



## **GRACEKENNEDY LIMITED**

**Financial Statements  
31 December 2019**

# GraceKennedy Limited

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31 December 2019

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#### Financial Statements

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## *Independent auditor's report*

To the Members of GraceKennedy Limited

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

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#### *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 2019, 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 (IFRS) and with the requirements of the Jamaican Companies Act.

#### **What we have audited**

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

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the company statement of financial position as at 31 December 2019;
- the company income statement for the year then ended;
- the company statement of comprehensive income for the year then ended;
- the company statement of changes in equity for the year then ended;
- the company statement of cash flows for the year then ended; and
- the notes to the consolidated and stand-alone financial statements, which include significant accounting policies.

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#### *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.

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## ***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 industries in which the Group operates.

In assessing the risk of material misstatement to the Group's consolidated financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the consolidated financial statements we designed and performed audit procedures over various components. The Group comprised 45 reporting components of which, we selected 23 components which mainly represent the principal business units within the Group and covered entities within Jamaica, Barbados, Montserrat, Trinidad and Tobago, Canada, the United Kingdom, the United States of America (USA) and Guyana.

Of the 23 components selected, we performed an audit of the complete financial information of 13 components ("full scope components") which were selected based on their size, risk characteristics or both. For the remaining 10 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 consolidated 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 3% 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's consolidated 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 on 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.

### 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

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

*Refer to notes 2(h), 3c(i), 3c(ii), 4(viii) and 9 to the consolidated and stand-alone financial statements for disclosures of related accounting policies, judgments, estimates and balances.*

As at 31 December 2019, the Group has on-balance sheet gross loans receivable balances amounting to \$30.6 billion which are significant in the context of the overall Group statement of financial position representing 20% of total assets. Included in loan receivables are loans and advances to customers which consist of mortgages, commercial and other loans to customers for which the underlying properties are pledged as collateral. Off-balance sheet exposures include guarantees and undrawn commitments such as credit cards, overdrafts and loan commitments amounted to \$1.5 billion. Expected credit losses (ECL) amounted to \$1.1 billion for loans receivable, including off balance sheet items.

We have focused on the following areas because there are a number of significant management determined judgements within the ECL model:

- The Probability of Default (PD) assumptions are developed based on the Group's specific historical default rates for each industry classification.

We updated our understanding of management's ECL model and performed inquiries to evaluate any changes to the model.

We tested the completeness and accuracy of the four-year historical data inputs by agreeing details on default rates and recovery rates. The data used for these assessments were based on the Group's internal default experience segmented by product type. For a sample of credit exposures used in developing default, recovery and utilisation rates, we agreed the critical data fields, being origination date, maturity date, default date, principal, collateral value and cash recoveries and exposure limits, to source documents.

We reperformed the calculation of days past due, a key data input into the PD parameter, in the Group's banking system on a sample basis

We evaluated the appropriateness of management's judgement pertaining to forward looking information, multiple economic scenarios and the weighting applied to capture nonlinear losses.

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• The Loss Given Default (LGD) is developed based on the Group's specific historical loss rate for the given exposure</li> <li>• Use of multiple economic scenarios that are forward looking; and</li> <li>• Valuation of real estate property pledged as collateral for term loans: this is the most significant repayment source for credit-impaired assets (stage 3).</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                     | <p>For a sample of stage 3 loans we obtained 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 reperformed management's impairment calculation. We tested key inputs to the impairment calculation including the expected future cash flows and valuation of collateral held and determined reasonableness of the valuation of real estate collateral with the assistance of our auditors' expert.</p> <p>Based on the procedures described above, no exceptions were noted in the calculation of expected credit losses as it relates to loans and receivable to customers.</p> |
| <p><i>Goodwill impairment for the United States of America (USA) operations (Group)</i></p> <p><i>Refer to notes 2(g), 4(i) and 11 to the consolidated and stand-alone financial statements for disclosures of related accounting policies, judgments, estimates and balances.</i></p> <p>The total carrying value of goodwill is \$1.5 billion of which \$981 million relates to the USA operations.</p> <p>Management performed a goodwill impairment assessment by using value-in-use calculations which are based on future discounted cash flows and determined there was no impairment as at 31 December 2019.</p> <p>We focused on this area as the assessment of the carrying value of goodwill involves judgement in relation to forecasting future cash flows with key inputs being weighted average cost of capital, growth and discount rates.</p> | <p>We obtained management's discounted cash flow model (DCF) including qualitative and quantitative analyses and obtained an understanding of the process used by management to determine the fair value of the reporting unit.</p> <p>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:</p> <p>We were assisted by our valuation experts to review the appropriateness of the assumptions and methodology used in the DCF.</p>                                                                                                                                           |



| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                 | <p>We tested the mathematical accuracy of the underlying calculations included in the DCF model.</p> <p>We agreed 31 December 2019 base year financial information included in the prior year's forecast to the audited results and compared the current period base year information to the audited results to evaluate management's ability to accurately forecast financial information.</p> <p>We evaluated management's key assumptions by comparing them to historical results and economic and industry data where available.</p> <p>We performed an independent recalculation of the carrying value and performed sensitivity analysis by looking at changes in management's assumptions.</p> <p>We considered subsequent events and their impact on the entity's cash flows and forecasts.</p> <p>Based on the work performed, management's assumptions were not unreasonable.</p> |
| <i>Valuation of pension scheme assets and other post-employment obligations (Group and Company)</i>                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <i>Refer to notes 2(m), 4(iii) and 14 to the consolidated and stand-alone financial statements for disclosures of related accounting policies, judgments and estimate and balances.</i>                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <p>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 statements of financial position of the Group and Company. Pension plan assets amounted to \$5.8 billion for both Group and Company and other post-employment obligations amounted to \$5.8 billion and \$2.8 billion for Group and Company respectively.</p> | <p>We performed the following procedures on the valuations of net pension plan assets and other post-employment obligations as follows:</p> <p>We reviewed the audit work papers of the auditors of the pension scheme in relation to work on the fair valuation of pension assets.</p> <p>We evaluated management's assumptions made in relation to the valuations of the net pension assets and other-post employment obligations and the assumptions around salary increases and mortality rates by comparing them to national and industry averages.</p>                                                                                                                                                                                                                                                                                                                                |

### Key audit matter

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 net pension assets and other post-employment obligations.

### How our audit addressed the key audit matter

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 and targets set by the Bank 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 were assisted by our actuarial specialist and performed inquiries with management and their actuary to understand and evaluate management's key economic assumptions used in the calculation of the liability.

Based on the audit evidence obtained, we determined that the available audit evidence supported the data and assumptions used by management in the actuarial valuations and determination of the fair value of the scheme assets.

### 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 the date of this auditor's report.

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.



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### *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 with 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 or 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.

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### *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 or 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.



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*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.

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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  
28 February 2020  
Kingston, Jamaica

**GraceKennedy Limited****Consolidated Statement of Financial Position****31 December 2019**

(expressed in Jamaican dollars unless otherwise indicated)

|                                                                  | Note | 2019<br>\$'000     | 2018<br>\$'000     |
|------------------------------------------------------------------|------|--------------------|--------------------|
| <b>Assets</b>                                                    |      |                    |                    |
| Cash and deposits                                                | 5    | 14,627,178         | 14,824,799         |
| Investment securities                                            | 6    | 30,666,623         | 28,261,306         |
| Pledged assets                                                   | 6    | 9,227,048          | 9,931,362          |
| Receivables                                                      | 7    | 15,908,616         | 15,226,423         |
| Inventories                                                      | 8    | 13,315,155         | 12,784,061         |
| Loans receivable                                                 | 9    | 30,677,003         | 26,469,557         |
| Taxation recoverable                                             |      | 775,786            | 764,826            |
| Investments in associates and joint ventures                     | 10   | 3,511,934          | 2,964,841          |
| Investment properties                                            | 38   | 665,000            | 628,000            |
| Intangible assets                                                | 11   | 4,012,945          | 4,128,043          |
| Fixed assets                                                     | 12   | 24,074,325         | 14,300,969         |
| Deferred tax assets                                              | 13   | 1,142,161          | 1,410,080          |
| Pension plan asset                                               | 14   | 5,821,549          | 3,269,925          |
| Assets classified as held for sale                               | 12   | 280,558            | 271,208            |
| <b>Total Assets</b>                                              |      | <b>154,705,881</b> | <b>135,235,400</b> |
| <b>Liabilities</b>                                               |      |                    |                    |
| Deposits                                                         |      | 35,805,361         | 34,371,026         |
| Securities sold under agreements to repurchase                   |      | 7,892,207          | 7,208,337          |
| Bank and other loans                                             | 15   | 24,032,254         | 16,529,313         |
| Payables                                                         | 17   | 24,408,190         | 23,201,686         |
| Taxation                                                         |      | 459,191            | 464,890            |
| Provisions                                                       | 18   | 37,779             | -                  |
| Deferred tax liabilities                                         | 13   | 1,559,686          | 687,069            |
| Other post-employment obligations                                | 14   | 5,799,526          | 6,083,687          |
| <b>Total Liabilities</b>                                         |      | <b>99,994,194</b>  | <b>88,546,008</b>  |
| <b>Equity</b>                                                    |      |                    |                    |
| <b>Capital and reserves attributable to the company's owners</b> |      |                    |                    |
| Share capital                                                    | 19   | 457,170            | 490,354            |
| Capital and fair value reserves                                  | 20   | 7,234,527          | 6,346,838          |
| Retained earnings                                                |      | 38,501,844         | 32,306,560         |
| Banking reserves                                                 | 21   | 3,220,711          | 3,118,867          |
| Other reserves                                                   | 22   | 2,912,158          | 2,351,808          |
|                                                                  |      | 52,326,410         | 44,614,427         |
| <b>Non-Controlling interests</b>                                 | 23   | 2,385,277          | 2,074,965          |
| <b>Total Equity</b>                                              |      | <b>54,711,687</b>  | <b>46,689,392</b>  |
| <b>Total Equity and Liabilities</b>                              |      | <b>154,705,881</b> | <b>135,235,400</b> |

Approved for issue by the Board of Directors on 28 February 2020 and signed on its behalf by:

Gordon Shirley

Chairman

Donald Wehby

Group Chief Executive Officer

# GraceKennedy Limited

## Consolidated Income Statement

Year ended 31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

|                                                                                                      | Note | 2019<br>\$'000 | 2018<br>\$'000 |
|------------------------------------------------------------------------------------------------------|------|----------------|----------------|
| Revenue from products and services                                                                   |      | 98,913,473     | 93,522,584     |
| Interest revenue                                                                                     |      | 4,176,420      | 4,022,147      |
| <b>Revenues</b>                                                                                      | 25   | 103,089,893    | 97,544,731     |
| Direct and operating expenses                                                                        |      | (98,862,776)   | (93,919,850)   |
| Net impairment losses on financial assets                                                            |      | (488,116)      | (484,367)      |
| <b>Expenses</b>                                                                                      | 26   | (99,350,892)   | (94,404,217)   |
|                                                                                                      |      | 3,739,001      | 3,140,514      |
| Other income                                                                                         | 27   | 2,520,212      | 3,486,010      |
| <b>Profit from Operations</b>                                                                        |      | 6,259,213      | 6,626,524      |
| Interest income – non-financial services                                                             |      | 437,398        | 427,501        |
| Interest expense – non-financial services                                                            |      | (1,087,903)    | (581,873)      |
| Share of results of associates and joint ventures                                                    | 10   | 518,887        | 490,873        |
| <b>Profit before Taxation</b>                                                                        |      | 6,127,595      | 6,963,025      |
| Taxation                                                                                             | 29   | (1,027,679)    | (1,319,448)    |
| <b>NET PROFIT</b>                                                                                    |      | 5,099,916      | 5,643,577      |
| <b>Attributable to:</b>                                                                              |      |                |                |
| Owners of GraceKennedy Limited                                                                       | 30   | 4,487,389      | 5,005,915      |
| Non-Controlling interests                                                                            | 23   | 612,527        | 637,662        |
|                                                                                                      |      | 5,099,916      | 5,643,577      |
|                                                                                                      |      | \$             | \$             |
| <b>Earnings per Stock Unit for profit attributable to the owners of the company during the year:</b> | 32   |                |                |
| <b>Basic</b>                                                                                         |      | 4.52           | 5.05           |
| <b>Diluted</b>                                                                                       |      | 4.51           | 5.04           |

# GraceKennedy Limited

## Consolidated Statement of Comprehensive Income

Year ended 31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

|                                                                                              | Note | 2019<br>\$'000 | 2018<br>\$'000 |
|----------------------------------------------------------------------------------------------|------|----------------|----------------|
| <b>Profit for the year</b>                                                                   |      | 5,099,916      | 5,643,577      |
| <b>Other comprehensive income:</b>                                                           |      |                |                |
| <i>Items that will not be reclassified to profit or loss:</i>                                |      |                |                |
| Gains on revaluation of land and buildings                                                   |      | 20,315         | 684,638        |
| Changes in fair value of equity instruments at fair value through other comprehensive income |      | 621,450        | 103,601        |
| Remeasurements of post-employment benefit obligations                                        |      | 3,022,237      | (2,734,637)    |
| Share of other comprehensive income of associates and joint ventures                         |      | 14,989         | 30,249         |
|                                                                                              |      | 3,678,991      | (1,916,149)    |
| <i>Items that may be subsequently reclassified to profit or loss:</i>                        |      |                |                |
| Foreign currency translation adjustments                                                     |      | 551,187        | (1,180,883)    |
| Changes in fair value of debt instruments at fair value through other comprehensive income   |      | 539,061        | (279,949)      |
| Share of other comprehensive income of associates and joint ventures                         |      | 38,048         | 15,373         |
|                                                                                              |      | 1,128,296      | (1,445,459)    |
| <b>Other comprehensive income for the year, net of tax</b>                                   |      | 4,807,287      | (3,361,608)    |
| <b>Total comprehensive income for the year</b>                                               |      | 9,907,203      | 2,281,969      |
| <b>Attributable to:</b>                                                                      |      |                |                |
| Owners of GraceKennedy Limited                                                               |      | 9,261,866      | 1,639,972      |
| Non-Controlling interests                                                                    | 23   | 645,337        | 641,997        |
|                                                                                              |      | 9,907,203      | 2,281,969      |

# GraceKennedy Limited

## Consolidated Statement of Changes in Equity

Year ended 31 December 2019

(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                   | \$'000       |
| Balance at 1 January 2018                                   |        | 992,654                              | 540,951              | 5,483,796                              | 31,770,865               | 3,044,111               | 3,428,449             | 1,785,813                | 46,053,985   |
| Profit for the year                                         |        | -                                    | -                    | -                                      | 5,005,915                | -                       | -                     | 637,662                  | 5,643,577    |
| Other comprehensive income for the year                     |        | -                                    | -                    | 546,520                                | (2,740,461)              | -                       | (1,172,002)           | 4,335                    | (3,361,608)  |
| Total comprehensive income for 2018                         |        | -                                    | -                    | 546,520                                | 2,265,454                | -                       | (1,172,002)           | 641,997                  | 2,281,969    |
| Transactions with owners:                                   |        |                                      |                      |                                        |                          |                         |                       |                          |              |
| Purchase of treasury shares                                 | 19 (b) | (950)                                | (57,171)             | -                                      | -                        | -                       | -                     | -                        | (57,171)     |
| Share-based payments:                                       |        |                                      |                      |                                        |                          |                         |                       |                          |              |
| Value of services received                                  | 19 (f) | -                                    | -                    | -                                      | -                        | -                       | 103,237               | 1,169                    | 104,406      |
| Transfer of treasury shares to employees                    | 19 (b) | 161                                  | 6,574                | 1,302                                  | -                        | -                       | (7,876)               | -                        | -            |
| Dividends paid by subsidiaries to non-controlling interests | 23     | -                                    | -                    | -                                      | -                        | -                       | -                     | (354,014)                | (354,014)    |
| Dividends paid                                              | 31     | -                                    | -                    | -                                      | (1,339,783)              | -                       | -                     | -                        | (1,339,783)  |
| Total transactions with owners                              |        | (789)                                | (50,597)             | 1,302                                  | (1,339,783)              | -                       | 95,361                | (352,845)                | (1,646,562)  |
| Transfers between reserves:                                 |        |                                      |                      |                                        |                          |                         |                       |                          |              |
| To capital reserves                                         |        | -                                    | -                    | 315,220                                | (315,220)                | -                       | -                     | -                        | -            |
| To banking reserves                                         |        | -                                    | -                    | -                                      | (74,756)                 | 74,756                  | -                     | -                        | -            |
| Balance at 31 December 2018                                 |        | 991,865                              | 490,354              | 6,346,838                              | 32,306,560               | 3,118,867               | 2,351,808             | 2,074,965                | 46,689,392   |
| Profit for the year                                         |        | -                                    | -                    | -                                      | 4,487,389                | -                       | -                     | 612,527                  | 5,099,916    |
| Other comprehensive income for the year                     |        | -                                    | -                    | 1,175,635                              | 3,027,788                | -                       | 571,054               | 32,810                   | 4,807,287    |
| Total comprehensive income for 2019                         |        | -                                    | -                    | 1,175,635                              | 7,515,177                | -                       | 571,054               | 645,337                  | 9,907,203    |
| Transactions with owners:                                   |        |                                      |                      |                                        |                          |                         |                       |                          |              |
| Issue of shares                                             | 19 (a) | 113                                  | 3,150                | -                                      | -                        | -                       | -                     | -                        | 3,150        |
| Sale of treasury shares                                     | 19 (b) | 178                                  | 10,885               | -                                      | -                        | -                       | -                     | -                        | 10,885       |
| Purchase of treasury shares                                 | 19 (b) | (1,957)                              | (131,150)            | -                                      | -                        | -                       | -                     | -                        | (131,150)    |
| Share-based payments:                                       |        |                                      |                      |                                        |                          |                         |                       |                          |              |
| Value of services received                                  | 19 (f) | -                                    | -                    | -                                      | -                        | -                       | 131,521               | 1,367                    | 132,888      |
| Exercised                                                   |        | -                                    | -                    | -                                      | -                        | -                       | (26,460)              | (637)                    | (27,097)     |
| Transfer of shares to employees                             | 19 (a) | 5                                    | 312                  | -                                      | -                        | -                       | (312)                 | -                        | -            |
| Transfer of treasury shares to employees                    | 19 (b) | 1,902                                | 83,619               | 33,054                                 | -                        | -                       | (115,453)             | (1,220)                  | -            |
| Dividends paid by subsidiaries to non-controlling interests | 23     | -                                    | -                    | -                                      | -                        | -                       | -                     | (334,535)                | (334,535)    |
| Dividends paid                                              | 31     | -                                    | -                    | -                                      | (1,539,049)              | -                       | -                     | -                        | (1,539,049)  |
| Total transactions with owners                              |        | 241                                  | (33,184)             | 33,054                                 | (1,539,049)              | -                       | (10,704)              | (335,025)                | (1,884,908)  |
| Transfers between reserves:                                 |        |                                      |                      |                                        |                          |                         |                       |                          |              |
| From capital reserves                                       |        | -                                    | -                    | (321,000)                              | 321,000                  | -                       | -                     | -                        | -            |
| To banking reserves                                         |        | -                                    | -                    | -                                      | (101,844)                | 101,844                 | -                     | -                        | -            |
| Balance at 31 December 2019                                 |        | 992,106                              | 457,170              | 7,234,527                              | 38,501,844               | 3,220,711               | 2,912,158             | 2,385,277                | 54,711,687   |

# GraceKennedy Limited

## Consolidated Statement of Cash Flows

Year ended 31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

|                                                                       | Note | 2019<br>\$'000 | 2018<br>\$'000 |
|-----------------------------------------------------------------------|------|----------------|----------------|
| <b>SOURCES/(USES) OF CASH:</b>                                        |      |                |                |
| Operating Activities                                                  | 33   | 7,049,456      | 9,444,736      |
| Financing Activities                                                  |      |                |                |
| Loans received                                                        |      | 6,030,765      | 7,612,456      |
| Loans repaid                                                          |      | (6,306,514)    | (7,558,098)    |
| Dividends paid by subsidiary to non-controlling interests             | 23   | (334,535)      | (354,014)      |
| Purchase of treasury shares                                           | 19   | (131,150)      | (57,171)       |
| Sale of treasury shares                                               | 19   | 10,885         | -              |
| Issue of shares                                                       | 19   | 3,150          | -              |
| Exercise of share based payments                                      | 19   | (27,097)       | -              |
| Interest paid – non financial services                                |      | (1,066,114)    | (583,910)      |
| Dividends                                                             | 31   | (1,539,049)    | (1,339,783)    |
|                                                                       |      | (3,359,659)    | (2,280,520)    |
| Investing Activities                                                  |      |                |                |
| Additions to fixed assets <sup>(a)</sup>                              | 12   | (2,921,570)    | (3,118,484)    |
| Proceeds from disposal of fixed assets                                |      | 269,419        | 112,479        |
| Additions to assets held for sale                                     |      | (30,544)       | -              |
| Additions to investments                                              |      | (23,379,440)   | (8,775,656)    |
| Cash outflow on purchase of interest in associates and joint ventures |      | (202,904)      | (971,505)      |
| Proceeds from sale of investments                                     |      | 23,868,680     | 8,377,691      |
| Additions to intangibles                                              | 11   | (351,529)      | (350,751)      |
| Interest received – non financial services                            |      | 435,162        | 422,630        |
|                                                                       |      | (2,312,726)    | (4,303,596)    |
| Increase in cash and cash equivalents                                 |      | 1,377,071      | 2,860,620      |
| Cash and cash equivalents at beginning of year                        |      | 12,278,198     | 9,402,295      |
| Exchange and translation gains on net foreign cash balances           |      | 203,646        | 15,283         |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                       | 5    | 13,858,915     | 12,278,198     |

The principal non-cash transactions include:

<sup>(a)</sup> Acquisition of right-of-use asset of \$2,975,546,000 (2018: fixed assets under finance lease of \$23,140,000), (Note 12).

