIOD	11,356,050	9,931,658

GraceKennedy Limited

FINANCIAL INFORMATION BY OPERATING SEGMENT

SIX MONTHS ENDED 30 JUNE 2018

(Unaudited)

6 months to 30 June 2018	Food Trading \$'000	Banking & Investments \$'000	Insurance \$'000	Money Services \$'000	Consolidation Adjustments \$'000	Group \$'000
REVENUE						
External sales	38,374,214	2,899,241	3,333,948	3,761,160	-	48,368,563
Inter-segment sales	92,468	12,841	-	-	(105,309)	-
Total Revenue	38,466,682	2,912,082	3,333,948	3,761,160	(105,309)	48,368,563

RESULT						
Operating results	1,174,723	177,349	439,819	1,457,667	16,653	3,266,211
Unallocated expense	-	-	-	-	(378,639)	(378,639)
Profit from operations	-	-	-	-	-	2,887,572
Finance income	9,426	19,802	8,715	27,305	148,068	213,316
Finance expense	(190,602)	(27,443)	-	(2,638)	(65,054)	(285,737)
Share of associates	237,747	49,584	-	-	-	287,331
Profit before Taxation	1,231,294	219,292	448,534	1,482,334	(278,972)	3,102,482
Taxation						(651,521)
Net Profit for the period						2,450,961

Attributable to:

Owners of GraceKennedy Limited	2,153,694
Non-controlling interests	297,267
	2,450,961

6 months to 30 June 2017	Food Trading \$'000	Banking & Investments \$'000	Insurance \$'000	Money Services \$'000	Consolidation Adjustments \$'000	Group \$'000
REVENUE						
External sales	36,294,593	2,979,293	3,051,191	4,049,538	-	46,374,615
Inter-segment sales	92,422	16,313	-	-	(108,735)	-
Total Revenue	36,387,015	2,995,606	3,051,191	4,049,538	(108,735)	46,374,615

RESULT						
Operating results	898,197	203,848	322,208	1,661,864	16,360	3,102,477
Unallocated expense	-	-	-	-	(323,166)	(323,166)
Profit from operations	-	-	-	-	-	2,779,311
Finance income	7,313	25,104	10,438	10,613	133,901	187,369
Finance expense	(268,298)	(43,020)	(1,013)	(577)	(21,543)	(334,451)
Share of associates	271,351	49,405	(532)	-	-	320,224
Profit before Taxation	908,563	235,337	331,101	1,671,900	(194,448)	2,952,453
Taxation						(767,638)
Net Profit for the period						2,184,815

Attributable to:

Owners of GraceKennedy Limited	1,889,309
Non-controlling interests	295,506
	2,184,815

GraceKennedy Limited

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2018

Notes

1. Accounting Policies

(a) Basis of preparation

This condensed consolidated interim financial report for the reporting period ended 30 June 2018 has been prepared in accordance with Accounting Standard IAS 34 'Interim Financial Reporting'.

These financial statements are presented in Jamaican dollars unless otherwise indicated.

The accounting policies followed in these interim financial statements are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new standards, being IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers'. The impact of adopting the new standards are shown in Note 4.

New standards effective in the current year

- (i) IFRS 9, 'Financial instruments',

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, and impairment of financial assets. The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 9 [7.2.15], comparative figures have not been restated.

Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income (OCI), or through profit or loss)
- those to be measured at amortised cost.

The available for sale (AFS) category under IAS 39 is no longer applicable.

The classification depends on the business model used for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). Equity instruments held for trading are measured at fair value through profit or loss (FVPL).

The Group reclassifies debt investments only when its business model for managing those assets changes.

Measurement

Debt instruments

Measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments into three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in the income statement using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as a separate line item in the income statement.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Changes in fair value are taken through OCI. The recognition of interest income and impairment gains or losses are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in the income statement using the effective interest rate method. Impairment losses are presented as a separate line item in the income statement.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is measured at FVPL is recognised in profit or loss in the period in which it arises.

Equity instruments

The Group measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established. Changes in the fair value of financial assets at FVPL are recognised in the income statement.

Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses (ECL) associated with its financial assets classified at amortised cost, debt instruments measured at FVOCI, lease receivables, loan commitments and certain financial guarantee contracts.