**GraceKennedy Limited****Company Statement of Financial Position****31 December 2019**

(expressed in Jamaican dollars unless otherwise indicated)

|                                     | Note | 2019<br>\$'000    | 2018<br>\$'000    |
|-------------------------------------|------|-------------------|-------------------|
| <b>Assets</b>                       |      |                   |                   |
| Cash and deposits                   | 5    | 2,633,161         | 3,960,985         |
| Investment securities               | 6    | 6,687,588         | 5,747,482         |
| Receivables                         | 7    | 1,662,856         | 1,954,015         |
| Inventories                         | 8    | 2,764,103         | 3,018,851         |
| Loans receivable                    | 9    | 2,096,204         | 1,434,966         |
| Subsidiaries                        | 35   | 1,930,889         | 1,867,140         |
| Taxation recoverable                |      | 199,010           | 256,752           |
| Investments in associates           | 10   | 574,698           | 574,698           |
| Investments in subsidiaries         |      | 18,018,692        | 17,544,008        |
| Intangible assets                   | 11   | 285,615           | 293,246           |
| Fixed assets                        | 12   | 3,402,265         | 296,473           |
| Deferred tax assets                 | 13   | -                 | 93,516            |
| Pension plan asset                  | 14   | 5,821,549         | 3,269,925         |
| <b>Total Assets</b>                 |      | <b>46,076,630</b> | <b>40,312,057</b> |
| <b>Liabilities</b>                  |      |                   |                   |
| Bank and other loans                | 15   | 9,051,347         | 6,114,341         |
| Payables                            | 17   | 2,808,126         | 3,558,129         |
| Subsidiaries                        | 35   | 3,381,561         | 3,027,509         |
| Deferred tax liabilities            | 13   | 628,399           | -                 |
| Other post-employment obligations   | 14   | 2,768,342         | 2,900,502         |
| <b>Total Liabilities</b>            |      | <b>18,637,775</b> | <b>15,600,481</b> |
| <b>Equity</b>                       |      |                   |                   |
| Share capital                       | 19   | 457,170           | 490,354           |
| Capital and fair value reserves     | 20   | 241,434           | 177,510           |
| Retained earnings                   |      | 26,641,782        | 23,912,984        |
| Other reserves                      | 22   | 98,469            | 130,728           |
| <b>Total Equity</b>                 |      | <b>27,438,855</b> | <b>24,711,576</b> |
| <b>Total Equity and Liabilities</b> |      | <b>46,076,630</b> | <b>40,312,057</b> |

Approved for issue by the Board of Directors on 28 February 2020 and signed on its behalf by:

Gordon Shirley

Chairman

Donald Wehby

Group Chief Executive Officer

**GraceKennedy Limited****Company Income Statement****Year ended 31 December 2019**

(expressed in Jamaican dollars unless otherwise indicated)

|                                           | Note | 2019<br>\$'000 | 2018<br>\$'000 |
|-------------------------------------------|------|----------------|----------------|
| Revenue                                   | 25   | 21,566,624     | 18,957,924     |
| Cost of goods sold                        |      | (16,690,978)   | (14,988,530)   |
| <b>Gross Profit</b>                       |      | 4,875,646      | 3,969,394      |
| Other income                              | 27   | 5,077,223      | 5,599,297      |
| Administration expenses                   |      | (8,437,696)    | (7,278,188)    |
| Net impairment losses on financial assets |      | (43,929)       | (25,870)       |
| <b>Profit from Operations</b>             |      | 1,471,244      | 2,264,633      |
| Interest income                           |      | 572,086        | 504,893        |
| Interest expense                          |      | (532,680)      | (333,757)      |
| <b>Profit before Taxation</b>             |      | 1,510,650      | 2,435,769      |
| Taxation                                  | 29   | 80,091         | 11,048         |
| <b>NET PROFIT</b>                         | 30   | 1,590,741      | 2,446,817      |

# GraceKennedy Limited

## Company Statement of Comprehensive Income

Year ended 31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

|                                                                                              | 2019<br>\$'000 | 2018<br>\$'000 |
|----------------------------------------------------------------------------------------------|----------------|----------------|
| <b>Profit for the year</b>                                                                   | 1,590,741      | 2,446,817      |
| <b>Other comprehensive income:</b>                                                           |                |                |
| <i>Items that will not be reclassified to profit or loss:</i>                                |                |                |
| Gains on revaluation of land and buildings                                                   | -              | 4,799          |
| Changes in fair value of equity instruments at fair value through other comprehensive income | 30,870         | (5,199)        |
| Remeasurements of post-employment benefit obligations                                        | 2,677,106      | (2,516,081)    |
| <b>Other comprehensive income for the year, net of tax</b>                                   | 2,707,976      | (2,516,481)    |
| <b>Total comprehensive income for the year</b>                                               | 4,298,717      | (69,664)       |

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 29.

# GraceKennedy Limited

## Company Statement of Changes in Equity

Year ended 31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

|                                            | Note   | Number<br>of Stock<br>Units<br>'000 | Share<br>Capital<br>\$'000 | Capital and<br>Fair Value<br>Reserves<br>\$'000 | Retained<br>Earnings<br>\$'000 | Other<br>Reserves<br>\$'000 | Total<br>\$'000 |
|--------------------------------------------|--------|-------------------------------------|----------------------------|-------------------------------------------------|--------------------------------|-----------------------------|-----------------|
| <b>Balance at 1 January 2018</b>           |        | 992,654                             | 540,951                    | 176,608                                         | 25,322,031                     | 65,302                      | 26,104,892      |
| Profit for the year                        |        | -                                   | -                          | -                                               | 2,446,817                      | -                           | 2,446,817       |
| Other comprehensive income for the year    |        | -                                   | -                          | (400)                                           | (2,516,081)                    | -                           | (2,516,481)     |
| <b>Total comprehensive income for 2018</b> |        | -                                   | -                          | (400)                                           | (69,264)                       | -                           | (69,664)        |
| Transactions with owners:                  |        |                                     |                            |                                                 |                                |                             |                 |
| Purchase of treasury shares                | 19 (b) | (950)                               | (57,171)                   | -                                               | -                              | -                           | (57,171)        |
| Share-based payments:                      |        |                                     |                            |                                                 |                                |                             |                 |
| Value of services received                 | 22     | -                                   | -                          | -                                               | -                              | 73,302                      | 73,302          |
| Transfer of treasury shares to employees   | 19 (b) | 161                                 | 6,574                      | 1,302                                           | -                              | (7,876)                     | -               |
| Dividends paid                             | 31     | -                                   | -                          | -                                               | (1,339,783)                    | -                           | (1,339,783)     |
| <b>Total transactions with owners</b>      |        | (789)                               | (50,597)                   | 1,302                                           | (1,339,783)                    | 65,426                      | (1,323,652)     |
| Transfers between reserves:                |        |                                     |                            |                                                 |                                |                             |                 |
| <b>Balance at 31 December 2018</b>         |        | 991,865                             | 490,354                    | 177,510                                         | 23,912,984                     | 130,728                     | 24,711,576      |
| Profit for the year                        |        | -                                   | -                          | -                                               | 1,590,741                      | -                           | 1,590,741       |
| Other comprehensive income for the year    |        | -                                   | -                          | 30,870                                          | 2,677,106                      | -                           | 2,707,976       |
| <b>Total comprehensive income for 2019</b> |        | -                                   | -                          | 30,870                                          | 4,267,847                      | -                           | 4,298,717       |
| Transactions with owners:                  |        |                                     |                            |                                                 |                                |                             |                 |
| Issue of shares                            | 19 (a) | 113                                 | 3,150                      | -                                               | -                              | -                           | 3,150           |
| Sale of treasury shares                    | 19 (b) | 178                                 | 10,885                     | -                                               | -                              | -                           | 10,885          |
| Purchase of treasury shares                | 19 (b) | (1,957)                             | (131,150)                  | -                                               | -                              | -                           | (131,150)       |
| Share-based payments:                      |        |                                     |                            |                                                 |                                |                             |                 |
| Value of services received                 | 22     | -                                   | -                          | -                                               | -                              | 93,863                      | 93,863          |
| Exercised                                  |        | -                                   | -                          | -                                               | -                              | (20,111)                    | (20,111)        |
| Transfer of shares to employees            | 19 (a) | 5                                   | 312                        | -                                               | -                              | (312)                       | -               |
| Transfer of treasury shares to employees   | 19 (b) | 1,902                               | 83,619                     | 33,054                                          | -                              | (105,699)                   | 10,974          |
| Dividends paid                             | 31     | -                                   | -                          | -                                               | (1,539,049)                    | -                           | (1,539,049)     |
| <b>Total transactions with owners</b>      |        | 241                                 | (33,184)                   | 33,054                                          | (1,539,049)                    | (32,259)                    | (1,571,438)     |
| <b>Balance at 31 December 2019</b>         |        | 992,106                             | 457,170                    | 241,434                                         | 26,641,782                     | 98,469                      | 27,438,855      |

# GraceKennedy Limited

## Company Statement of Cash Flows

Year ended 31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

|                                                             | Note | 2019<br>\$'000   | 2018<br>\$'000   |
|-------------------------------------------------------------|------|------------------|------------------|
| <b>SOURCES/(USES) OF CASH:</b>                              |      |                  |                  |
| Operating Activities                                        | 33   | 2,795,213        | 1,410,227        |
| Financing Activities                                        |      |                  |                  |
| Loans received                                              |      | 4,515,827        | 3,061,883        |
| Loans repaid                                                |      | (3,963,828)      | (2,629,854)      |
| Purchase of treasury shares                                 | 19   | (131,150)        | (57,171)         |
| Sale of treasury shares                                     | 19   | 10,885           | -                |
| Issue of shares                                             | 19   | 3,150            | -                |
| Exercise of share based payments                            | 19   | (20,111)         | -                |
| Interest paid                                               |      | (532,682)        | (322,047)        |
| Dividends                                                   | 31   | (1,539,049)      | (1,339,783)      |
|                                                             |      | (1,656,958)      | (1,286,972)      |
| Investing Activities                                        |      |                  |                  |
| Additions to fixed assets <sup>(a)</sup>                    | 12   | (273,606)        | (64,806)         |
| Proceeds from disposal of fixed assets                      |      | 37,741           | 5,051            |
| Additions to investments                                    |      | (1,912,853)      | (1,257,860)      |
| Loans receivable, net                                       |      | (661,238)        | 1,924,340        |
| Proceeds from sale of investments                           |      | 1,180,534        | 1,749,105        |
| Investment in subsidiary                                    |      | (474,684)        | (1,787,365)      |
| Investment in associated company                            |      | -                | (525,000)        |
| Additions to intangibles                                    | 11   | (85,146)         | (141,539)        |
| Interest received                                           |      | 572,087          | 500,021          |
|                                                             |      | (1,617,165)      | 401,947          |
| (Decrease)/increase in cash and cash equivalents            |      | (478,910)        | 525,202          |
| Cash and cash equivalents at beginning of year              |      | 2,439,594        | 1,913,626        |
| Exchange and translation gains on net foreign cash balances |      | 44,609           | 766              |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>             | 5    | <b>2,005,293</b> | <b>2,439,594</b> |

The principal non-cash transactions include:

<sup>(a)</sup> Acquisition of right-of-use assets of \$526,040,000 (2018: \$Nil), (Note 12).

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

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

- IFRS 16, 'Leases' (effective for annual periods beginning on or after 1 January 2019). This standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. It replaces the guidance in IAS 17, which made a distinction in classification between leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset (finance leases) and those that do not (operating leases). For a lessee, finance leases were recognised as an asset that was depreciated over the lease term and the amount due to the lessor recognised as borrowings; while operating leases were recognised as a periodic rental payment that was treated as a current expense in the income statement.

IFRS 16 introduces a single lease accounting model for lessees. It 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. For lessors, the accounting stays almost the same.

The adoption of IFRS 16 from 1 January 2019 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 16 [C7], comparative figures have not been restated. Details of the new accounting policy in relation to IFRS 16 are outlined in Note 2 (x) and the impact on the financial statements on adoption of the new standard is disclosed in Note 40.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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)*

- 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. There was no impact from the adoption of this amendment.
- Amendment to IAS 28, 'Investments in associates and joint ventures' (effective for annual periods beginning on or after 1 January 2019). This amendment clarifies that companies account for long term interests in an associate or joint venture to which the equity method is not applied using IFRS 9. There was no impact from the adoption of this amendment.
- 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. There was no impact from the adoption of this amendment.
- Amendments to IAS 19, 'Employee benefits' (effective for annual periods beginning on or after 1 January 2019). These amendments require an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement and to recognise in profit or loss as part of past service cost, or gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling. Any changes in the asset ceiling is recognised separately through other comprehensive income. The Group has adopted this treatment for its post employment benefit plans. There was no impact on the asset ceiling from the adoption of these amendments.
- Annual improvements to IFRSs 2015 – 2017 cycles. These amendments include minor changes to the following standards:
  - IFRS 3, 'Business combinations', (effective for annual periods beginning on or after 1 January 2019). This amendment clarifies that an entity should re-measure its previously held interest in a joint operation at fair value when it obtains control of the business.
  - IFRS 11, 'Joint arrangements', (effective for annual periods beginning on or after 1 January 2019). This amendment clarifies that an entity should not re-measure its previously held interest in a joint operation when it obtains joint control of the business.
  - IAS 12, 'Income taxes', (effective for annual periods beginning on or after 1 January 2019). This amendment clarifies that the income tax consequences of dividend payments should be recognised according to where the past transactions or events that generated distributable profits were recognised.
  - IAS 23, 'Borrowing costs' (effective for annual periods beginning on or after 1 January 2019). This amendment clarifies that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it becomes a part of general borrowings.

There was no impact from the adoption of these amendments.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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***

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 2019, 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 17, 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2022). 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.
- Amendments to IAS 1 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors' (effective for annual periods beginning on or after 1 January 2020). These amendments clarify the definition of materiality and the meaning of primary users of general purpose financial statements by defining them as existing and potential investors, lenders and other creditors. The Group is currently assessing the impact of this standard.
- Amendment to IFRS 3 'Business combinations' (effective for annual periods beginning on or after 1 January 2020). This amendment revises the definition of a business which requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term outputs is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The Group will apply this amendment to future transactions.
- Revised Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework will be used in standard-setting decisions with immediate effect, however no changes will be made to any of the current accounting standards. Entities that apply the Conceptual Framework in determining accounting policies will need to consider whether their accounting policies are still appropriate under the revised Framework. The Group is currently assessing the impact of this revision.

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.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (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 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (b) Basis of consolidation (continued)

| Entity                                                               | Country of<br>incorporation<br>and place of<br>business | Nature of business        | Proportion<br>of ordinary<br>shares<br>held by the<br>parent<br>company<br>% | Proportion<br>of ordinary<br>shares<br>held by the<br>Group % | Proportion<br>of ordinary<br>shares<br>held by<br>non-<br>controlling<br>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 (Bahamas) Limited                        | Bahamas                                                 | 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                             | 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 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (b) Basis of consolidation (continued)

| Entity                                                   | Country of<br>incorporation<br>and place of<br>business | Nature of business | Proportion<br>of ordinary<br>shares<br>held by the<br>parent<br>company<br>% | Proportion<br>of ordinary<br>shares<br>held by the<br>Group % | Proportion<br>of ordinary<br>shares<br>held by<br>non-<br>controlling<br>interests % |
|----------------------------------------------------------|---------------------------------------------------------|--------------------|------------------------------------------------------------------------------|---------------------------------------------------------------|--------------------------------------------------------------------------------------|
| Grace Foods Limited                                      | St. Lucia                                               | Brand owner        | 100                                                                          | 100                                                           | -                                                                                    |
| GraceKennedy (Belize) Limited                            | Belize                                                  | Food trading       | 100                                                                          | 100                                                           | -                                                                                    |
| Grace Foods Canada 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<br>subsidiary – | St. Lucia                                               | Holding company    | 100                                                                          | 100                                                           | -                                                                                    |
| GK Foods (UK) Limited and its subsidiaries –             | United<br>Kingdom (UK)                                  | Food trading       | -                                                                            | 100                                                           | -                                                                                    |
| 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.

In the prior year, the Group liquidated Graken Holdings Limited. This resulted in a gain being realised on liquidation which is included in Other Income within *gain on disposal of investments* (Note 27).

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (c) Associates and Joint Venture

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. Joint ventures are entities over which the Group has joint control and has rights to the net assets of the investment. Investments in associates and joint ventures 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 and joint ventures includes goodwill identified on acquisition, net of any accumulated impairment loss.

If the ownership interest in an associate or joint venture is reduced but significant influence or joint control 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' and joint ventures' 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 or joint venture equals or exceeds its interest in the entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the entity.

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

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

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

The Group's associates and joint ventures are as follows:

| Entity                                               | Financial Reporting Year-end | Country of Incorporation | Nature of Business    | Nature of Relationship | Group's Percentage Interest |      |
|------------------------------------------------------|------------------------------|--------------------------|-----------------------|------------------------|-----------------------------|------|
|                                                      |                              |                          |                       |                        | 2019                        | 2018 |
| Canopy Insurance Limited (formerly GKMusson Limited) | 31 December                  | Jamaica                  | Financial             | Joint Venture          | 50.0                        | 50.0 |
| Catherine's Peak Bottling Company Limited            | 31 March                     | Jamaica                  | Food trading          | Associate              | 35.0                        | 35.0 |
| CSGK Finance Holdings Limited                        | 31 December                  | Barbados                 | Banking               | Associate              | 40.0                        | 40.0 |
| Dairy Industries (Jamaica) Limited                   | 31 December                  | Jamaica                  | Food trading          | Associate              | 50.0                        | 50.0 |
| Gray's Pepper Products Limited                       | 31 December                  | Jamaica                  | Food trading          | Associate              | 33.3                        | 33.3 |
| Majesty Foods LLC                                    | 31 December                  | USA                      | Food trading          | Associate              | 49.0                        | 49.0 |
| Pelican Power Limited                                | 31 December                  | Jamaica                  | Investment/<br>Energy | Joint Venture          | 50.0                        | -    |
| Telecommunications Alliance Limited                  | 31 December                  | Jamaica                  | Dormant               | Associate              | 49.0                        | 49.0 |

The results of associates and joint ventures 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.

During the year, the Group acquired an interest in Pelican Power Limited.

#### (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.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (e) Foreign currency translation (continued)

##### **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.

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 fair value through other comprehensive income 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 fair value through other comprehensive income 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 2019

(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.

##### **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 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (h) Financial assets

##### 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 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.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (h) Financial assets (continued)

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.

# GraceKennedy Limited

## Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (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.

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.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (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.

##### ***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.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (m) Employee benefits (continued)

##### *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 2019

(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**

*Accounting policy effective 1 January 2019*

The Group leases various offices, warehouses, retail stores, equipment and vehicles. Rental contracts are typically made for fixed periods of 1 to 10 years, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (x) Leases (continued)

Some equipment and motor vehicle leases contain variable lease payment terms that are linked to usage. These payments are excluded from the measurement of the lease liability and are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use land and buildings held by the Group.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

The lease term is determined as the non-cancellable period of the lease and also takes account of extension and termination options if reasonably certain to be exercised. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Group.

#### **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.

#### **Application of this policy until 31 December 2018**

The Group adopted IFRS 16 on 1 January 2019 applying the simplified transition approach and has elected not to restate comparative information in accordance with the transitional provisions in IFRS 16 [C7]. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

#### **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.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 2. Significant Accounting Policies (Continued)

#### (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.

#### (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.

From 1 January 2018, the Group adopted IFRS 15 which resulted in 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.

#### 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.

#### Dividend income

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

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

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 2019

(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 2019

(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:

|                                      | 2019         |                       | 2018         |                       |
|--------------------------------------|--------------|-----------------------|--------------|-----------------------|
|                                      | Policy Limit | Maximum Net Retention | Policy Limit | Maximum Net Retention |
|                                      | \$'000       | \$'000                | \$'000       | \$'000                |
| Commercial property:                 |              |                       |              |                       |
| Fire and consequential loss          | 1,311,765    | 10,494                | 1,287,320    | 10,299                |
| Boiler and machinery                 | 649,324      | 5,903                 | 643,660      | 7,241                 |
| Engineering                          | 865,765      | 7,871                 | 643,660      | 7,241                 |
| Burglary, money and goods in transit | 32,794       | 32,794                | 32,183       | 32,183                |
| Glass and other                      | 32,794       | 32,794                | 32,183       | 32,183                |
| Liability                            | 393,530      | 40,500                | 386,196      | 38,620                |
| Marine, aviation and transport       | 78,706       | 3,935                 | 77,239       | 3,862                 |
| Motor                                | 60,000       | 15,000                | 31,000       | 16,000                |
| Pecuniary loss:                      |              |                       |              |                       |
| Fidelity                             | 32,794       | 32,794                | 32,183       | 32,183                |
| Surety/Bonds                         | 148,042      | 29,608                | 148,042      | 29,608                |
| Personal accident                    | 32,794       | 32,794                | 32,183       | 32,183                |
| Personal property                    | 1,311,765    | 10,494                | 1,287,320    | 10,299                |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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 \$3,428,523,000 were determined at the 50% confidence interval. Had the confidence interval increased/(decreased) by 10%, the net reserves would increase/(decrease) by \$99,000,000/(\$99,000,000).

##### *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 2010 - 2018 has changed at successive year-ends, up to 2019. 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 2019**  
(expressed in Jamaican dollars unless otherwise indicated)

| 3. Insurance and Financial Risk Management (Continued) |           |           |           |         |           |          |           |          |           |          |           |          |           |          |
|--------------------------------------------------------|-----------|-----------|-----------|---------|-----------|----------|-----------|----------|-----------|----------|-----------|----------|-----------|----------|
| (a) Insurance risk (continued)                         |           |           |           |         |           |          |           |          |           |          |           |          |           |          |
| Development Claim Liabilities (continued)              |           |           |           |         |           |          |           |          |           |          |           |          |           |          |
|                                                        | 2010      | 2011      | 2012      | 2013    | 2014      | 2015     | 2016      | 2017     | 2018      | 2019     | 2020      |          |           |          |
|                                                        | & prior   | & prior   | & prior   | & prior | & prior   | & prior  | & prior   | & prior  | & prior   | & prior  | & prior   |          |           |          |
|                                                        | \$'000    | \$'000    | \$'000    | \$'000  | \$'000    | \$'000   | \$'000    | \$'000   | \$'000    | \$'000   | \$'000    |          |           |          |
| 2010                                                   | 2,360,631 |           |           |         |           |          |           |          |           |          |           |          |           |          |
| IBNR, end of year                                      | 63,254    |           |           |         |           |          |           |          |           |          |           |          |           |          |
| 2011                                                   | 580,108   | 600,728   | 1,180,836 |         |           |          |           |          |           |          |           |          |           |          |
| UCAE, end of year                                      | 817,757   | 1,476,864 |           |         |           |          |           |          |           |          |           |          |           |          |
| IBNR, end of year                                      | 2,365     | 67,945    | 70,310    |         |           |          |           |          |           |          |           |          |           |          |
| Ratio: excess                                          | 42.23%    |           |           |         |           |          |           |          |           |          |           |          |           |          |
| (deficiency)                                           |           |           |           |         |           |          |           |          |           |          |           |          |           |          |
| 2012                                                   | 229,627   | 318,636   | 548,263   | 595,339 | 1,143,602 |          |           |          |           |          |           |          |           |          |
| UCAE, end of year                                      | 668,968   | 436,140   | 1,105,108 | 714,766 | 1,819,874 |          |           |          |           |          |           |          |           |          |
| IBNR, end of year                                      | -         | 4,023     | 4,023     | 78,759  | 82,782    |          |           |          |           |          |           |          |           |          |
| Ratio: excess                                          | 38.99%    | (7.12%)   |           |         |           |          |           |          |           |          |           |          |           |          |
| (deficiency)                                           |           |           |           |         |           |          |           |          |           |          |           |          |           |          |
| 2013                                                   | 187,380   | 149,561   | 336,941   | 370,625 | 707,566   | 652,404  | 1,359,970 |          |           |          |           |          |           |          |
| UCAE, end of year                                      | 653,363   | 418,464   | 1,102,047 | 506,424 | 1,608,471 | 790,877  | 2,389,348 |          |           |          |           |          |           |          |
| IBNR, end of year                                      | -         | -         | -         | -       | -         | 80,193   | 80,193    |          |           |          |           |          |           |          |
| Ratio: excess                                          | 30.66%    | (28.44%)  |           |         | (21.73%)  |          |           |          |           |          |           |          |           |          |
| (deficiency)                                           |           |           |           |         |           |          |           |          |           |          |           |          |           |          |
| 2014                                                   | 140,557   | 110,401   | 250,956   | 169,283 | 420,241   | 404,194  | 824,435   | 607,093  | 1,431,528 |          |           |          |           |          |
| UCAE, end of year                                      | 511,990   | 321,483   | 833,473   | 388,380 | 1,221,853 | 524,575  | 1,746,428 | 615,473  | 2,361,901 |          |           |          |           |          |
| IBNR, end of year                                      | -         | -         | -         | -       | -         | 18,964   | 18,964    | 78,667   | 97,631    |          |           |          |           |          |
| Ratio: excess                                          | 31.94%    | (27.31%)  |           |         | (23.49%)  |          | (4.45%)   |          |           |          |           |          |           |          |
| (deficiency)                                           |           |           |           |         |           |          |           |          |           |          |           |          |           |          |
| 2015                                                   | 95,618    | 97,860    | 193,478   | 92,040  | 285,518   | 124,646  | 410,164   | 281,599  | 691,763   | 624,864  | 1,316,627 |          |           |          |
| UCAE, end of year                                      | 330,083   | 214,447   | 544,530   | 275,671 | 820,401   | 416,490  | 1,236,891 | 365,188  | 1,602,079 | 645,016  | 2,247,095 |          |           |          |
| IBNR, end of year                                      | -         | -         | -         | -       | -         | (9,377)  | (9,377)   | 16,167   | 6,790     | 128,731  | 137,521   |          |           |          |
| Ratio: excess                                          | 35.50%    | (21.14%)  |           |         | (17.40%)  |          | 0.70%     |          | 6.38%     |          |           |          |           |          |
| (deficiency)                                           |           |           |           |         |           |          |           |          |           |          |           |          |           |          |
| 2016                                                   | 81,390    | 35,193    | 116,583   | 42,195  | 156,778   | 70,792   | 229,570   | 110,198  | 339,768   | 335,039  | 674,807   | 634,128  | 1,308,935 |          |
| UCAE, end of year                                      | 213,393   | 154,771   | 368,164   | 231,701 | 699,865   | 332,277  | 932,142   | 302,300  | 1,234,442 | 389,033  | 1,623,475 | 662,680  | 2,306,155 |          |
| IBNR, end of year                                      | -         | -         | -         | -       | -         | (13,373) | (13,373)  | (15,243) | (28,616)  | 31,145   | 2,529     | 124,991  | 127,620   |          |
| Ratio: excess                                          | 36.96%    | (17.27%)  |           |         | (14.15%)  |          | 3.90%     |          | 9.03%     |          | 3.51%     |          |           |          |
| (deficiency)                                           |           |           |           |         |           |          |           |          |           |          |           |          |           |          |
| 2017                                                   | 106,878   | 28,060    | 134,938   | 38,056  | 172,994   | 47,563   | 220,677   | 65,506   | 286,083   | 108,987  | 396,070   | 322,719  | 717,789   | 877,096  |
| UCAE, end of year                                      | 105,147   | 70,042    | 175,189   | 158,174 | 331,363   | 265,210  | 596,673   | 227,107  | 823,680   | 291,315  | 1,114,995 | 383,879  | 1,468,874 | 848,365  |
| IBNR, end of year                                      | -         | -         | -         | -       | -         | -        | -         | (13,116) | (13,116)  | (16,683) | (29,801)  | 22,506   | (7,285)   | 143,682  |
| Ratio: excess                                          | 37.01%    | (13.52%)  |           |         | (9.13%)   |          | 7.99%     |          | 13.47%    |          | 9.63%     |          | 9.22%     |          |
| (deficiency)                                           |           |           |           |         |           |          |           |          |           |          |           |          |           |          |
| 2018                                                   | 114,994   | 14,715    | 28,209    | 27,607  | 53,716    | 33,288   | 87,004    | 43,920   | 130,924   | 60,958   | 181,882   | 90,471   | 282,303   | 574,363  |
| UCAE, end of year                                      | 145,949   | 48,332    | 194,261   | 97,071  | 291,292   | 197,281  | 488,583   | 165,714  | 654,297   | 232,666  | 886,863   | 299,012  | 1,185,975 | 392,944  |
| IBNR, end of year                                      | -         | -         | -         | -       | (10,677)  | (10,677) | (9,745)   | (20,422) | (13,680)  | (34,102) | (11,874)  | (45,976) | 36,229    | (9,747)  |
| Ratio: excess                                          | 34.86%    | (16.45%)  |           |         | (9.85%)   |          | 9.27%     |          | 15.33%    |          | 11.32%    |          | 12.06%    |          |
| (deficiency)                                           |           |           |           |         |           |          |           |          |           |          |           |          |           |          |
| 2019                                                   | 17,726    | 8,874     | 26,600    | 17,206  | 43,806    | 21,299   | 65,105    | 23,572   | 93,678    | 35,377   | 129,055   | 57,683   | 186,738   | 105,536  |
| UCAE, end of year                                      | 122,199   | 35,015    | 157,214   | 77,802  | 235,016   | 120,661  | 365,687   | 129,743  | 485,411   | 209,087  | 694,498   | 255,827  | 990,325   | 327,532  |
| IBNR, end of year                                      | 33,030    | 11,817    | 44,847    | 9,026   | 53,873    | 7,872    | 61,745    | (22,180) | 39,665    | (22,730) | 16,835    | (33,491) | (16,656)  | (39,048) |
| Ratio: excess                                          | 33.74%    | (11.43%)  | (18.67%)  | (6.33%) | (12.03%)  | 4.68%    | 9.09%     | 8.18%    | 15.95%    | 6.08%    | 11.85%    | 14.18%   | 12.87%    | 2.38%    |
| (deficiency)                                           |           |           |           |         |           |          |           |          |           |          |           |          |           |          |

# GraceKennedy Limited

## Notes to the Financial Statements

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### 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 \$3,935,000 and \$40,500,000 (2018: \$3,862,000 and \$38,620,000).
- 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   |         |
|----------------|---------|---------|
|                | 2019    | 2018    |
|                | \$'000  | \$'000  |
| Property       | 749,968 | 324,790 |
| Motor          | 13,244  | 23,137  |
| Marine         | 3,331   | 1,735   |
| Liability      | 28,649  | 830     |
| Pecuniary loss | 79      | 962     |
| Accident       | -       | 43      |
|                | 795,271 | 351,497 |

#### (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, investments, lending activities and loan commitments arising from such lending 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 2019

(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's average credit period for the sale of goods is 1 month.

##### (b) Loans and leases receivable

The Group assesses the probability of default of individual counterparties using internal ratings. Customers of the Group are segmented into four 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              | Past due                 | – Late paying with increased credit risk |
| 4              | Credit impaired          | – Default                                |

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.

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**Notes to the Financial Statements**  
**31 December 2019**  
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**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**

External rating agency credit grades are used to assess credit quality. These published grades are continuously monitored and updated. Default probabilities and recovery rates are assigned as published by the rating agency.

The Group limits its exposure to credit risk arising from investments by adhering to the investment counterparty limits as approved by the ALCOs. Counterparty limits are reviewed and updated periodically.

***Impairment of Financial Assets***

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

- Trade and premium receivables
- Loans and leases receivable
- Debt investments carried at amortised cost, and
- Debt investments carried at FVOCI.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, all bank balances are assessed to have low credit risk at each reporting date as they are held with reputable banking institutions and the identified impairment loss was immaterial.

***Trade and premium receivables***

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for these assets.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Insurance and Financial Risk Management (Continued)

#### (c) Financial risk (continued)

##### (i) Credit risk (continued)

##### *Trade and premium receivables (continued)*

##### Maximum exposure to credit risk

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

|                              | Group             |                   | Company          |                  |
|------------------------------|-------------------|-------------------|------------------|------------------|
|                              | 2019<br>\$'000    | 2018<br>\$'000    | 2019<br>\$'000   | 2018<br>\$'000   |
| Low risk                     | 849               | 18,595            | -                | -                |
| Standard risk                | 9,939,252         | 8,726,918         | 1,336,702        | 1,240,434        |
| Past due                     | 2,888,604         | 3,132,208         | 192,371          | 160,363          |
| Credit impaired              | 836,970           | 975,379           | 125,539          | 246,904          |
| <b>Gross carrying amount</b> | <b>13,665,675</b> | <b>12,853,100</b> | <b>1,654,612</b> | <b>1,647,701</b> |
| Loss allowance               | (812,469)         | (662,828)         | (92,623)         | (63,822)         |
| <b>Carrying amount</b>       | <b>12,853,206</b> | <b>12,190,272</b> | <b>1,561,989</b> | <b>1,583,879</b> |

##### Loss allowance

The loss allowance as at 31 December 2019 and 31 December 2018 was determined as follows for trade and premium receivables:

|                      | Group                           |                          |                    |                                 |                          |                    |
|----------------------|---------------------------------|--------------------------|--------------------|---------------------------------|--------------------------|--------------------|
|                      | at 31 December 2019             |                          |                    | at 31 December 2018             |                          |                    |
|                      | Gross carrying amount<br>\$'000 | Loss allowance<br>\$'000 | Expected loss rate | Gross carrying amount<br>\$'000 | Loss allowance<br>\$'000 | Expected loss rate |
| Less than 1 month    | 6,574,621                       | 2,893                    | 0.04%              | 8,034,872                       | 36,491                   | 0.45%              |
| Within 1 to 3 months | 3,951,470                       | 27,346                   | 0.69%              | 3,223,816                       | 36,417                   | 1.13%              |
| Over 3 months        | 3,139,584                       | 782,230                  | 24.92%             | 1,594,412                       | 589,920                  | 37.00%             |
|                      | <b>13,665,675</b>               | <b>812,469</b>           |                    | <b>12,853,100</b>               | <b>662,828</b>           |                    |

  

|                      | Company                         |                          |                    |                                 |                          |                    |
|----------------------|---------------------------------|--------------------------|--------------------|---------------------------------|--------------------------|--------------------|
|                      | at 31 December 2019             |                          |                    | at 31 December 2018             |                          |                    |
|                      | Gross carrying amount<br>\$'000 | Loss allowance<br>\$'000 | Expected loss rate | Gross carrying amount<br>\$'000 | Loss allowance<br>\$'000 | Expected loss rate |
| Less than 1 month    | 957,974                         | 1,103                    | 0.12%              | 531,752                         | 1,523                    | 0.29%              |
| Within 1 to 3 months | 527,639                         | 1,199                    | 0.23%              | 1,017,071                       | 1,992                    | 0.20%              |
| Over 3 months        | 168,999                         | 90,321                   | 53.44%             | 98,878                          | 60,307                   | 60.99%             |
|                      | <b>1,654,612</b>                | <b>92,623</b>            |                    | <b>1,647,701</b>                | <b>63,822</b>            |                    |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

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### 3. Insurance and Financial Risk Management (Continued)

#### (c) Financial risk (continued)

##### (i) Credit risk (continued)

##### *Trade and premium receivables (continued)*

##### Loss allowance (continued)

The movement on the loss allowances for trade and premium receivables is as follows:

|                                                                           | Group          |                | Company        |                |
|---------------------------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                                           | 2019<br>\$'000 | 2018<br>\$'000 | 2019<br>\$'000 | 2018<br>\$'000 |
| At 1 January                                                              | 662,828        | 521,949        | 63,822         | 79,915         |
| Movement on loss allowance recognised in income statement during the year | 424,854        | 321,280        | 46,513         | 24,487         |
| Receivables written off during the year as uncollectible                  | (263,544)      | (132,203)      | (6,042)        | (27,288)       |
| Unused amount reversed                                                    | (11,669)       | (48,198)       | (11,670)       | (13,292)       |
| At 31 December                                                            | 812,469        | 662,828        | 92,623         | 63,822         |

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, failure to make contractual payments for a period greater than two years, and alternative methods of debt collection have been exhausted.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited in other income.

# GraceKennedy Limited

## Notes to the Financial Statements

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### 3. Insurance and Financial Risk Management (Continued)

#### (c) Financial risk (continued)

##### (i) Credit risk (continued)

##### ***Loans and Leases (including loan commitments and guarantees)***

The Group applies the 'three stage' model under IFRS 9 in measuring the expected credit losses on loans and leases, and makes estimations about likelihood of defaults occurring, associated loss ratios, changes in market conditions, and expected future cash flows. This is measured using the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD) for a portfolio of assets.

- **Probability of Default** - This represents the likelihood of a borrower defaulting on its financial obligation either over the next 12 months (12 month PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- **Exposure at Default** - This represents the expected balance at default, taking into account the repayment of principal and interest from the statement of financial position date to the default event together with any expected drawdowns of committed facilities.
- **Loss Given Default** - The LGD represents expected losses on the EAD given the event of default, taking into account the mitigating effect of collateral value at the time it is expected to be realised and also the time value of money.

The 'three stage' model is used to categorise financial assets according to credit quality as follows:

- **Stage 1** - financial assets that are not credit impaired on initial recognition or are deemed to have low credit risk. These assets generally abide by the contractual credit terms. The ECL is measured using a 12 month PD, which represents the probability that the financial asset will default within the next 12 months.
- **Stage 2** - financial assets with a significant increase in credit risk (SICR) since initial recognition, but are not credit impaired. The ECL is measured using a lifetime PD.
- **Stage 3** - credit impaired financial assets. The ECL is measured using a lifetime PD.

##### ***Transfer between stages***

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition. Financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment. This assessment is done on a case-by-case basis.

The Group considers forward looking information in determining the PDs of financial assets. Forward looking information having significant impact on the ECL is described in further detail under that heading.