Application of the General Model

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. 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.

ECL is calculated by multiplying the Probability of default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).

The 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.

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.

The Group uses judgement when considering the following factors that affect the determination of impairment:

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

The Group applies 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 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 reflect reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic conditions.

The Group uses three scenarios that are probability weighted to determine ECL.

Expected Life

When measuring ECL, the Group considers the maximum contractual period over which the Group is exposed to credit risk. All contractual terms are 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

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires that 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 is utilised in determining the lifetime ECLs for 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.

(ii) IFRS 15 “Revenue from contracts with customers”,

IFRS 15 replaces the provisions of IAS 18 that relate to the recognition of revenue. The adoption of IFRS15 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 15 [C3(b)], comparative figures have not been restated. As such, the modified retrospective transition approach has been utilised.

Sales of goods and services

Revenue is recognised as performance obligations are satisfied, that is, over time or at a point in time. Where a customer contract contains multiple performance obligations, the transaction price is allocated to each distinct performance obligation based on the relative stand-alone selling prices of the goods or services being provided to the customer.

Certain contracts with customers provide a right of return, free goods, volume discounts, rebates and other incentives. Accumulated experience is used to estimate and provide for customer returns and sales incentives using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A contract liability, representing amounts payable to customers, is recognised for expected returns and sales incentives. Where customer contracts entitle customers to free goods, revenue is allocated to each performance obligation, including free goods, and recognised as the performance obligations are satisfied. Contract liabilities are included in ‘payables’ on the statement of financial position.

Sale of goods and services – customer loyalty programme

The Group operates loyalty programmes where customers accumulate points for purchases made which entitle them to goods or services in the future. The consideration received from the sale of goods and services is allocated to the loyalty points and related goods and services using the residual value method. In its capacity as an agent, the Group recognises commission income, being the net of the consideration allocated to the loyalty points and the amounts payable to third parties with primary responsibility for satisfying the performance obligations in respect of awards. A financial liability is recognised in respect of amounts payable to third parties and no breakage is considered. The financial liability is included in ‘payables’ in the statement of financial position.

1. Accounting Policies (continued)

(b) Segment reporting

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 Investment* – 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. Revenues

Revenues for the Group can be disaggregated as follows:

	2018	2017
	\$'000	\$'000
Timing of revenue recognition from contracts with customers		
Goods and services transferred at a point in time	43,581,344	41,863,514
Services transferred over time	61,616	62,069
Revenue from insurance contracts	2,685,922	2,315,283
Interest revenue	2,039,681	2,133,749
	48,368,563	46,374,615

3. Cash Flows from Operating Activities

Reconciliation of net profit to cash generated from operating activities:

	6/30/2018 \$'000	6/30/2017 \$'000
Net profit	2,450,961	2,184,815
Items not affecting cash:		
Depreciation	547,154	466,881
Amortisation	311,416	277,326
Change in value of investments	(3,280)	(245)
Gain on disposal of fixed assets	(10,346)	(4,222)
Loss/(gain) on disposal of investments	200	(37,802)
Share-based payments	52,203	28,480
Exchange gain on foreign balances	(436,496)	(42,873)
Interest income – non financial services	(213,316)	(187,369)
Interest income – financial services	(2,214,822)	(2,292,670)
Interest expense – non financial services	285,737	334,451
Interest expense – financial services	407,215	541,803
Taxation expense	651,521	767,638
Unremitted equity income in associates	(137,331)	(220,224)
Pension plan surplus	165,882	108,370
Other post-employment obligations	259,392	236,080
	2,116,090	2,160,439
Changes in working capital components:		
Inventories	502,048	704,277
Receivables	(1,484,137)	(53,763)
Loans receivable, net	2,096,206	(625,136)
Payables	(120,792)	(1,788,379)
Deposits	1,593,323	1,884,268
Securities sold under repurchase agreements	1,936,022	(1,667,668)
	6,638,760	614,038
Interest received – financial services	2,185,708	2,321,744
Interest paid – financial services	(432,504)	(562,540)
Translation gains	141,930	37,103
Taxation paid	(662,239)	(1,031,296)
Net cash provided by operating activities	7,871,655	1,379,049

Reconciliation of movements of liabilities to cash flows arising from financing activities:

Amounts represent bank and other loans, excluding bank overdrafts

	6/30/2018 \$'000	6/30/2017 \$'000
At January 1	13,833,665	11,276,191
Loans received	1,498,383	2,204,861
Loans repaid	(3,153,766)	(1,905,993)
Foreign exchange adjustments	215,239	33,760
Net interest movements	(16,543)	(24,925)
At 31 December	12,376,978	11,583,894

4. Effect of new standards

The new standards have been applied from 1 January 2018 and the financial statements of the Group have been restated as of that date to reflect the effect of the adoption of IFRS 9 'Financial instruments' and IFRS 15 "Revenue from contracts with customers".

As noted in the accounting policies for the new standards, the transition provisions applied by the Group do not require comparative figures to be restated. The total impact of adoption is therefore recognised in the opening statement of financial position on 1 January 2018 as shown in Table 1 below:

Table 1 - Effect on statement of financial position as at 1 January 2018:

	December 31 2017 As originally presented \$'000	Effects of IFRS 9 \$'000	Effects of IFRS 15 \$'000	January 1 2018 As restated \$'000
ASSETS				
Investment securities and pledged assets	36,780,341	(553,921)	-	36,226,420
Receivables	15,848,567	(75,260)	-	15,773,307
Loans receivable	27,548,329	(441,683)	-	27,106,646
Investments in associates	1,798,220	(108)	-	1,798,112
Deferred tax assets	836,477	208,980	-	1,045,457
Other assets unaffected by adoption of new standards	47,176,706	-	-	47,176,706
Total Assets	129,988,640	(861,992)	-	129,126,648
LIABILITIES				
Payables	22,210,899	-	143,322	22,354,221
Deferred tax liabilities	1,369,294	(94,810)	-	1,274,484
Other liabilities unaffected by adoption of new standards	59,396,334	-	-	59,396,334
Total Liabilities	82,976,527	(94,810)	143,322	83,025,039
EQUITY				
Capital & reserves attributable to the company's owners				
Capital and fair value reserves	6,089,245	(605,449)	-	5,483,796
Retained earnings	32,120,056	(158,245)	(143,322)	31,818,489
Share capital, banking and other reserves	7,013,511	-	-	7,013,511
	45,222,812	(763,694)	(143,322)	44,315,796
Non-Controlling Interests	1,789,301	(3,488)	-	1,785,813
Total Equity	47,012,113	(767,182)	(143,322)	46,101,609
Total Equity and Liabilities	129,988,640	(861,992)	-	129,126,648

The impact of these changes on the Group's equity is as follows:

Table 2 - Effect on equity components as at 1 January 2018:

	Capital and Fair Value Reserves \$'000	Retained Earnings \$'000	Non- Controlling Interests \$'000
Closing equity components 31 December 2017 – IAS 39/IAS 18	6,089,245	32,120,056	1,789,301
IFRS 9 Impact			
Increase in provision for loans receivable	-	(441,683)	-
Increase in provision for trade receivables and other receivables	-	(72,466)	(2,794)
Increase in provision for debt investments at amortised cost	-	(181,883)	(380)
Increase in provision for debt investments at FVOCI	90,545	(90,545)	-
Increase in deferred tax assets relating to impairment provisions	-	220,787	-
Share of associates increase in impairment provision	-	(108)	-
Reclassify investments from AFS to FVPL	(20,194)	20,194	-
Reclassify investments from AFS to amortised cost	(371,344)	-	(314)
Decrease in deferred tax liabilities relating to reclassification of investments from AFS to amortised cost	83,003	-	-
Transfer from loan loss reserve	(387,459)	387,459	-
	(605,449)	(158,245)	(3,488)
IFRS 15 Impact			
Recognition of liability for customer loyalty programme	-	(98,289)	-
Recognition of contract liability for commission and fee income earned over time	-	(45,033)	-
	-	(143,322)	-
Adjustment to equity from adoption of IFRS 9 and IFRS 15 on 1 January 2018	(605,449)	(301,567)	(3,488)
Opening equity components 1 January 2018 – IFRS 9 and IFRS 15	5,483,796	31,818,489	1,785,813