##### **Significant Increase in Credit Risk (SICR)**

The Group considers a financial asset to have experienced a significant increase in credit risk when one or more of the following qualitative or backstop criteria have been met:

##### ***Qualitative Criteria***

- Deterioration in the Borrower's Risk Rating (BRR) below established threshold
- Material misrepresentation or inaccurate warranty
- Failure to comply with provisions of any statute under which the borrower conducts business
- Borrower enters into a scheme of arrangement
- Actual or expected restructuring
- Previous arrears in excess of 60 days within the last six months
- Early signs of cash flow/liquidity problems
- Expected significant adverse change in operating results of the borrower

However, the assessment of significant increase in credit risk and the above criteria will differ for different types of lending arrangements.

Loan commitments are assessed along with the category of loan the Group is committed to provide.

The assessment of SICR is performed for individual loans, taking into consideration the sector grouping of the individual exposures, and incorporates forward-looking information. This assessment is performed on a quarterly basis.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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 (continued)*

##### Significant Increase in Credit Risk (continued)

##### *Backstop*

Irrespective of the above qualitative assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due. The Group has monitoring procedures in place to assess whether the criteria used to identify SICR continues to be appropriate.

The Group utilised the low credit risk exemption for financial assets.

##### Credit Impaired Assets

The Group defines a financial instrument as credit impaired, when it meets one or more of the following criteria:

##### *Quantitative criteria*

The borrower is more than 90 days past due on its contractual payments.

##### *Qualitative criteria*

The borrower meets unlikelihood to pay criteria as outlined below, which indicates the borrower is in significant financial difficulty:

- 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
- Concessions have been made by the lender relating to the borrower's financial difficulty.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of 'credit impaired' used for internal credit risk management purposes.

##### Measuring the ECL – Inputs, Assumptions and Estimation Techniques

The ECL is determined by projecting the PD, LGD, and EAD, which are multiplied together and discounted back to the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The 12 month PD is calculated by observing the rate of historical default within the first year of a portfolio of loans, and adjusted for the expected impact of forward looking economic information.

The lifetime PD is calculated by observing the rate of historical default over the life of a portfolio of loans, and adjusted for the impact of forward looking economic information.

The EAD for amortising and bullet repayment loans is based on the contractual repayments over a 12 month or lifetime basis.

The EAD for revolving products, such as credit cards, revolving loans and overdrafts is estimated by taking the current drawn balance and the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.

Forward looking economic information is also included in determining the 12-month and lifetime EAD and LGD.

##### Forward Looking Information

The assessment of SICR and the calculation of ECL both incorporate forward-looking information that is available without undue cost or effort. The Group uses external information including economic data and forecasts published by governmental bodies and the central bank. The information published however does not cover the Group's credit risk exposure period and judgement was applied when incorporating these forecasts into our models. The Group started with historical data of approximately 3 years in which a relationship between macro-economic indicators and default rates was developed. Judgement was applied in cases where a strong relationship between these key economic variables and expected credit losses was not identified based on the historical data used.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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 (continued)*

##### Forward Looking Information (continued)

These economic variables and their associated impact on the PD, EAD and LGD vary by financial asset. Forecasts of these economic variables are reviewed on a quarterly basis. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

In addition to the base economic scenario, the Group also assesses other possible scenarios along with scenario weightings. The Group uses a total of three scenarios for each portfolio of loans (base, upside, downside). The scenario weightings are determined using judgment. The base case is the single most-likely expected outcome. The Group measures ECL as a probability weighted ECL.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

The most significant period end assumptions used in determining the ECL as at the reporting date are set out below.

| <u>Economic factor</u>       | <u>Scenarios</u> | <u>Range</u> |
|------------------------------|------------------|--------------|
| Gross Domestic Product (GDP) | Base             | 0.5% - 1.5%  |
|                              | Upside           | 1.5% - 2.5%  |
|                              | Downside         | 0.0%         |
| Unemployment Rate            | Base             | 7% - 14%     |
|                              | Upside           | 6% - 13%     |
|                              | Downside         | 8% - 15%     |

The underlying models and their calibration, including how they react to forward-looking economic conditions was based on how the relationship of the Group's existing portfolio to these variables and remains subject to review and refinement as the Group builds data

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

##### Sensitivity Analysis

Forward looking indicators having the most significant impact on the ECL are GDP growth and unemployment rate. Set out below are the changes to the ECL as at 31 December 2019 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions.

| <u>Forward Looking Indicator</u> | <u>Change in basis points:</u> | <u>Effect on ECL \$'000</u> | <u>Forward Looking Indicator</u> | <u>Change in basis points:</u> | <u>Effect on ECL \$'000</u> |
|----------------------------------|--------------------------------|-----------------------------|----------------------------------|--------------------------------|-----------------------------|
| GDP growth                       | + 100bp                        | (11,025)                    | Unemployment rate                | + 100bp                        | 5,923                       |
| GDP growth                       | - 100bp                        | 11,025                      | Unemployment rate                | - 100bp                        | (5,923)                     |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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 (continued)*

##### Portfolio Segmentation

Expected credit loss provisions are modelled on a collective basis, by grouping exposures on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. In performing this grouping, there must be sufficient information for the group to be statistically credible. Where sufficient information is not available internally, the Group has considered benchmarking internal/external supplementary data to use for modelling purposes.

Exposures are grouped according to product type (term loans, overdrafts, credit cards, revolvers, guarantees and loan commitments) and industry (for example, manufacturing and distribution, tourism, personal loans).

The appropriateness of groupings is monitored and reviewed on a periodic basis by the Credit Risk team.

Stage 3 loans are assessed on an individual basis for impairment.

##### Maximum Exposure to Credit Risk

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which it is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial assets such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial assets the Group measures ECL over the period that it is exposed to the credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial assets do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial assets. This is because these financial assets are managed on a collective basis and are canceled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL.

The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

The following table contains an analysis of the credit risk exposure of financial instruments for which an ECL allowance is recognised. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets.

|                              | Group                      |                            |                            |                   |
|------------------------------|----------------------------|----------------------------|----------------------------|-------------------|
|                              | 2019                       |                            |                            |                   |
|                              | Stage 1<br>12-month<br>ECL | Stage 2<br>Lifetime<br>ECL | Stage 3<br>Lifetime<br>ECL | Total             |
|                              | \$'000                     | \$'000                     | \$'000                     | \$'000            |
| Low risk                     | -                          | 4,909                      | -                          | 4,909             |
| Standard risk                | 23,424,821                 | 3,530,842                  | -                          | 26,955,663        |
| Past due                     | 2,206,928                  | 1,542,369                  | -                          | 3,749,297         |
| Credit impaired              | -                          | -                          | 1,075,104                  | 1,075,104         |
| <b>Gross carrying amount</b> | <b>25,631,749</b>          | <b>5,078,120</b>           | <b>1,075,104</b>           | <b>31,784,973</b> |
| Loss allowance               | (272,128)                  | (391,899)                  | (443,943)                  | (1,107,970)       |
| <b>Carrying amount</b>       | <b>25,359,621</b>          | <b>4,686,221</b>           | <b>631,161</b>             | <b>30,677,003</b> |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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 (continued)*

|                              | Group                      |                            |                            |                   |
|------------------------------|----------------------------|----------------------------|----------------------------|-------------------|
|                              | 2018                       |                            |                            |                   |
|                              | Stage 1<br>12-month<br>ECL | Stage 2<br>Lifetime<br>ECL | Stage 3<br>Lifetime<br>ECL | Total             |
|                              | \$'000                     | \$'000                     | \$'000                     | \$'000            |
| Standard risk                | 19,885,182                 | 2,809,851                  | -                          | 22,695,033        |
| Past due                     | 1,230,385                  | 2,226,823                  | -                          | 3,457,208         |
| Credit impaired              | -                          | -                          | 1,288,858                  | 1,288,858         |
| <b>Gross carrying amount</b> | <b>21,115,567</b>          | <b>5,036,674</b>           | <b>1,288,858</b>           | <b>27,441,099</b> |
| Loss allowance               | (241,370)                  | (272,963)                  | (457,209)                  | (971,542)         |
| <b>Carrying amount</b>       | <b>20,874,197</b>          | <b>4,763,711</b>           | <b>831,649</b>             | <b>26,469,557</b> |

##### Collateral and other credit enhancements

The Group employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential and commercial properties
- Charges over business assets such as premises, inventory and accounts receivable
- Charges and hypothecations over deposit balances and financial instruments such as debt securities and equities

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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 (continued)*

##### Collateral and other credit enhancements (continued)

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

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of reverse repurchase agreements which are secured by portfolios of financial instruments.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Group since the prior period. 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.

The fair value of collateral held in respect of credit impaired financial assets is \$1,734,093,000 (2018: \$1,949,028,000).

##### Loss Allowance

The loss allowance recognised in the period is impacted by a variety of factors. The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

|                                                 | Group                      |                            |                            |                  |
|-------------------------------------------------|----------------------------|----------------------------|----------------------------|------------------|
|                                                 | 2019                       |                            |                            |                  |
|                                                 | Stage 1<br>12-month<br>ECL | Stage 2<br>Lifetime<br>ECL | Stage 3<br>Lifetime<br>ECL | Total            |
|                                                 | \$'000                     | \$'000                     | \$'000                     | \$'000           |
| <b>At 1 January</b>                             | 236,709                    | 330,794                    | 404,039                    | 971,542          |
| Movements with income statement impact:         |                            |                            |                            |                  |
| Transfers:                                      |                            |                            |                            |                  |
| Transfer from Stage 1 to Stage 2                | (6,305)                    | 9,409                      | -                          | 3,104            |
| Transfer from Stage 1 to Stage 3                | (1,030)                    | -                          | 11,252                     | 10,222           |
| Transfer from Stage 2 to Stage 1                | 15,467                     | (34,098)                   | -                          | (18,631)         |
| Transfer from Stage 2 to Stage 3                | -                          | (2,543)                    | 49,289                     | 46,746           |
| New financial assets originated                 | 113,906                    | 5,636                      | -                          | 119,542          |
| Changes in PDs/LGDs/EADs                        | (56,201)                   | 90,206                     | (5,916)                    | 28,089           |
| Financial assets derecognised during the period | (30,418)                   | (7,505)                    | (14,721)                   | (52,644)         |
| <b>Total net income statement charge</b>        | <b>35,419</b>              | <b>61,105</b>              | <b>39,904</b>              | <b>136,428</b>   |
| <b>At 31 December</b>                           | <b>272,128</b>             | <b>391,899</b>             | <b>443,943</b>             | <b>1,107,970</b> |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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 (continued)

|                                                 | Group                                |                                      |                                      |                 |
|-------------------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|-----------------|
|                                                 | 2018                                 |                                      |                                      |                 |
|                                                 | Stage 1<br>12-month<br>ECL<br>\$'000 | Stage 2<br>Lifetime<br>ECL<br>\$'000 | Stage 3<br>Lifetime<br>ECL<br>\$'000 | Total<br>\$'000 |
| <b>At 1 January</b>                             | 243,727                              | 306,305                              | 531,939                              | 1,081,971       |
| Movements with income statement impact:         |                                      |                                      |                                      |                 |
| Transfers:                                      |                                      |                                      |                                      |                 |
| Transfer from Stage 1 to Stage 2                | (13,470)                             | 32,286                               | -                                    | 18,816          |
| Transfer from Stage 1 to Stage 3                | (1,685)                              | -                                    | 22,437                               | 20,752          |
| Transfer from Stage 2 to Stage 1                | -                                    | (330)                                | -                                    | (330)           |
| Transfer from Stage 2 to Stage 3                | -                                    | (2,398)                              | 12,618                               | 10,220          |
| New financial assets originated                 | 96,030                               | -                                    | -                                    | 96,030          |
| Changes in PDs/LGDs/EADs                        | (26,012)                             | 907                                  | 93,742                               | 68,637          |
| Financial assets derecognised during the period | (61,881)                             | (5,976)                              | (44,034)                             | (111,891)       |
| <b>Total net income statement charge</b>        | <b>(7,018)</b>                       | <b>24,489</b>                        | <b>84,763</b>                        | <b>102,234</b>  |
| Other movements:                                |                                      |                                      |                                      |                 |
| Write-offs                                      | -                                    | -                                    | (212,663)                            | (212,663)       |
| <b>At 31 December</b>                           | <b>236,709</b>                       | <b>330,794</b>                       | <b>404,039</b>                       | <b>971,542</b>  |

Loans and leases are written off, in whole or in part, when the Group has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity, and where the Group's recovery method is foreclosing on collateral, and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Group may write off account balances that are still subject the enforcement activity, based on a reasonable expectation of amounts recoverable. The outstanding contractual amounts of such assets written off during the year was \$Nil (2018: \$212,663,000).

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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        |                |
|------------------------------------|----------------|----------------|----------------|----------------|
|                                    | 2019<br>\$'000 | 2018<br>\$'000 | 2019<br>\$'000 | 2018<br>\$'000 |
| Public sector                      | 146,235        | 124,493        | -              | -              |
| Professional and other services    | 5,011,342      | 4,222,647      | -              | -              |
| Personal                           | 13,408,679     | 10,874,645     | 77,622         | 98,161         |
| Agriculture, fishing and mining    | 949,866        | 895,146        | -              | -              |
| Construction and real estate       | 667,961        | 720,660        | -              | 15,614         |
| Electricity, gas and water         | 2,633,230      | 1,563,480      | -              | -              |
| Distribution                       | 3,291,057      | 3,399,521      | 1,128,795      | 1,129,085      |
| Manufacturing                      | 2,282,676      | 2,279,239      | 650,000        | -              |
| Transportation                     | 2,418,171      | 3,037,717      | -              | -              |
| Tourism and entertainment          | 2,395,397      | 2,104,036      | 243,305        | 228,611        |
| Financial and other money services | 1,604,890      | 911,044        | 191,349        | 191,349        |
| Brokers and agents                 | 1,710,527      | 1,605,196      | -              | -              |
| Reinsurers and coinsurers          | 1,124,945      | 791,486        | -              | -              |
| Supermarket chains                 | 2,377,965      | 2,275,455      | 383,964        | 376,278        |
| Wholesalers                        | 1,260,841      | 1,738,376      | 322,699        | 344,298        |
| Retail and direct customers        | 2,333,379      | 2,938,835      | 499,179        | 540,840        |
| Other                              | 1,680,015      | 692,578        | 239,757        | 154,058        |
|                                    | 45,297,176     | 40,174,554     | 3,736,670      | 3,078,294      |
| Loss allowance                     | (1,920,439)    | (1,634,370)    | (92,623)       | (63,822)       |
|                                    | 43,376,737     | 38,540,184     | 3,644,047      | 3,014,472      |
| Interest receivable                | 153,472        | 119,645        | 14,146         | 4,373          |
|                                    | 43,530,209     | 38,659,829     | 3,658,193      | 3,018,845      |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Insurance and Financial Risk Management (Continued)

#### (c) Financial risk (continued)

##### (i) Credit risk (continued)

##### **Debt Investments**

The Group uses external credit ratings as published by established rating agencies in its assessment of the probability of default on debt investments. The PDs and LGDs for government and corporate bonds have been developed by the rating agencies based on statistics on the default, loss and rating transition experience of government and corporate bond issuers. The loss allowance on debt investments carried at amortised cost and FVOCI is measured using lifetime PDs. The credit ratings and associated PDs are reviewed and updated on quarterly basis.

Based on available credit ratings for sovereign and corporate debts, the debt securities were classified in stage 2 as they were below investment grade as defined by reputable rating agencies.

##### Maximum exposure to credit risk

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

|                                                  | Group      |            | Company   |           |
|--------------------------------------------------|------------|------------|-----------|-----------|
|                                                  | 2019       | 2018       | 2019      | 2018      |
|                                                  | \$'000     | \$'000     | \$'000    | \$'000    |
| Government of Jamaica:                           |            |            |           |           |
| At amortised cost                                | 6,855,945  | 7,285,868  | 2,541,020 | 2,500,246 |
| At fair value through other comprehensive income | 6,305,175  | 5,589,468  | -         | -         |
| Corporate:                                       |            |            |           |           |
| At amortised cost                                | 10,204,191 | 12,131,707 | 2,577,213 | 1,664,825 |
| At fair value through other comprehensive income | 1,853,342  | -          | -         | -         |
| Other government:                                |            |            |           |           |
| At amortised cost                                | 362,029    | 434,167    | -         | -         |
| At fair value through other comprehensive income | 931,501    | 430,355    | -         | -         |
| Bank of Jamaica                                  | 8,668,500  | 9,108,105  | -         | -         |
| Other                                            | 2,500,561  | 2,166,938  | 1,486,291 | 1,540,506 |
|                                                  | 37,681,244 | 37,146,608 | 6,604,524 | 5,705,577 |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 3. Insurance and Financial Risk Management (Continued)

#### (c) Financial risk (continued)

##### (i) Credit risk (continued)

##### Debt Investments (continued)

##### Debt investments at amortised cost

The movement on the loss allowance is as follows:

|                                               | Group    |         | Company |        |
|-----------------------------------------------|----------|---------|---------|--------|
|                                               | 2019     | 2018    | 2019    | 2018   |
|                                               | \$'000   | \$'000  | \$'000  | \$'000 |
| At 1 January                                  | 206,749  | 182,263 | 49,762  | 48,421 |
| Loss allowance recognised in income statement | 5,475    | 24,486  | -       | 1,340  |
| Unused amounts reversed                       | (11,759) | -       | (1,849) | -      |
| At 31 December                                | 200,465  | 206,749 | 47,913  | 49,761 |

##### Debt investments at FVOCI

The loss allowance for debt investments at FVOCI is recognised in profit or loss and reduces the fair value loss otherwise recognised in OCI.

The movement on the loss allowance is as follows:

|                                               | Group   |          | Company |        |
|-----------------------------------------------|---------|----------|---------|--------|
|                                               | 2019    | 2018     | 2019    | 2018   |
|                                               | \$'000  | \$'000   | \$'000  | \$'000 |
| At 1 January                                  | 87,106  | 90,545   | -       | -      |
| Loss allowance recognised in income statement | 2,468   | 16,035   | -       | -      |
| Unused amounts reversed                       | (1,446) | (19,474) | -       | -      |
| At 31 December                                | 88,128  | 87,106   | -       | -      |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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 2019

(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<br>Months  | 3 to 12<br>Months | 1 to 5<br>Years   | Over<br>5 Years  | Total             |
|                                                            | \$'000            | \$'000            | \$'000            | \$'000           | \$'000            |
| <b>As at 31 December 2019:</b>                             |                   |                   |                   |                  |                   |
| Deposits                                                   | 30,837,987        | 5,017,677         | 10,318            | -                | 35,865,982        |
| Securities sold under agreements to repurchase             | 4,100,378         | 2,875,109         | 1,046,619         | -                | 8,022,106         |
| Bank and other loans                                       | 4,501,899         | 5,075,489         | 12,279,773        | 7,738,362        | 29,595,523        |
| Trade and other payables                                   | 20,297,542        | 682,125           | -                 | -                | 20,979,667        |
| <b>Total financial liabilities<br/>(contractual dates)</b> | <b>59,737,806</b> | <b>13,650,400</b> | <b>13,336,710</b> | <b>7,738,362</b> | <b>94,463,278</b> |

|                                                            | Group             |                   |                  |                  |                   |
|------------------------------------------------------------|-------------------|-------------------|------------------|------------------|-------------------|
|                                                            | 1 to 3<br>Months  | 3 to 12<br>Months | 1 to 5<br>Years  | Over<br>5 Years  | Total             |
|                                                            | \$'000            | \$'000            | \$'000           | \$'000           | \$'000            |
| <b>As at 31 December 2018:</b>                             |                   |                   |                  |                  |                   |
| Deposits                                                   | 29,082,717        | 5,339,290         | 26,982           | -                | 34,448,989        |
| Securities sold under agreements to repurchase             | 3,427,312         | 2,858,981         | 431,786          | 843,803          | 7,561,882         |
| Bank and other loans                                       | 6,063,238         | 4,118,871         | 7,009,534        | 1,692,650        | 18,884,293        |
| Trade and other payables                                   | 19,863,994        | 121,256           | -                | -                | 19,985,250        |
| <b>Total financial liabilities<br/>(contractual dates)</b> | <b>58,437,261</b> | <b>12,438,398</b> | <b>7,468,302</b> | <b>2,536,453</b> | <b>80,880,414</b> |

**GraceKennedy Limited**  
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(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    | 3 to 12   | 1 to 5    | Over      | Total      |
|                                    | Months    | Months    | Years     | 5 Years   |            |
|                                    | \$'000    | \$'000    | \$'000    | \$'000    | \$'000     |
| <b>As at 31 December 2019:</b>     |           |           |           |           |            |
| Bank and other loans               | 1,666,780 | 2,033,842 | 3,837,603 | 2,032,049 | 9,570,274  |
| Trade and other payables           | 2,808,126 | -         | -         | -         | 2,808,126  |
| Subsidiaries                       | 3,381,561 | -         | -         | -         | 3,381,561  |
| <b>Total financial liabilities</b> |           |           |           |           |            |
| <b>(contractual dates)</b>         | 7,856,467 | 2,033,842 | 3,837,603 | 2,032,049 | 15,759,961 |

|                                    | Company   |           |           |         |            |
|------------------------------------|-----------|-----------|-----------|---------|------------|
|                                    | 1 to 3    | 3 to 12   | 1 to 5    | Over    | Total      |
|                                    | Months    | Months    | Years     | 5 Years |            |
|                                    | \$'000    | \$'000    | \$'000    | \$'000  | \$'000     |
| <b>As at 31 December 2018:</b>     |           |           |           |         |            |
| Bank and other loans               | 2,407,024 | 2,372,237 | 1,458,056 | 213,180 | 6,450,497  |
| Trade and other payables           | 3,558,129 | -         | -         | -       | 3,558,129  |
| Subsidiaries                       | 3,027,509 | -         | -         | -       | 3,027,509  |
| <b>Total financial liabilities</b> |           |           |           |         |            |
| <b>(contractual dates)</b>         | 8,992,662 | 2,372,237 | 1,458,056 | 213,180 | 13,036,135 |

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   |           |
|--------------------------|------------|-----------|-----------|-----------|
|                          | 2019       | 2018      | 2019      | 2018      |
|                          | \$'000     | \$'000    | \$'000    | \$'000    |
| Floating rate –          |            |           |           |           |
| Expiring within one year | 10,988,721 | 9,781,765 | 5,223,528 | 5,008,867 |

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 2019**

(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<br>1 Year<br>\$'000 | 1 to 5<br>Years<br>\$'000 | Over 5<br>Years<br>\$'000 | Total<br>\$'000 |
| As at 31 December 2019:                                |                                   |                           |                           |                 |
| Loan commitments                                       | 1,177,259                         | -                         | -                         | 1,177,259       |
| Guarantees, acceptances and other financial facilities | 291,049                           | -                         | -                         | 291,049         |
| Capital commitments                                    | 415,953                           | -                         | -                         | 415,953         |
|                                                        | 1,884,261                         | -                         | -                         | 1,884,261       |
| As at 31 December 2018:                                |                                   |                           |                           |                 |
| Loan commitments                                       | 539,114                           | -                         | -                         | 539,114         |
| Guarantees, acceptances and other financial facilities | 242,112                           | -                         | -                         | 242,112         |
| Capital commitments                                    | 452,651                           | -                         | -                         | 452,651         |
| Operating lease commitments                            | 1,366,102                         | 3,314,111                 | 1,517,061                 | 6,197,274       |
|                                                        | 2,599,979                         | 3,314,111                 | 1,517,061                 | 7,431,151       |

**(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 2019

(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\$<br>J\$'000 | US\$<br>J\$'000   | GBP<br>J\$'000     | CAN\$<br>J\$'000 | EURO<br>J\$'000 | Other<br>J\$'000 | Total<br>J\$'000  |
| <b>As at 31 December 2019:</b>                 |                       |                   |                    |                  |                 |                  |                   |
| <b>Financial Assets</b>                        |                       |                   |                    |                  |                 |                  |                   |
| Cash and deposits                              | 9,097,260             | 3,402,932         | 400,358            | 119,067          | 82,655          | 1,524,906        | 14,627,178        |
| Investment securities and pledged assets       | 14,968,644            | 24,311,498        | 39,430             | 19,017           | -               | 555,082          | 39,893,671        |
| Trade and other receivables                    | 5,545,315             | 3,914,556         | 1,483,063          | 533,483          | 171,107         | 1,205,682        | 12,853,206        |
| Loans receivable                               | 23,569,110            | 7,102,984         | -                  | -                | -               | 4,909            | 30,677,003        |
| <b>Total financial assets</b>                  | <b>53,180,329</b>     | <b>38,731,970</b> | <b>1,922,851</b>   | <b>671,567</b>   | <b>253,762</b>  | <b>3,290,579</b> | <b>98,051,058</b> |
| <b>Financial Liabilities</b>                   |                       |                   |                    |                  |                 |                  |                   |
| Deposits                                       | 18,393,972            | 16,961,854        | 243,237            | 128,406          | 77,892          | -                | 35,805,361        |
| Securities sold under agreements to repurchase | 3,006,342             | 4,885,865         | -                  | -                | -               | -                | 7,892,207         |
| Bank and other loans                           | 14,348,231            | 7,774,950         | 1,494,376          | 131,851          | -               | 282,846          | 24,032,254        |
| Trade and other payables                       | 10,618,023            | 6,787,762         | 1,685,791          | 610,377          | 171,386         | 1,106,328        | 20,979,667        |
| <b>Total financial liabilities</b>             | <b>46,366,568</b>     | <b>36,410,431</b> | <b>3,423,404</b>   | <b>870,634</b>   | <b>249,278</b>  | <b>1,389,174</b> | <b>88,709,489</b> |
| <b>Net financial position</b>                  | <b>6,813,761</b>      | <b>2,321,539</b>  | <b>(1,500,553)</b> | <b>(199,067)</b> | <b>4,484</b>    | <b>1,901,405</b> | <b>9,341,569</b>  |

|                                                | Group                 |                   |                  |                  |                  |                  |                   |
|------------------------------------------------|-----------------------|-------------------|------------------|------------------|------------------|------------------|-------------------|
|                                                | Jamaican\$<br>J\$'000 | US\$<br>J\$'000   | GBP<br>J\$'000   | CAN\$<br>J\$'000 | EURO<br>J\$'000  | Other<br>J\$'000 | Total<br>J\$'000  |
| <b>As at 31 December 2018:</b>                 |                       |                   |                  |                  |                  |                  |                   |
| <b>Financial Assets</b>                        |                       |                   |                  |                  |                  |                  |                   |
| Cash and deposits                              | 9,507,403             | 3,648,943         | 435,992          | 120,079          | 56,317           | 1,056,065        | 14,824,799        |
| Investment securities and pledged assets       | 13,421,965            | 24,208,017        | 43,019           | 16,012           | -                | 503,655          | 38,192,668        |
| Trade and other receivables                    | 4,880,376             | 3,974,430         | 1,859,742        | 443,619          | 83,755           | 948,350          | 12,190,272        |
| Loans receivable                               | 19,989,473            | 6,475,946         | -                | 16               | -                | 4,122            | 26,469,557        |
| <b>Total financial assets</b>                  | <b>47,799,217</b>     | <b>38,307,336</b> | <b>2,338,753</b> | <b>579,726</b>   | <b>140,072</b>   | <b>2,512,192</b> | <b>91,677,296</b> |
| <b>Financial Liabilities</b>                   |                       |                   |                  |                  |                  |                  |                   |
| Deposits                                       | 17,333,678            | 16,629,359        | 281,049          | 85,570           | 41,370           | -                | 34,371,026        |
| Securities sold under agreements to repurchase | 2,407,114             | 4,801,223         | -                | -                | -                | -                | 7,208,337         |
| Bank and other loans                           | 9,084,375             | 6,431,639         | 480,205          | 422,388          | -                | 110,706          | 16,529,313        |
| Trade and other payables                       | 10,600,750            | 5,525,639         | 2,034,818        | 659,688          | 266,751          | 897,604          | 19,985,250        |
| <b>Total financial liabilities</b>             | <b>39,425,917</b>     | <b>33,387,860</b> | <b>2,796,072</b> | <b>1,167,646</b> | <b>308,121</b>   | <b>1,008,310</b> | <b>78,093,926</b> |
| <b>Net financial position</b>                  | <b>8,373,300</b>      | <b>4,919,476</b>  | <b>(457,319)</b> | <b>(587,920)</b> | <b>(168,049)</b> | <b>1,503,882</b> | <b>13,583,370</b> |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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\$<br>J\$'000 | US\$<br>J\$'000  | GBP<br>J\$'000 | CAN\$<br>J\$'000 | EURO<br>J\$'000 | Other<br>J\$'000 | Total<br>J\$'000  |
| <b>As at 31 December 2019:</b>     |                       |                  |                |                  |                 |                  |                   |
| <b>Financial Assets</b>            |                       |                  |                |                  |                 |                  |                   |
| Cash and deposits                  | 2,264,368             | 368,793          | -              | -                | -               | -                | 2,633,161         |
| Investment securities              | 2,119,614             | 4,567,974        | -              | -                | -               | -                | 6,687,588         |
| Trade and other receivables        | 1,526,936             | 35,053           | -              | -                | -               | -                | 1,561,989         |
| Subsidiaries                       | 1,417,168             | 513,492          | 229            | -                | -               | -                | 1,930,889         |
| Loans receivable                   | 1,760,001             | 336,203          | -              | -                | -               | -                | 2,096,204         |
| <b>Total financial assets</b>      | <b>9,088,087</b>      | <b>5,821,515</b> | <b>229</b>     | <b>-</b>         | <b>-</b>        | <b>-</b>         | <b>14,909,831</b> |
| <b>Financial Liabilities</b>       |                       |                  |                |                  |                 |                  |                   |
| Bank and other loans               | 8,021,218             | 1,030,129        | -              | -                | -               | -                | 9,051,347         |
| Trade and other payables           | 1,927,647             | 878,770          | 742            | -                | 967             | -                | 2,808,126         |
| Subsidiaries                       | 3,290,899             | 78,532           | 8,977          | 3,153            | -               | -                | 3,381,561         |
| <b>Total financial liabilities</b> | <b>13,239,764</b>     | <b>1,987,431</b> | <b>9,719</b>   | <b>3,153</b>     | <b>967</b>      | <b>-</b>         | <b>15,241,034</b> |
| <b>Net financial position</b>      | <b>(4,151,677)</b>    | <b>3,834,084</b> | <b>(9,490)</b> | <b>(3,153)</b>   | <b>(967)</b>    | <b>-</b>         | <b>(331,203)</b>  |

|                                    | Company               |                  |                |                  |                 |                  |                   |
|------------------------------------|-----------------------|------------------|----------------|------------------|-----------------|------------------|-------------------|
|                                    | Jamaican\$<br>J\$'000 | US\$<br>J\$'000  | GBP<br>J\$'000 | CAN\$<br>J\$'000 | EURO<br>J\$'000 | Other<br>J\$'000 | Total<br>J\$'000  |
| <b>As at 31 December 2018:</b>     |                       |                  |                |                  |                 |                  |                   |
| <b>Financial Assets</b>            |                       |                  |                |                  |                 |                  |                   |
| Cash and deposits                  | 2,925,099             | 1,035,886        | -              | -                | -               | -                | 3,960,985         |
| Investment securities              | 1,748,011             | 3,999,471        | -              | -                | -               | -                | 5,747,482         |
| Trade and other receivables        | 1,556,870             | 27,009           | -              | -                | -               | -                | 1,583,879         |
| Subsidiaries                       | 1,282,464             | 579,417          | 3,659          | 1,600            | -               | -                | 1,867,140         |
| Loans receivable                   | 1,434,966             | -                | -              | -                | -               | -                | 1,434,966         |
| <b>Total financial assets</b>      | <b>8,947,410</b>      | <b>5,641,783</b> | <b>3,659</b>   | <b>1,600</b>     | <b>-</b>        | <b>-</b>         | <b>14,594,452</b> |
| <b>Financial Liabilities</b>       |                       |                  |                |                  |                 |                  |                   |
| Bank and other loans               | 4,247,126             | 1,867,215        | -              | -                | -               | -                | 6,114,341         |
| Trade and other payables           | 2,643,013             | 911,372          | 344            | 479              | 2,921           | -                | 3,558,129         |
| Subsidiaries                       | 2,945,449             | 80,982           | 1,078          | -                | -               | -                | 3,027,509         |
| <b>Total financial liabilities</b> | <b>9,835,588</b>      | <b>2,859,569</b> | <b>1,422</b>   | <b>479</b>       | <b>2,921</b>    | <b>-</b>         | <b>12,699,979</b> |
| <b>Net financial position</b>      | <b>(888,178)</b>      | <b>2,782,214</b> | <b>2,237</b>   | <b>1,121</b>     | <b>(2,921)</b>  | <b>-</b>         | <b>1,894,473</b>  |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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 6% increase (2018: 4%) and a -4% decrease (2018: 2%) 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<br>Currency Rate | Effect on<br>Profit before<br>Taxation<br>2019<br>\$'000 | % Change in<br>Currency Rate | Effect on<br>Profit before<br>Taxation<br>2018<br>\$'000 |
|                  | 2019                         |                                                          | 2018                         |                                                          |
| <b>Currency:</b> |                              |                                                          |                              |                                                          |
| USD              | +6%                          | 365,463                                                  | +4%                          | 196,700                                                  |
| GBP              | +6%                          | 2,456                                                    | +4%                          | 602                                                      |
| CAN              | +6%                          | 295                                                      | +4%                          | 2,040                                                    |
| EURO             | +6%                          | (1,021)                                                  | +4%                          | (43)                                                     |
| USD              | 4%                           | (243,642)                                                | -2%                          | (98,350)                                                 |
| GBP              | 4%                           | (1,638)                                                  | -2%                          | (301)                                                    |
| CAN              | 4%                           | (196)                                                    | -2%                          | (1,020)                                                  |
| EURO             | 4%                           | 681                                                      | -2%                          | 22                                                       |
| Company          |                              |                                                          |                              |                                                          |
|                  | % Change in<br>Currency Rate | Effect on<br>Profit before<br>Taxation<br>2019<br>\$'000 | % Change in<br>Currency Rate | Effect on<br>Profit before<br>Taxation<br>2018<br>\$'000 |
|                  | 2019                         |                                                          | 2018                         |                                                          |
| <b>Currency:</b> |                              |                                                          |                              |                                                          |
| USD              | +6%                          | 234,448                                                  | +4%                          | 113,512                                                  |
| GBP              | +6%                          | (569)                                                    | +4%                          | 80                                                       |
| CAN              | +6%                          | (189)                                                    | +4%                          | 38                                                       |
| EURO             | +6%                          | (55)                                                     | +4%                          | (121)                                                    |
| USD              | 4%                           | (156,298)                                                | -2%                          | (56,756)                                                 |
| GBP              | 4%                           | 379                                                      | -2%                          | (40)                                                     |
| CAN              | 4%                           | 126                                                      | -2%                          | (19)                                                     |
| EURO             | 4%                           | 37                                                       | -2%                          | 61                                                       |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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<br>Month<br>\$'000 | 1 to 3<br>Months<br>\$'000 | 3 to 12<br>Months<br>\$'000 | 1 to 5<br>Years<br>\$'000 | Over<br>5 Years<br>\$'000 | Non-rate<br>Sensitive<br>\$'000 | Total<br>\$'000   |
| <b>At 31 December 2019:</b>                          |                             |                            |                             |                           |                           |                                 |                   |
| <b>Assets</b>                                        |                             |                            |                             |                           |                           |                                 |                   |
| Cash and deposits                                    | 5,395,452                   | 1,001,496                  | -                           | -                         | -                         | 8,230,230                       | 14,627,178        |
| Investment securities<br>and pledged assets          | 3,827,852                   | 1,575,853                  | 3,680,725                   | 11,493,073                | 12,515,777                | 6,800,391                       | 39,893,671        |
| Loans receivable                                     | 2,721,714                   | 427,854                    | 1,438,648                   | 9,552,953                 | 16,443,465                | 92,369                          | 30,677,003        |
| Trade and other<br>receivables                       | -                           | -                          | -                           | -                         | -                         | 12,853,206                      | 12,853,206        |
| <b>Total financial assets</b>                        | <b>11,945,018</b>           | <b>3,005,203</b>           | <b>5,119,373</b>            | <b>21,046,026</b>         | <b>28,959,242</b>         | <b>27,976,196</b>               | <b>98,051,058</b> |
| <b>Liabilities</b>                                   |                             |                            |                             |                           |                           |                                 |                   |
| Deposits                                             | 25,828,430                  | 5,009,508                  | 4,957,261                   | 10,162                    | -                         | -                               | 35,805,361        |
| Securities sold under<br>agreements to<br>repurchase | 2,649,494                   | 1,442,060                  | 2,795,292                   | 1,005,361                 | -                         | -                               | 7,892,207         |
| Bank loans                                           | 1,416,863                   | 2,312,687                  | 4,361,239                   | 8,101,800                 | 7,839,665                 | -                               | 24,032,254        |
| Trade payables                                       | -                           | -                          | -                           | -                         | -                         | 20,979,667                      | 20,979,667        |
| <b>Total financial liabilities</b>                   | <b>29,894,787</b>           | <b>8,764,255</b>           | <b>12,113,792</b>           | <b>9,117,323</b>          | <b>7,839,665</b>          | <b>20,979,667</b>               | <b>88,709,489</b> |
| <b>Total interest<br/>repricing gap</b>              | <b>(17,949,769)</b>         | <b>(5,759,052)</b>         | <b>(6,994,419)</b>          | <b>11,928,703</b>         | <b>21,119,577</b>         | <b>6,996,529</b>                | <b>9,341,569</b>  |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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<br>Month<br>\$'000 | 1 to 3<br>Months<br>\$'000 | 3 to 12<br>Months<br>\$'000 | 1 to 5<br>Years<br>\$'000 | Over<br>5 Years<br>\$'000 | Non-rate<br>Sensitive<br>\$'000 | Total<br>\$'000   |
| <b>At 31 December 2018:</b>                          |                             |                            |                             |                           |                           |                                 |                   |
| <b>Assets</b>                                        |                             |                            |                             |                           |                           |                                 |                   |
| Cash and deposits                                    | 5,447,400                   | 2,609,520                  | -                           | -                         | -                         | 6,767,879                       | 14,824,799        |
| Investment securities<br>and pledged assets          | 3,837,060                   | 1,768,998                  | 5,613,528                   | 10,549,389                | 10,250,316                | 6,173,377                       | 38,192,668        |
| Loans receivable                                     | 2,409,938                   | 311,166                    | 1,141,652                   | 8,717,882                 | 13,781,247                | 107,672                         | 26,469,557        |
| Trade and other<br>receivables                       | -                           | -                          | -                           | -                         | -                         | 12,190,272                      | 12,190,272        |
| <b>Total financial assets</b>                        | <b>11,694,398</b>           | <b>4,689,684</b>           | <b>6,755,180</b>            | <b>19,267,271</b>         | <b>24,031,563</b>         | <b>25,239,200</b>               | <b>91,677,296</b> |
| <b>Liabilities</b>                                   |                             |                            |                             |                           |                           |                                 |                   |
| Deposits                                             | 24,404,588                  | 4,654,285                  | 5,285,838                   | 26,315                    | -                         | -                               | 34,371,026        |
| Securities sold under<br>agreements to<br>repurchase | 3,332,317                   | 93,081                     | 2,767,632                   | 397,826                   | 617,481                   | -                               | 7,208,337         |
| Bank loans                                           | 3,729,014                   | 2,850,925                  | 4,838,263                   | 3,748,017                 | 1,363,094                 | -                               | 16,529,313        |
| Trade payables                                       | -                           | -                          | -                           | -                         | -                         | 19,985,250                      | 19,985,250        |
| <b>Total financial liabilities</b>                   | <b>31,465,919</b>           | <b>7,598,291</b>           | <b>12,891,733</b>           | <b>4,172,158</b>          | <b>1,980,575</b>          | <b>19,985,250</b>               | <b>78,093,926</b> |
| <b>Total interest<br/>repricing gap</b>              | <b>(19,771,521)</b>         | <b>(2,908,607)</b>         | <b>(6,136,553)</b>          | <b>15,095,113</b>         | <b>22,050,988</b>         | <b>5,253,950</b>                | <b>13,583,370</b> |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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<br>Month<br>\$'000 | 1 to 3<br>Months<br>\$'000 | 3 to 12<br>Months<br>\$'000 | 1 to 5<br>Years<br>\$'000 | Over<br>5 Years<br>\$'000 | Non-rate<br>Sensitive<br>\$'000 | Total<br>\$'000 |
| <b>At 31 December 2019:</b>             |                             |                            |                             |                           |                           |                                 |                 |
| <b>Assets</b>                           |                             |                            |                             |                           |                           |                                 |                 |
| Cash and deposits                       | -                           | 565,625                    | -                           | -                         | -                         | 2,067,536                       | 2,633,161       |
| Investment securities                   | -                           | -                          | 712,134                     | 3,026,291                 | 2,866,099                 | 83,064                          | 6,687,588       |
| Loans receivable                        | -                           | -                          | 1,177,402                   | 827,035                   | -                         | 91,767                          | 2,096,204       |
| Trade and other<br>receivables          | -                           | -                          | -                           | -                         | -                         | 1,561,989                       | 1,561,989       |
| Subsidiaries                            | -                           | -                          | -                           | -                         | -                         | 1,930,889                       | 1,930,889       |
| <b>Total financial assets</b>           | -                           | 565,625                    | 1,889,536                   | 3,853,326                 | 2,866,099                 | 5,735,245                       | 14,909,831      |
| <b>Liabilities</b>                      |                             |                            |                             |                           |                           |                                 |                 |
| Bank loans                              | 1,282,506                   | 300,000                    | 2,136,391                   | 2,338,424                 | 2,994,026                 | -                               | 9,051,347       |
| Trade payables                          | -                           | -                          | -                           | -                         | -                         | 2,808,126                       | 2,808,126       |
| Subsidiaries                            | -                           | -                          | -                           | -                         | -                         | 3,381,561                       | 3,381,561       |
| <b>Total financial liabilities</b>      | 1,282,506                   | 300,000                    | 2,136,391                   | 2,338,424                 | 2,994,026                 | 6,189,687                       | 15,241,034      |
| <b>Total interest repricing<br/>gap</b> | (1,282,506)                 | 265,625                    | (246,855)                   | 1,514,902                 | (127,927)                 | (454,442)                       | (331,203)       |