(i) IFRS 9 – impact of adoption

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

		AFS	Amortised Cost	FVOCI	FVPL	Total
Financial assets – 1 January 2018	Note	\$'000	\$'000	\$'000	\$'000	\$'000
Closing balance 31 December 2017 – IAS 39		36,754,997	-	-	25,344	36,780,341
Reclassify debt instruments from AFS to amortised cost	(a)	(29,369,416)	28,815,495	-	-	(553,921)
Reclassify debt instruments from AFS to FVOCI	(b)	(6,832,951)	-	6,832,951	-	-
Reclassify equity instruments from AFS to FVOCI	(c)	(426,580)	-	426,580	-	-
Reclassify equity instruments from AFS to FVPL	(d)	(126,050)	-	-	126,050	-
Opening balance 1 January 2018 – IFRS 9		-	28,815,495	7,259,531	151,394	36,226,420

The Group's investments securities that were previously classified as AFS have now been reclassified to amortised cost, FVOCI or FVPL.

- Certain debt instruments were reclassified from AFS to amortised cost as the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest. Fair value gains or losses previously recognised in OCI have been reversed. Impairment losses were recognised directly against the asset.
- Certain debt instruments were reclassified from AFS to FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest.
- The Group elected to present in OCI changes in the fair value of some of its equity investments previously classified as AFS because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term.
- For other equity investments, where the Group has the intention to periodically sell, these investments were reclassified from AFS to FVPL. The associated fair value gains and losses previously recognised in OCI have been reclassified to opening retained earnings.
- Equity instruments that are held for trading are required to be held as FVPL under IFRS 9. The classification for investments already held by the Group under this business model is unchanged.
- There was no impact on the amounts recognised in relation to the financial assets described in items (b) to (e) from the adoption of IFRS 9.

Impairment of financial assets

The Group has four types of financial assets that are subject to the new expected credit loss model under IFRS 9:

- Loans receivable
- Receivables
- Debt instruments carried at amortised cost
- Debt instruments carried at FVOCI

The Group revised its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings is disclosed in Table 2 above.

(ii) IFRS 15 – impact of adoption

The Group's adoption of IFRS 15 resulted in adjustments to the amounts recognised in the financial statements. The adjustments were made to the amounts recognised in the statement of financial position at the date of initial application (1 January 2018) and are shown in Table 1 above.

The impact on the Group's retained earnings as at 1 January 2018 is shown in Table 2 above.

Below is an outline of the items affecting the opening retained earnings:

Customer loyalty programme

The Group has concluded that it acts as an agent in the customer loyalty programme. Revenue which was previously deferred is now recognised at the point of sale and the related breakage has been reversed. A liability was established for amounts payable to third parties with primary responsibility for satisfying the performance obligation in respect of the awards.

Income earned over time

The Group recognised contract liabilities in respect of contracts with customers in the insurance brokerage and banking industries, for which consideration was received or due before the Group transferred the service to the customer. This resulted in revenue deferral of \$22.3 million and \$22.7 million in relation to Insurance Commissions and Credit Card Fees respectively.

As a result of applying IFRS 15 in the current reporting period ended 30 June 2018, line items in the income statement were affected as follows:

	Revenue from products and services \$'000	Direct and operating expenses \$'000	Net impact of IFRS 15 on profit or loss \$'000
Components of the income statement for the 6 months ended 30 June 2018 – IAS 18*	46,467,035	(46,876,852)	
Effects of adopting IFRS 15			
Reclassification of return of goods, discounts and loyalty reward points from expenses to revenue	(114,312)	114,312	-
Provision for discounts available to customers and expected returns	(25,291)	-	(25,291)
Net impact on contract liabilities from the recognition of commission and fee income earned over time	1,450	-	1,450
Net impact of IFRS 15 on profit or loss	(138,153)	114,312	(23,841)
Components of the income statement for the 6 months ended 30 June 2018 – IFRS 15	46,328,882	(46,762,540)	(23,841)

* after accounting for the effects of IFRS 9

5. Subsequent Event

In July 2018, the Group commenced implementation of a restructuring exercise as part of a multi-year transformation process to achieve sustainable efficiency and improve performance. Part of the restructuring process will result in some positions being made redundant during the third quarter of 2018. The associated redundancy costs, not provided for in these financial statements, are preliminarily estimated to be approximately \$150 million.