|                                         | Company                     |                            |                             |                           |                           |                                 |                 |
|-----------------------------------------|-----------------------------|----------------------------|-----------------------------|---------------------------|---------------------------|---------------------------------|-----------------|
|                                         | Within 1<br>Month<br>\$'000 | 1 to 3<br>Months<br>\$'000 | 3 to 12<br>Months<br>\$'000 | 1 to 5<br>Years<br>\$'000 | Over<br>5 Years<br>\$'000 | Non-rate<br>Sensitive<br>\$'000 | Total<br>\$'000 |
| <b>At 31 December 2018:</b>             |                             |                            |                             |                           |                           |                                 |                 |
| <b>Assets</b>                           |                             |                            |                             |                           |                           |                                 |                 |
| Cash and deposits                       | 575,242                     | 2,428,990                  | -                           | -                         | -                         | 956,753                         | 3,960,985       |
| Investment securities                   | -                           | 568,000                    | 1,236,062                   | 1,946,188                 | 1,955,328                 | 41,904                          | 5,747,482       |
| Loans receivable                        | -                           | 495,722                    | 825,469                     | 15,614                    | -                         | 98,161                          | 1,434,966       |
| Trade and other<br>receivables          | -                           | -                          | -                           | -                         | -                         | 1,583,879                       | 1,583,879       |
| Subsidiaries                            | -                           | -                          | -                           | -                         | -                         | 1,867,140                       | 1,867,140       |
| <b>Total financial assets</b>           | 575,242                     | 3,492,712                  | 2,061,531                   | 1,961,802                 | 1,955,328                 | 4,547,837                       | 14,594,452      |
| <b>Liabilities</b>                      |                             |                            |                             |                           |                           |                                 |                 |
| Bank loans                              | 2,252,259                   | 891,313                    | 2,970,769                   | -                         | -                         | -                               | 6,114,341       |
| Trade payables                          | -                           | -                          | -                           | -                         | -                         | 3,558,129                       | 3,558,129       |
| Subsidiaries                            | -                           | -                          | -                           | -                         | -                         | 3,027,509                       | 3,027,509       |
| <b>Total financial liabilities</b>      | 2,252,259                   | 891,313                    | 2,970,769                   | -                         | -                         | 6,585,638                       | 12,699,979      |
| <b>Total interest repricing<br/>gap</b> | (1,677,017)                 | 2,601,399                  | (909,238)                   | 1,961,802                 | 1,955,328                 | (2,037,801)                     | 1,894,473       |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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 FVOCI 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:<br>2019 | Effect on Profit before Taxation<br>2019 | Effect on Other Components of Equity<br>2019 | Change in basis points:<br>2018 | Effect on Profit before Taxation<br>2018 | Effect on Other Components of Equity<br>2018 |
| JMD / USD                       | \$'000                                   | \$'000                                       | JMD / USD                       | \$'000                                   | \$'000                                       |
| -100 / -100                     | 139,602                                  | 489,215                                      | -100 / -100                     | 164,837                                  | 464,956                                      |
| +100 / +100                     | (139,602)                                | (424,937)                                    | +100 / +100                     | (164,837)                                | (384,777)                                    |

| Company                         |                                          |                                              |                                 |                                          |                                              |
|---------------------------------|------------------------------------------|----------------------------------------------|---------------------------------|------------------------------------------|----------------------------------------------|
| Change in basis points:<br>2019 | Effect on Profit before Taxation<br>2019 | Effect on Other Components of Equity<br>2019 | Change in basis points:<br>2018 | Effect on Profit before Taxation<br>2018 | Effect on Other Components of Equity<br>2018 |
| JMD / USD                       | \$'000                                   | \$'000                                       | JMD / USD                       | \$'000                                   | \$'000                                       |
| -100 / -100                     | (1,759)                                  | -                                            | -100 / -100                     | 13,526                                   | -                                            |
| +100 / +100                     | 1,759                                    | -                                            | +100 / +100                     | (13,526)                                 | -                                            |

##### *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 FVOCI 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 10% (2018: 10%) change in the quoted prices for these equities would be an increase or decrease in the carrying value of \$70,169,000 (2018: \$46,321,000) in income and \$150,410,000 (2018: \$57,707,000) in other comprehensive income.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(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% (2018: 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 2019

(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 2019, the Group's strategy, which was unchanged from 2018, was to maintain a debt to equity ratio not exceeding 100%. The debt to equity ratios at 31 December 2019 and 2018 were as follows:

|                            | Group      |            |
|----------------------------|------------|------------|
|                            | 2019       | 2018       |
|                            | \$'000     | \$'000     |
| Total borrowings (Note 15) | 24,032,254 | 16,529,313 |
| Owners' equity             | 52,326,410 | 44,614,427 |
| Gearing ratio              | 45.9%      | 37.0%      |

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 2019

(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 \$2,115,094,000, 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 2019

(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) Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI requires the use of complex models and significant assumptions about future economic conditions and credit behaviour such as the likelihood of customers defaulting and the resulting losses.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk
- Choosing appropriate models and assumptions for the measurement of ECL
- Establishing the number and relative weightings of forward-looking scenarios
- Establishing groups of similar financial assets for the purpose of measuring ECL

Further details about judgements and estimates made by the Group in the above areas is set out in Notes 2 (h) and 3 (c) (i).

##### (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. A similar approach to determine the identifiable assets and liabilities is used for associates and joint ventures.

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 5. Cash and Deposits

|                          | Group      |            | Company   |           |
|--------------------------|------------|------------|-----------|-----------|
|                          | 2019       | 2018       | 2019      | 2018      |
|                          | \$'000     | \$'000     | \$'000    | \$'000    |
| Cash at bank and in hand | 11,314,720 | 10,650,785 | 2,067,536 | 1,531,995 |
| Deposits                 | 3,312,458  | 4,174,014  | 565,625   | 2,428,990 |
|                          | 14,627,178 | 14,824,799 | 2,633,161 | 3,960,985 |

Included in deposits is interest receivable of \$25,016,000 (2018: \$14,413,000) and \$23,613,000 (2018: \$12,919,000) for the Group and company, respectively. The weighted average effective interest rate on deposits was 2.88% (2018: 2.46%) and 3.58% (2018: 4.17%) 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   |             |
|---------------------------|------------|-------------|-----------|-------------|
|                           | 2019       | 2018        | 2019      | 2018        |
|                           | \$'000     | \$'000      | \$'000    | \$'000      |
| Cash at bank and in hand  | 11,314,720 | 10,650,785  | 2,067,536 | 1,531,995   |
| Deposits                  | 3,312,458  | 4,174,014   | 565,625   | 2,428,990   |
|                           | 14,627,178 | 14,824,799  | 2,633,161 | 3,960,985   |
| Bank overdrafts (Note 15) | (768,263)  | (2,546,601) | (627,868) | (1,521,391) |
|                           | 13,858,915 | 12,278,198  | 2,005,293 | 2,439,594   |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 6. Investment Securities and Pledged Assets

#### (a) Investment securities

|                                                              | Group       |             | Company   |           |
|--------------------------------------------------------------|-------------|-------------|-----------|-----------|
|                                                              | 2019        | 2018        | 2019      | 2018      |
|                                                              | \$'000      | \$'000      | \$'000    | \$'000    |
| At amortised cost:                                           |             |             |           |           |
| Bank of Jamaica                                              | 8,668,500   | 9,108,105   | -         | -         |
| Government of Jamaica securities                             | 6,855,945   | 7,285,868   | 2,541,020 | 2,500,246 |
| Foreign government securities                                | 362,029     | 434,167     | -         | -         |
| Corporate bonds                                              | 10,204,191  | 12,131,707  | 2,577,213 | 1,664,825 |
| Other debt securities                                        | 2,500,561   | 2,166,938   | 1,486,291 | 1,540,506 |
| Other                                                        | 5,355       | 5,355       | 335       | 335       |
|                                                              | 28,596,581  | 31,132,140  | 6,604,859 | 5,705,912 |
| At fair value through other comprehensive income:            |             |             |           |           |
| Quoted equities                                              | 1,504,099   | 577,070     | 82,729    | 41,570    |
| Government of Jamaica securities                             | 6,305,175   | 5,589,468   | -         | -         |
| Foreign government securities                                | 931,501     | 430,355     | -         | -         |
| Corporate bonds                                              | 1,853,342   | -           | -         | -         |
| Other                                                        | 1,279       | 424         | -         | -         |
|                                                              | 10,595,396  | 6,597,317   | 82,729    | 41,570    |
| At fair value through profit or loss:                        |             |             |           |           |
| Quoted equities                                              | 701,694     | 463,211     | -         | -         |
|                                                              | 701,694     | 463,211     | -         | -         |
| Total                                                        | 39,893,671  | 38,192,668  | 6,687,588 | 5,747,482 |
| Less: Pledged assets (Note 6b)                               | (9,227,048) | (9,931,362) | -         | -         |
| Investment securities in the statement of financial position | 30,666,623  | 28,261,306  | 6,687,588 | 5,747,482 |

Included in investment securities is interest receivable of \$446,025,000 (2018: \$496,680,000) and \$99,313,000 (2018: \$96,800,000) 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 6.01% (2018: 4.73%) and 5.41% (2018: 2.25%) for the Group and the company respectively.

Included in Bank of Jamaica securities is \$4,373,268,000 (2018: \$5,035,909,000) held at the Bank of Jamaica under Section 14(1) of the Banking Act, 1992, representing the required ratio of 12% (2018: 12%) for Jamaican dollar cash reserves and 15% (2018: 15%) 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 \$8,448,403,000 (2018: \$10,106,882,000) and company \$1,589,004,000 (2018: \$3,279,050,000) which matures within the next 12 months.

# GraceKennedy Limited

## Notes to the Financial Statements

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(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 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 |                |
|                                                        | 2019<br>\$'000 | 2018<br>\$'000 | 2019<br>\$'000    | 2018<br>\$'000 |
| Total in the statement of financial position (Note 6a) | 9,227,048      | 9,931,362      | 8,974,010         | 9,595,774      |

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          |                |
|-----------------------------------------------|----------------|----------------|
|                                               | 2019<br>\$'000 | 2018<br>\$'000 |
| Pledged assets with right to sell or repledge | 9,227,048      | 9,931,362      |

#### (c) Investments in financial assets designated at fair value through other comprehensive income

The Group has designated at FVOCI investments in a portfolio of equity securities issued by the following exchanges:

- Jamaica Stock Exchange
- Trinidad & Tobago Stock Exchange

The Group chose this presentation alternative because the investments were made for strategic purposes rather than with a view to profit on a subsequent sale, and there are no plans to dispose of these investments in the short or medium term.

The fair value of these investments is \$1,504,099,000 and \$82,729,000 for the Group and company respectively as at 31 December 2019. Dividends of \$23,922,000 and \$3,522,000 were recognised during the year for the Group and company respectively. There were no transfers of the cumulative gain within equity during the year.

For debt investments at FVOCI, the Group recognised net gains of \$41,361,000 in the income statement during the year, being reclassified from other comprehensive income on sale.

# GraceKennedy Limited

## Notes to the Financial Statements

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### 7. Receivables

|                                                          | Group      |            | Company   |           |
|----------------------------------------------------------|------------|------------|-----------|-----------|
|                                                          | 2019       | 2018       | 2019      | 2018      |
|                                                          | \$'000     | \$'000     | \$'000    | \$'000    |
| Trade receivables, less provision for impairment         | 8,086,775  | 8,339,881  | 1,474,772 | 1,534,125 |
| Insurance receivables, less provision for impairment     | 2,906,007  | 2,035,809  | -         | -         |
| Reinsurers' portion of unearned premiums                 | 1,382,755  | 1,340,082  | -         | -         |
| Deferred policy acquisition costs                        | 303,414    | 269,803    | -         | -         |
| Receivable from associates and joint ventures (Note 35e) | 21,712     | 29,591     | 15,471    | 17,465    |
| Prepayments                                              | 1,369,241  | 1,426,266  | 100,867   | 370,136   |
| Other receivables                                        | 1,838,712  | 1,784,991  | 71,746    | 32,289    |
|                                                          | 15,908,616 | 15,226,423 | 1,662,856 | 1,954,015 |

The fair values of trade and other receivables approximate carrying values. All receivable balances are due within the next 12 months.

### 8. Inventories

|                          | Group      |            | Company   |           |
|--------------------------|------------|------------|-----------|-----------|
|                          | 2019       | 2018       | 2019      | 2018      |
|                          | \$'000     | \$'000     | \$'000    | \$'000    |
| Raw materials and spares | 989,337    | 814,284    | -         | -         |
| Finished goods           | 1,307,186  | 2,614,250  | -         | -         |
| Merchandise              | 9,360,271  | 7,335,388  | 2,083,232 | 1,942,839 |
| Goods in transit         | 1,658,361  | 2,020,139  | 680,871   | 1,076,012 |
|                          | 13,315,155 | 12,784,061 | 2,764,103 | 3,018,851 |

The inventory write-down recognised as an expense amounted to \$243,200,000 (2018: \$287,380,000) and \$114,832,000 (2018: \$157,115,000) for the Group and the company respectively.

### 9. Loans Receivable

(a) Loans receivable comprise:

|                                                   | Group      |            | Company   |           |
|---------------------------------------------------|------------|------------|-----------|-----------|
|                                                   | 2019       | 2018       | 2019      | 2018      |
|                                                   | \$'000     | \$'000     | \$'000    | \$'000    |
| Finance leases, less deferred profit              | 60,062     | 104,085    | -         | -         |
| Loans and receivables:                            |            |            |           |           |
| Loans to subsidiaries (Note 35e)                  | -          | -          | 1,981,257 | 1,336,805 |
| Loans to associates and joint ventures (Note 35e) | 46,648     | -          | 37,325    | -         |
| Loans to others                                   | 30,570,293 | 26,365,472 | 77,622    | 98,161    |
|                                                   | 30,677,003 | 26,469,557 | 2,096,204 | 1,434,966 |

Loans receivable are due within 10 years from the statement of financial position date.

Included in loans receivable is interest receivable of \$153,472,000 (2018: \$119,645,000) and \$14,145,000 (2018: \$4,373,000) for the Group and company, respectively.

Included in loans receivable is \$5,247,380,000 (2018: \$3,829,627,000) and \$1,327,804,000 (2018: \$645,216,000) which matures in the next 12 months for the Group and the company respectively.

**GraceKennedy Limited****Notes to the Financial Statements****31 December 2019**

(expressed in Jamaican dollars unless otherwise indicated)

**9. Loans Receivable (Continued)****(b) Finance lease receivables:**

|                                                              | <b>Group</b>  |               |
|--------------------------------------------------------------|---------------|---------------|
|                                                              | <b>2019</b>   | <b>2018</b>   |
|                                                              | <b>\$'000</b> | <b>\$'000</b> |
| Gross receivables from finance leases:                       |               |               |
| Not later than 1 year                                        | 37,582        | 94,333        |
| Later than 1 year and not later than 5 years                 | 31,080        | 19,007        |
|                                                              | 68,662        | 113,340       |
| Unearned future finance income on finance leases             | (8,600)       | (9,255)       |
| Net investment in finance leases                             | 60,062        | 104,085       |
| The net investment in finance leases is analysed as follows: |               |               |
| Not later than 1 year                                        | 28,795        | 87,384        |
| Later than 1 year and not later than 5 years                 | 31,267        | 16,701        |
| Total                                                        | 60,062        | 104,085       |

# GraceKennedy Limited

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### 10. Investments in Associates and Joint Ventures

|                                                           | Group     |           | Company |         |
|-----------------------------------------------------------|-----------|-----------|---------|---------|
|                                                           | 2019      | 2018      | 2019    | 2018    |
|                                                           | \$'000    | \$'000    | \$'000  | \$'000  |
| At beginning of year                                      | 2,964,841 | 1,798,220 | 574,698 | 49,698  |
| Amounts restated through opening retained earnings        | -         | (47,732)  | -       | -       |
| Amounts recognised in the income statement                | 518,887   | 490,873   | -       | -       |
| Amounts recognised in other comprehensive income          | 53,037    | 45,622    | -       | -       |
| Dividends paid                                            | (227,735) | (293,647) | -       | -       |
| Additions                                                 | 202,904   | 971,505   | -       | 525,000 |
| Amounts recognised in the statement of financial position | 3,511,934 | 2,964,841 | 574,698 | 574,698 |

|                                                           | Group     |           |
|-----------------------------------------------------------|-----------|-----------|
|                                                           | 2019      | 2018      |
|                                                           | \$'000    | \$'000    |
| Dairy Industries (Jamaica) Limited                        | 1,238,098 | 1,050,390 |
| CSGK Finance Holdings Limited                             | 1,148,730 | 972,139   |
| Catherine's Peak Bottling Company Limited                 | 571,423   | 528,694   |
| Canopy Insurance Limited                                  | 120,821   | 197,397   |
| Immaterial associated companies                           | 432,862   | 216,221   |
| Amounts recognised in the statement of financial position | 3,511,934 | 2,964,841 |

Dairy Industries (Jamaica) Limited (DIJL), CSGK Finance Holdings Limited (CSGK), Catherine's Peak Bottling Company Limited (CPBC), and Canopy Insurance Limited (CIL) in the opinion of the directors, are material to the Group.

DIJL has share capital consisting solely of ordinary shares, which are partially owned by the Group and held directly by the parent company. The Group owns 50% of the share capital in DIJL. DIJL is one of the main manufacturers of dairy products such as cheese and yogurt, within Jamaica; and sells its products mainly through distributors including to companies within the Group.

CSGK has share capital consisting solely of ordinary shares, which are held indirectly by the parent company through a banking and investment subsidiary. The Group owns 40% of the share capital in CSGK. CSGK is a finance company whose principal activities, through its wholly owned subsidiary Signia Financial Group Inc., are the provision of term finance, motor vehicle leasing, acceptance of deposits, foreign exchange dealing and stock broking.

CPBC has share capital consisting solely of ordinary shares, which are partially owned by the Group and held directly by the parent company. The Group owns 35% of the share capital in CPBC. CPBC is one of the main bottlers of spring water within Jamaica; and sells its products mainly through distributors including to companies within the Group.

CIL has share capital consisting solely of ordinary shares, which are held indirectly by the parent company through a banking and investment subsidiary. The Group owns 50% of the share capital in CIL. CIL provides health insurance services.

DIJL, CSGK, CPBC and CIL are private companies and there are no quoted market price available for the shares.

There are no contingent liabilities relating to the Group's interest in DIJL, CSGK, CPBC and CIL and the Group's other associates.

# GraceKennedy Limited

## Notes to the Financial Statements

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### 10. Investments in Associates and Joint Ventures (Continued)

The summarised information for DIJL, CSGK, CPBC and CIL that was accounted for using the equity method for the years ended 31 December 2019 and 31 December 2018 is as follows:

#### Summarised statement of financial position

|                                                      | Dairy Industries (Jamaica)<br>Limited |                  | CSGK Finance Holdings<br>Limited |                   |
|------------------------------------------------------|---------------------------------------|------------------|----------------------------------|-------------------|
|                                                      | 2019                                  | 2018             | 2019                             | 2018              |
|                                                      | \$'000                                | \$'000           | \$'000                           | \$'000            |
| <b>Current</b>                                       |                                       |                  |                                  |                   |
| Cash and cash equivalents                            | 91,285                                | 130,191          | 4,107,850                        | 5,219,419         |
| Other current assets (excluding cash)                | 2,534,902                             | 1,794,370        | 311,276                          | 441,474           |
| <b>Total current net assets</b>                      | <b>2,626,187</b>                      | <b>1,924,561</b> | <b>4,419,126</b>                 | <b>5,660,893</b>  |
| Financial liabilities (excluding trade payables)     | 9,261                                 | -                | 23,299,795                       | 24,550,623        |
| Other current liabilities (including trade payables) | 765,649                               | 453,712          | 1,366,651                        | 1,500,714         |
| <b>Total current liabilities</b>                     | <b>774,910</b>                        | <b>453,712</b>   | <b>24,666,446</b>                | <b>26,051,337</b> |
| <b>Non-current</b>                                   |                                       |                  |                                  |                   |
| Assets                                               | 927,270                               | 956,694          | 23,119,146                       | 22,820,792        |
| Liabilities                                          | 302,352                               | 326,764          | -                                | -                 |
| <b>Net assets</b>                                    | <b>2,476,195</b>                      | <b>2,100,779</b> | <b>2,871,826</b>                 | <b>2,430,348</b>  |

|                                                      | Catherine's Peak Bottling<br>Company Limited |                | Canopy Insurance Limited |                |
|------------------------------------------------------|----------------------------------------------|----------------|--------------------------|----------------|
|                                                      | 2019                                         | 2018           | 2019                     | 2018           |
|                                                      | \$'000                                       | \$'000         | \$'000                   | \$'000         |
| <b>Current</b>                                       |                                              |                |                          |                |
| Cash and cash equivalents                            | 62,786                                       | 79,203         | 21,274                   | 222,349        |
| Other current assets (excluding cash)                | 236,614                                      | 180,373        | 54,349                   | 4,155          |
| <b>Total current net assets</b>                      | <b>299,400</b>                               | <b>259,576</b> | <b>75,623</b>            | <b>226,504</b> |
| Financial liabilities (excluding trade payables)     | 105,159                                      | -              | 122,883                  | -              |
| Other current liabilities (including trade payables) | 73,628                                       | 246,796        | 35,767                   | 47,882         |
| <b>Total current liabilities</b>                     | <b>178,787</b>                               | <b>246,796</b> | <b>158,650</b>           | <b>47,882</b>  |
| <b>Non-current</b>                                   |                                              |                |                          |                |
| Assets                                               | 189,497                                      | 73,377         | 324,670                  | 216,172        |
| Liabilities                                          | 101,871                                      | -              | -                        | -              |
| <b>Net assets</b>                                    | <b>208,239</b>                               | <b>86,157</b>  | <b>241,643</b>           | <b>394,794</b> |

# GraceKennedy Limited

## Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

### 10. Investments in Associates and Joint Ventures (Continued)

#### Summarised income statement

|                                                 | Dairy Industries (Jamaica)<br>Limited |           | CSGK Finance Holdings<br>Limited |           |
|-------------------------------------------------|---------------------------------------|-----------|----------------------------------|-----------|
|                                                 | 2019                                  | 2018      | 2019                             | 2018      |
|                                                 | \$'000                                | \$'000    | \$'000                           | \$'000    |
| Revenue                                         | 4,141,263                             | 4,094,669 | 2,155,143                        | 1,598,085 |
| Depreciation                                    | (59,863)                              | (56,206)  | (41,061)                         | (15,069)  |
| Interest income - non-financial services        | 18,579                                | 17,195    | -                                | -         |
| Interest expense - non-financial services       | (8,086)                               | (8,890)   | -                                | -         |
| Profit before income tax                        | 996,209                               | 905,274   | 361,717                          | 458,289   |
| Taxation expense                                | (250,771)                             | (231,058) | (16,156)                         | 21,091    |
| Profit after tax                                | 745,438                               | 674,216   | 345,561                          | 479,380   |
| Other comprehensive income                      | 29,978                                | 60,500    | 95,917                           | 41,780    |
| Total comprehensive income                      | 775,416                               | 734,716   | 441,478                          | 521,160   |
| Dividends received by the Group from associates | 200,000                               | 250,000   | -                                | 43,648    |

|                                                 | Catherine's Peak Bottling<br>Company Limited |         | Canopy Insurance Limited |           |
|-------------------------------------------------|----------------------------------------------|---------|--------------------------|-----------|
|                                                 | 2019                                         | 2018    | 2019                     | 2018      |
|                                                 | \$'000                                       | \$'000  | \$'000                   | \$'000    |
| Revenue                                         | 1,366,224                                    | 139,360 | 93,002                   | -         |
| Depreciation                                    | (14,714)                                     | (2,363) | (5,446)                  | -         |
| Interest income - non-financial services        | 96                                           | -       | 7,081                    | 1,340     |
| Interest expense - non-financial services       | (2,142)                                      | (563)   | -                        | -         |
| Profit/(loss) before income tax                 | 263,721                                      | 14,072  | (153,151)                | (105,206) |
| Taxation expense                                | (62,399)                                     | (3,519) | -                        | -         |
| Profit/(loss) after tax                         | 201,322                                      | 10,553  | (153,151)                | (105,206) |
| Total comprehensive income                      | 201,322                                      | 10,553  | (153,151)                | (105,206) |
| Dividends received by the Group from associates | 27,734                                       | -       | -                        | -         |

# GraceKennedy Limited

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### 10. Investments in Associates and Joint Ventures (Continued)

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associates and joint ventures

|                                                    | Dairy Industries (Jamaica)<br>Limited |           | CSGK Finance Holdings<br>Limited |           |
|----------------------------------------------------|---------------------------------------|-----------|----------------------------------|-----------|
|                                                    | 2019                                  | 2018      | 2019                             | 2018      |
| Summarised financial information                   | \$'000                                | \$'000    | \$'000                           | \$'000    |
| Opening net assets at 1 January                    | 2,100,779                             | 1,866,279 | 2,430,348                        | 2,137,367 |
| Amounts restated through opening retained earnings | -                                     | (216)     | -                                | (119,061) |
| Profit for the period                              | 745,438                               | 674,216   | 345,561                          | 479,380   |
| Other comprehensive income                         | 29,978                                | 60,500    | 95,917                           | 41,780    |
| Dividends paid                                     | (400,000)                             | (500,000) | -                                | (109,118) |
| Closing net assets                                 | 2,476,195                             | 2,100,779 | 2,871,826                        | 2,430,348 |
| Interest in associates (%)                         | 50                                    | 50        | 40                               | 40        |
| Interest in associates (J\$)                       | 1,238,098                             | 1,050,390 | 1,148,730                        | 972,139   |
| Carrying value                                     | 1,238,098                             | 1,050,390 | 1,148,730                        | 972,139   |

|                                                 | Catherine's Peak Bottling<br>Company Limited |         | Canopy Insurance Limited |           |
|-------------------------------------------------|----------------------------------------------|---------|--------------------------|-----------|
|                                                 | 2019                                         | 2018    | 2019                     | 2018      |
| Summarised financial information                | \$'000                                       | \$'000  | \$'000                   | \$'000    |
| Opening net assets at 1 January                 | 86,157                                       | -       | 394,794                  | -         |
| Net assets of entity on purchase of interest    | -                                            | 75,604  | -                        | 500,000   |
| Profit/(loss) for the period                    | 201,322                                      | 10,553  | (153,151)                | (105,206) |
| Dividends paid                                  | (79,240)                                     | -       | -                        | -         |
| Closing net assets                              | 208,239                                      | 86,157  | 241,643                  | 394,794   |
| Interest in associates and joint ventures (%)   | 35                                           | 35      | 50                       | 50        |
| Interest in associates and joint ventures (J\$) | 72,884                                       | 30,155  | 120,821                  | 197,397   |
| Intangible assets                               | 498,539                                      | 498,539 | -                        | -         |
| Carrying value                                  | 571,423                                      | 528,694 | 120,821                  | 197,397   |

Intangible assets related to the investment in Catherine's Peak Bottling Company Limited include the entity's brand and customer relationships with estimated useful lives of 15 years and 10 years respectively, as well as goodwill.

The amounts recognised in total comprehensive income in respect of immaterial associates are as follows:

|                            | Group  |         |
|----------------------------|--------|---------|
|                            | 2019   | 2018    |
|                            | \$'000 | \$'000  |
| Profit                     | 14,057 | 10,922  |
| Other comprehensive income | (319)  | (1,340) |
| Total comprehensive income | 13,738 | 9,582   |

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### 11. Intangible Assets

|                                  | Brands,<br>Customer<br>and Supplier<br>Relationships<br>\$'000 | Goodwill<br>\$'000 | Computer<br>Software<br>\$'000 | Policy<br>Contracts<br>\$'000 | Total<br>\$'000 |
|----------------------------------|----------------------------------------------------------------|--------------------|--------------------------------|-------------------------------|-----------------|
|                                  | Group                                                          |                    |                                |                               |                 |
| <b>Cost</b>                      |                                                                |                    |                                |                               |                 |
| At 1 January 2018                | 3,383,573                                                      | 1,714,974          | 3,273,383                      | 589,088                       | 8,961,018       |
| Additions                        | -                                                              | -                  | 307,051                        | 43,700                        | 350,751         |
| Retirement of asset              | -                                                              | -                  | (13,318)                       | -                             | (13,318)        |
| Exchange differences             | 22,423                                                         | 1,755              | 2,244                          | -                             | 26,422          |
| At 31 December 2018              | 3,405,996                                                      | 1,716,729          | 3,569,360                      | 632,788                       | 9,324,873       |
| Additions                        | -                                                              | -                  | 351,529                        | -                             | 351,529         |
| Retirement of asset              | -                                                              | -                  | (44,174)                       | -                             | (44,174)        |
| Exchange differences             | 76,515                                                         | 58,454             | 3,993                          | -                             | 138,962         |
| At 31 December 2019              | 3,482,511                                                      | 1,775,183          | 3,880,708                      | 632,788                       | 9,771,190       |
| <b>Accumulated Amortisation</b>  |                                                                |                    |                                |                               |                 |
| At 1 January 2018                | 1,378,883                                                      | 308,489            | 2,404,250                      | 471,269                       | 4,562,891       |
| Amortisation charge for the year | 219,137                                                        | -                  | 373,661                        | 41,822                        | 634,620         |
| Retirement of asset              | -                                                              | -                  | (13,318)                       | -                             | (13,318)        |
| Exchange differences             | 11,142                                                         | -                  | 1,495                          | -                             | 12,637          |
| At 31 December 2018              | 1,609,162                                                      | 308,489            | 2,766,088                      | 513,091                       | 5,196,830       |
| Amortisation charge for the year | 219,987                                                        | -                  | 276,150                        | 43,461                        | 539,598         |
| Impairment charge                | -                                                              | -                  | 37,167                         | -                             | 37,167          |
| Retirement of asset              | -                                                              | -                  | (44,174)                       | -                             | (44,174)        |
| Exchange differences             | 25,217                                                         | -                  | 3,607                          | -                             | 28,824          |
| At 31 December 2019              | 1,854,366                                                      | 308,489            | 3,038,838                      | 556,552                       | 5,758,245       |
| <b>Net Book Amount</b>           |                                                                |                    |                                |                               |                 |
| 31 December 2019                 | 1,628,145                                                      | 1,466,694          | 841,870                        | 76,236                        | 4,012,945       |
| 31 December 2018                 | 1,796,834                                                      | 1,408,240          | 803,272                        | 119,697                       | 4,128,043       |

#### Impairment tests for goodwill

The Group determines whether goodwill is impaired at least on an annual basis or when events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the cash generating unit (CGU) to which the goodwill is allocated. The recoverable amount is usually determined by reference to the value in use. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and also to choose an appropriate discount rate in order to calculate the present value of those future cash flows.

# GraceKennedy Limited

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### 11. Intangible Assets (Continued)

The allocation of goodwill to the Group's cash generating units (CGUs) identified according to segment is as follows:

|                             | 2019<br>\$'000 | 2018<br>\$'000 |
|-----------------------------|----------------|----------------|
| Food Trading                |                |                |
| - Jamaica operations        | 16,854         | 16,854         |
| - United Kingdom operations | 468,903        | 443,142        |
| - United States operations  | 980,937        | 948,244        |
|                             | 1,466,694      | 1,408,240      |

For the year ended 31 December 2019, management tested the goodwill allocated to all the CGUs for impairment.

The recoverable amount of a CGU is determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the industry in which the CGU operates.

Key assumptions used for value in use calculations:

|                             | Revenue<br>Growth Rate | EBITDA to<br>Revenue | Capital<br>Expenditure to<br>Revenue | Discount<br>Rate |
|-----------------------------|------------------------|----------------------|--------------------------------------|------------------|
| Food Trading                |                        |                      |                                      |                  |
| - Jamaica operations        | 6.56%                  | 1.33%                | 0.29%                                | 14.59%           |
| - United Kingdom operations | 6.52%                  | 4.73%                | 1.31%                                | 11.10%           |
| - United States operations  | 6.91%                  | 4.84%                | 0.33%                                | 10.52%           |

|                                  | Computer<br>Software<br>\$'000 |
|----------------------------------|--------------------------------|
| Company                          |                                |
| <b>Cost</b>                      |                                |
| At 1 January 2018                | 1,035,465                      |
| Additions                        | 141,539                        |
| Retirement of asset              | (11,407)                       |
| At 31 December 2018              | 1,165,597                      |
| Additions                        | 85,146                         |
| At 31 December 2019              | 1,250,743                      |
| <b>Accumulated Amortisation</b>  |                                |
| At 1 January 2018                | 813,440                        |
| Amortisation charge for the year | 70,318                         |
| Retirement of asset              | (11,407)                       |
| At 31 December 2018              | 872,351                        |
| Amortisation charge for the year | 92,777                         |
| At 31 December 2019              | 965,128                        |
| <b>Net Book Amount</b>           |                                |
| 31 December 2019                 | 285,615                        |
| 31 December 2018                 | 293,246                        |

# GraceKennedy Limited

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(expressed in Jamaican dollars unless otherwise indicated)

### 12. Fixed Assets

|                                              | Freehold<br>Land and<br>Buildings<br>\$'000 | Leasehold<br>Buildings and<br>Improvements<br>\$'000 | Plant,<br>Equipment,<br>Fixtures &<br>Vehicles<br>\$'000 | Right-<br>of-Use<br>Assets <sup>(a)</sup><br>\$'000 | Capital<br>Work in<br>Progress<br>\$'000 | Total<br>\$'000 |
|----------------------------------------------|---------------------------------------------|------------------------------------------------------|----------------------------------------------------------|-----------------------------------------------------|------------------------------------------|-----------------|
|                                              | Group                                       |                                                      |                                                          |                                                     |                                          |                 |
| <b>Cost</b>                                  |                                             |                                                      |                                                          |                                                     |                                          |                 |
| At 1 January 2018                            | 5,850,596                                   | 2,184,062                                            | 8,435,923                                                | -                                                   | 1,673,105                                | 18,143,686      |
| Additions                                    | 100,968                                     | 119,282                                              | 530,398                                                  | -                                                   | 2,390,976                                | 3,141,624       |
| Revaluation adjustment                       | 700,322                                     | -                                                    | -                                                        | -                                                   | -                                        | 700,322         |
| Transfers                                    | 9,394                                       | 8,048                                                | 158,891                                                  | -                                                   | (176,333)                                | -               |
| Disposals                                    | -                                           | (11,819)                                             | (272,825)                                                | -                                                   | -                                        | (284,644)       |
| Transfer to assets held for sale (Note 12 e) | (263,332)                                   | -                                                    | (35,691)                                                 | -                                                   | -                                        | (299,023)       |
| Exchange differences                         | 19,298                                      | (6,715)                                              | (20,542)                                                 | -                                                   | 159                                      | (7,800)         |
| At 31 December 2018                          | 6,417,246                                   | 2,292,858                                            | 8,796,154                                                | -                                                   | 3,887,907                                | 21,394,165      |
| Effect of adopting IFRS 16                   | -                                           | -                                                    | (405,377)                                                | 6,642,749                                           | -                                        | 6,237,372       |
| Additions                                    | 208,097                                     | 572,038                                              | 912,155                                                  | 2,975,546                                           | 1,229,280                                | 5,897,116       |
| Revaluation adjustment                       | 2,500                                       | -                                                    | -                                                        | -                                                   | -                                        | 2,500           |
| Transfers                                    | 3,581,848                                   | 192,020                                              | 461,991                                                  | -                                                   | (4,235,859)                              | -               |
| Disposals                                    | (25,333)                                    | (86,065)                                             | (313,396)                                                | (48,856)                                            | (165,933)                                | (639,583)       |
| Exchange differences                         | 26,585                                      | 24,718                                               | 83,994                                                   | 122,634                                             | 51                                       | 257,982         |
| At 31 December 2019                          | 10,210,943                                  | 2,995,569                                            | 9,535,521                                                | 9,692,073                                           | 715,446                                  | 33,149,552      |
| <b>Accumulated Depreciation</b>              |                                             |                                                      |                                                          |                                                     |                                          |                 |
| At 1 January 2018                            | 109,262                                     | 1,067,281                                            | 5,251,482                                                | -                                                   | -                                        | 6,428,025       |
| Charge for the year                          | 110,790                                     | 226,837                                              | 778,192                                                  | -                                                   | -                                        | 1,115,819       |
| Revaluation adjustment                       | (199,007)                                   | -                                                    | -                                                        | -                                                   | -                                        | (199,007)       |
| On disposals                                 | -                                           | (11,808)                                             | (188,061)                                                | -                                                   | -                                        | (199,869)       |
| Transfer to assets held for sale (Note 12 e) | (21,088)                                    | -                                                    | (6,727)                                                  | -                                                   | -                                        | (27,815)        |
| Exchange differences                         | 43                                          | (4,842)                                              | (19,158)                                                 | -                                                   | -                                        | (23,957)        |
| At 31 December 2018                          | -                                           | 1,277,468                                            | 5,815,728                                                | -                                                   | -                                        | 7,093,196       |
| Effect of adopting IFRS 16                   | -                                           | -                                                    | (305,889)                                                | 305,889                                             | -                                        | -               |
| Charge for the year                          | 191,050                                     | 250,199                                              | 787,651                                                  | 1,065,029                                           | -                                        | 2,293,929       |
| On disposals                                 | (22,357)                                    | (98,389)                                             | (246,500)                                                | (12,706)                                            | -                                        | (379,952)       |
| Exchange differences                         | (18)                                        | 16,948                                               | 52,071                                                   | (947)                                               | -                                        | 68,054          |
| At 31 December 2019                          | 168,675                                     | 1,446,226                                            | 6,103,061                                                | 1,357,265                                           | -                                        | 9,075,227       |
| <b>Net Book Amount</b>                       |                                             |                                                      |                                                          |                                                     |                                          |                 |
| 31 December 2019                             | 10,042,268                                  | 1,549,343                                            | 3,432,460                                                | 8,334,808                                           | 715,446                                  | 24,074,325      |
| 31 December 2018                             | 6,417,246                                   | 1,015,390                                            | 2,980,426                                                | -                                                   | 3,887,907                                | 14,300,969      |

<sup>(a)</sup> The categorisation of the right-of-use assets is detailed in Note 16.

# GraceKennedy Limited

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### 12. Fixed Assets (Continued)

|                                 | Freehold<br>Land and<br>Buildings<br>\$'000 | Leasehold<br>Buildings and<br>Improvements<br>\$'000 | Plant,<br>Equipment,<br>Fixtures &<br>Vehicles<br>\$'000 | Right-<br>of-Use<br>Assets <sup>(a)</sup><br>\$'000 | Capital<br>Work in<br>Progress<br>\$'000 | Total<br>\$'000 |
|---------------------------------|---------------------------------------------|------------------------------------------------------|----------------------------------------------------------|-----------------------------------------------------|------------------------------------------|-----------------|
| Company                         |                                             |                                                      |                                                          |                                                     |                                          |                 |
| <b>Cost</b>                     |                                             |                                                      |                                                          |                                                     |                                          |                 |
| At 1 January 2018               | 74,014                                      | 104,309                                              | 882,130                                                  | -                                                   | 1,164                                    | 1,061,617       |
| Additions                       | 3,523                                       | -                                                    | 58,098                                                   | -                                                   | 3,185                                    | 64,806          |
| Revaluation adjustment          | 4,463                                       | -                                                    | -                                                        | -                                                   | -                                        | 4,463           |
| Disposals                       | -                                           | -                                                    | (57,439)                                                 | -                                                   | -                                        | (57,439)        |
| At 31 December 2018             | 82,000                                      | 104,309                                              | 882,789                                                  | -                                                   | 4,349                                    | 1,073,447       |
| Effect of adopting IFRS 16      | -                                           | -                                                    | (123,211)                                                | 2,836,838                                           | -                                        | 2,713,627       |
| Additions                       | -                                           | 518                                                  | 248,058                                                  | 526,040                                             | 25,030                                   | 799,646         |
| Disposals                       | -                                           | -                                                    | (7,617)                                                  | (48,856)                                            | -                                        | (56,473)        |
| At 31 December 2019             | 82,000                                      | 104,827                                              | 1,000,019                                                | 3,314,022                                           | 29,379                                   | 4,530,247       |
| <b>Accumulated Depreciation</b> |                                             |                                                      |                                                          |                                                     |                                          |                 |
| At 1 January 2018               | 1,438                                       | 82,069                                               | 678,751                                                  | -                                                   | -                                        | 762,258         |
| Charge for the year             | 1,511                                       | 4,571                                                | 64,918                                                   | -                                                   | -                                        | 71,000          |
| Revaluation adjustment          | (2,949)                                     | -                                                    | -                                                        | -                                                   | -                                        | (2,949)         |
| On disposals                    | -                                           | -                                                    | (53,335)                                                 | -                                                   | -                                        | (53,335)        |
| At 31 December 2018             | -                                           | 86,640                                               | 690,334                                                  | -                                                   | -                                        | 776,974         |
| Effect of adopting IFRS 16      | -                                           | -                                                    | (122,955)                                                | 122,955                                             | -                                        | -               |
| Charge for the year             | 1,588                                       | 3,881                                                | 80,637                                                   | 285,418                                             | -                                        | 371,524         |
| On disposals                    | -                                           | -                                                    | (7,617)                                                  | (12,899)                                            | -                                        | (20,516)        |
| At 31 December 2019             | 1,588                                       | 90,521                                               | 640,399                                                  | 395,474                                             | -                                        | 1,127,982       |
| <b>Net Book Amount</b>          |                                             |                                                      |                                                          |                                                     |                                          |                 |
| 31 December 2019                | 80,412                                      | 14,306                                               | 359,620                                                  | 2,918,548                                           | 29,379                                   | 3,402,265       |
| 31 December 2018                | 82,000                                      | 17,669                                               | 192,455                                                  | -                                                   | 4,349                                    | 296,473         |

<sup>(a)</sup> The categorisation of the right-of-use assets is detailed in Note 16.

- (a) For the prior year, the tables above include carrying values of \$87,514,000 and \$256,000 for the Group and the company, respectively, representing assets being acquired under finance leases. All amounts related to finance leases are shown in the 'Plant, Equipment, Fixtures & Vehicles' category of fixed assets.

# GraceKennedy Limited

## Notes to the Financial Statements

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### 12. Fixed Assets (Continued)

- (b) If land and buildings were stated on the historical cost basis, the amounts would be as follows:

|                          | Group     |           | Company |        |
|--------------------------|-----------|-----------|---------|--------|
|                          | 2019      | 2018      | 2019    | 2018   |
|                          | \$'000    | \$'000    | \$'000  | \$'000 |
| Cost                     | 8,047,047 | 4,256,068 | 44,660  | 44,660 |
| Accumulated depreciation | 739,707   | 635,662   | 14,149  | 13,033 |
| Net Book Amount          | 7,307,340 | 3,620,406 | 30,511  | 31,627 |

- (c) The Group's land and buildings were revalued during 2018 by independent valuers. The valuations were done on the basis of open market value, with the exception of the Distribution Centre, for which recent market transactions are not available due to the specialised nature of the assets. The revaluation surpluses, net of applicable deferred income taxes, were credited to the capital and fair value reserves in equity (Note 20).
- (d) Borrowing costs of \$60,056,000 (2018: \$18,747,000) arising on financing specifically entered into for the construction of a new corporate head office were capitalised during the year and are included in 'additions' in capital work in progress.

A capitalisation rate of 6.15% (2018: 6.15%) was used, representing the borrowing cost of the loan used to finance the project.

- (e) Assets classified as held for sale

|                     | Group   |         |
|---------------------|---------|---------|
|                     | 2019    | 2018    |
|                     | \$'000  | \$'000  |
| Land and building   | 250,595 | 242,244 |
| Plant and equipment | 29,963  | 28,964  |
| Net Book Amount     | 280,558 | 271,208 |

In November 2018, the Group decided to sell a property, along with some equipment located on it, previously occupied by a part of the food manufacturing business in the USA. The property has been advertised and the sale is expected to be completed in 2020. The assets are presented within total assets of the Food Trading segment (Note 24).

### 13. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using principal tax rates of 25% for unregulated companies and 33 1/3% for regulated companies.

The movement on the deferred income tax account is as follows:

|                                                                                    | Group       |           | Company   |           |
|------------------------------------------------------------------------------------|-------------|-----------|-----------|-----------|
|                                                                                    | 2019        | 2018      | 2019      | 2018      |
|                                                                                    | \$'000      | \$'000    | \$'000    | \$'000    |
| At beginning of year                                                               | 723,011     | (532,817) | 93,516    | (882,998) |
| Amounts restated through opening equity                                            | -           | 303,790   | -         | 90,539    |
| Income statement credit (Note 29)                                                  | 454,766     | 170,502   | 180,744   | 48,161    |
| Tax (charge)/credit relating to components of other comprehensive income (Note 29) | (1,593,402) | 780,975   | (902,659) | 837,814   |
| Exchange differences                                                               | (1,900)     | 561       | -         | -         |
| At end of year                                                                     | (417,525)   | 723,011   | (628,399) | 93,516    |

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

**13. Deferred Income Taxes (Continued)**

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. Subject to agreement with the taxation administration in the relevant jurisdictions, the Group has recognised tax losses of \$707,845,000 (2018: \$1,633,717,000) and recognised tax credits of \$614,196,000 (2018: \$375,682,000) to carry forward indefinitely against future taxable income. The Group also has unrecognised tax losses of \$1,107,727,000 (2018: \$1,022,802,000) in respect of some subsidiaries.

Deferred income tax liabilities of \$270,841,000 (2018: \$197,154,000) have not been established for the withholding taxes that would be payable on the unremitted earnings of certain foreign subsidiaries, as such amounts are permanently reinvested; such unremitted earnings totalled \$1,083,363,000 (2018: \$788,617,000).

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the period is as follows:

|                                                  | <b>Group</b>                       |                                         |                                                                 |                                                        |                         |                         |
|--------------------------------------------------|------------------------------------|-----------------------------------------|-----------------------------------------------------------------|--------------------------------------------------------|-------------------------|-------------------------|
|                                                  | <b>Fixed<br/>Assets<br/>\$'000</b> | <b>Fair Value<br/>Gains<br/>\$'000</b>  | <b>Unrealised<br/>Foreign<br/>Exchange<br/>Gains<br/>\$'000</b> | <b>Pension<br/>Plan<br/>Assets<br/>\$'000</b>          | <b>Other<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
| <b>Deferred tax liabilities</b>                  |                                    |                                         |                                                                 |                                                        |                         |                         |
| At 1 January 2018                                | 410,906                            | 406,957                                 | 14,455                                                          | 1,577,211                                              | 606,304                 | 3,015,833               |
| Amounts restated through opening equity          | -                                  | (82,479)                                | -                                                               | -                                                      | (125,002)               | (207,481)               |
| (Credited)/charged to the income statement       | (57,425)                           | -                                       | (8,937)                                                         | (19,745)                                               | 138,879                 | 52,772                  |
| Charged/(credited) to other comprehensive income | 214,691                            | 11,992                                  | -                                                               | (739,985)                                              | -                       | (513,302)               |
| Exchange differences                             | 257                                | -                                       | -                                                               | -                                                      | 1,501                   | 1,758                   |
| At 31 December 2018                              | 568,429                            | 336,470                                 | 5,518                                                           | 817,481                                                | 621,682                 | 2,349,580               |
| Charged/(credited) to the income statement       | 32,217                             | 58,703                                  | 8,854                                                           | (174,079)                                              | (133,091)               | (207,396)               |
| (Credited)/charged to other comprehensive income | (17,815)                           | 492,772                                 | -                                                               | 811,985                                                | -                       | 1,286,942               |
| Exchange differences                             | 507                                | -                                       | -                                                               | -                                                      | 2,789                   | 3,296                   |
| At 31 December 2019                              | 583,338                            | 887,945                                 | 14,372                                                          | 1,455,387                                              | 491,380                 | 3,432,422               |
|                                                  | <b>Fixed<br/>Assets<br/>\$'000</b> | <b>Fair Value<br/>Losses<br/>\$'000</b> | <b>Unutilised<br/>Tax Losses<br/>and Credits<br/>\$'000</b>     | <b>Employee<br/>Benefit<br/>Obligations<br/>\$'000</b> | <b>Other<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
| <b>Deferred tax assets</b>                       |                                    |                                         |                                                                 |                                                        |                         |                         |
| At 1 January 2018                                | 227,634                            | -                                       | 754,357                                                         | 1,399,989                                              | 101,036                 | 2,483,016               |
| Amounts restated through opening equity          | -                                  | 422                                     | -                                                               | -                                                      | 95,887                  | 96,309                  |
| Credited/(charged) to the income statement       | 55,921                             | 1                                       | 113,611                                                         | 57,905                                                 | (4,164)                 | 223,274                 |
| Credited to other comprehensive income           | -                                  | 81,887                                  | -                                                               | 185,786                                                | -                       | 267,673                 |
| Exchange differences                             | (12)                               | -                                       | 2,153                                                           | -                                                      | 178                     | 2,319                   |
| At 31 December 2018                              | 283,543                            | 82,310                                  | 870,121                                                         | 1,643,680                                              | 192,937                 | 3,072,591               |
| Credited/(charged) to the income statement       | 25,413                             | -                                       | (36,219)                                                        | 143,886                                                | 114,290                 | 247,370                 |
| Charged to other comprehensive income            | -                                  | (82,310)                                | -                                                               | (224,150)                                              | -                       | (306,460)               |
| Exchange differences                             | 371                                | -                                       | 923                                                             | -                                                      | 102                     | 1,396                   |
| At 31 December 2019                              | 309,327                            | -                                       | 834,825                                                         | 1,563,416                                              | 307,329                 | 3,014,897               |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 13. Deferred Income Taxes (Continued)

|                                                  | Company                |                             |                                             |                                        |                 |                 |
|--------------------------------------------------|------------------------|-----------------------------|---------------------------------------------|----------------------------------------|-----------------|-----------------|
|                                                  | Fixed Assets<br>\$'000 | Fair Value Gains<br>\$'000  | Unrealised Foreign Exchange Gains<br>\$'000 | Pension Plan Assets<br>\$'000          | Other<br>\$'000 | Total<br>\$'000 |
| <b>Deferred tax liabilities</b>                  |                        |                             |                                             |                                        |                 |                 |
| At 1 January 2018                                | 18,604                 | 75,702                      | -                                           | 1,577,210                              | 20,216          | 1,691,732       |
| Amounts restated through opening equity          | -                      | (75,701)                    | -                                           | -                                      | -               | (75,701)        |
| (Credited)/charged to the income statement       | (51)                   | (1)                         | 2,259                                       | (19,745)                               | (10,363)        | (27,901)        |
| Charged/(credited) to other comprehensive income | 2,612                  | -                           | -                                           | (739,984)                              | -               | (737,372)       |
| At 31 December 2018                              | 21,165                 | -                           | 2,259                                       | 817,481                                | 9,853           | 850,758         |
| (Credited)/charged to the income statement       | (11,254)               | -                           | (2,259)                                     | (174,079)                              | 5,361           | (182,231)       |
| Charged to other comprehensive income            | -                      | 8,135                       | -                                           | 811,985                                | -               | 820,120         |
| At 31 December 2019                              | 9,911                  | 8,135                       | -                                           | 1,455,387                              | 15,214          | 1,488,647       |
|                                                  |                        |                             |                                             |                                        |                 |                 |
|                                                  | Fixed Assets<br>\$'000 | Fair Value Losses<br>\$'000 | Unutilised Tax Losses and Credits<br>\$'000 | Employee Benefit Obligations<br>\$'000 | Other<br>\$'000 | Total<br>\$'000 |
| <b>Deferred tax assets</b>                       |                        |                             |                                             |                                        |                 |                 |
| At 1 January 2018                                | 57,604                 | -                           | 121,567                                     | 610,861                                | 18,702          | 808,734         |
| Amounts restated through opening equity          | -                      | 422                         | -                                           | -                                      | 14,416          | 14,838          |
| Credited/(charged) to the income statement       | 12,200                 | 1                           | (20,681)                                    | 15,555                                 | 13,185          | 20,260          |
| Credited to other comprehensive income           | -                      | 1,732                       | -                                           | 98,710                                 | -               | 100,442         |
| At 31 December 2018                              | 69,804                 | 2,155                       | 100,886                                     | 725,126                                | 46,303          | 944,274         |
| (Charged)/credited to the income statement       | (2,921)                | -                           | (100,886)                                   | 47,344                                 | 54,976          | (1,487)         |
| Charged to other comprehensive income            | -                      | (2,155)                     | -                                           | (80,384)                               | -               | (82,539)        |
| At 31 December 2019                              | 66,883                 | -                           | -                                           | 692,086                                | 101,279         | 860,248         |

# GraceKennedy Limited

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### 13. Deferred Income Taxes (Continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated statement of financial position:

|                          | Group       |           | Company   |        |
|--------------------------|-------------|-----------|-----------|--------|
|                          | 2019        | 2018      | 2019      | 2018   |
|                          | \$'000      | \$'000    | \$'000    | \$'000 |
| Deferred tax assets      | 1,142,161   | 1,410,080 | -         | 93,516 |
| Deferred tax liabilities | (1,559,686) | (687,069) | (628,399) | -      |
|                          | (417,525)   | 723,011   | (628,399) | 93,516 |

The gross amounts shown in the above tables include the following:

#### Deferred tax assets:

|                                                               |           |           |         |         |
|---------------------------------------------------------------|-----------|-----------|---------|---------|
| Deferred tax assets to be recovered after more than 12 months | 2,707,568 | 2,797,344 | 758,969 | 895,816 |
| Deferred tax assets to be recovered within 12 months          | 307,329   | 275,247   | 101,279 | 48,458  |
|                                                               | 3,014,897 | 3,072,591 | 860,248 | 944,274 |

#### Deferred tax liabilities:

|                                                                  |             |             |             |           |
|------------------------------------------------------------------|-------------|-------------|-------------|-----------|
| Deferred tax liabilities to be settled after more than 12 months | (2,038,725) | (1,385,910) | (1,465,298) | (838,646) |
| Deferred tax liabilities to be settled within 12 months          | (1,393,697) | (963,670)   | (23,349)    | (12,112)  |
|                                                                  | (3,432,422) | (2,349,580) | (1,488,647) | (850,758) |
| Deferred tax (liabilities)/assets net                            | (417,525)   | 723,011     | (628,399)   | 93,516    |

### 14. Pensions and Other Post-Employment Obligations

The Group has both defined contribution pension schemes and a defined benefit pension scheme.

#### Defined contribution schemes

The defined contribution pension scheme is open to Jamaican based employees hired on or after 1 April 2010. Employees contribute 5% of pensionable earnings with the option to contribute an additional voluntary contribution of 5%. The employer contributions are currently set at 10%. The Group also has other defined contribution schemes open to employees of its foreign subsidiaries which are operated in those countries. The Group's and company's contributions for the year were \$373,708,000 (2018: \$330,859,000) and \$78,066,000 (2018: \$65,683,000) respectively.

#### Defined benefit scheme

The Group's defined benefit pension scheme, which commenced on 1 January 1975, is funded by employee contributions at 5% of salary with the option to contribute an additional 5%, and employer contributions at 0.02%, as recommended by independent actuaries. The last valuation was carried out at 31 December 2016. Pension at normal retirement age is based on 2% per year of pensionable service of the average of the highest three years' annual salary during the last ten years of service. This scheme was closed to new members as at 31 March 2010.

The Board of Trustees of the pension fund is comprised of representatives from both the employer and members of the plan. The Board of Trustees of the pension fund is required by law to act in the interest of the fund and all relevant stakeholders. The Board of Trustees of the fund is responsible for the investment policy with regard to the assets of the fund. The funds are managed by Proven Fund Managers Limited.

In the event of a plan surplus the Group is able to take a contribution holiday, while a funding deficiency will require the Group to make additional contributions to adequately fund the plan.

# GraceKennedy Limited

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### 14. Pension and Other Post-Employment Obligations (Continued)

#### *Pension benefits*

The amounts recognised in the statement of financial position are determined as follows:

|                                                                      | Group and Company |              |
|----------------------------------------------------------------------|-------------------|--------------|
|                                                                      | 2019              | 2018         |
|                                                                      | \$'000            | \$'000       |
| Present value of funded obligations                                  | 27,533,392        | 32,242,442   |
| Fair value of plan assets                                            | (40,296,662)      | (35,512,367) |
|                                                                      | (12,763,270)      | (3,269,925)  |
| Limitation on asset due to uncertainty of obtaining economic benefit | 6,941,721         | -            |
| Asset in the statement of financial position                         | (5,821,549)       | (3,269,925)  |

The movement in the defined benefit obligation over the year is as follows:

|                                                  | Group and Company |            |
|--------------------------------------------------|-------------------|------------|
|                                                  | 2019              | 2018       |
|                                                  | \$'000            | \$'000     |
| <b>Beginning of year</b>                         | 32,242,442        | 25,908,981 |
| Current service cost                             | 837,694           | 755,812    |
| Interest cost                                    | 2,228,733         | 2,051,123  |
| Curtailment                                      | -                 | (251,901)  |
|                                                  | 3,066,427         | 2,555,034  |
| <b>Remeasurements -</b>                          |                   |            |
| (Gain)/loss from change in financial assumptions | (7,893,610)       | 5,168,981  |
| Experience losses/(gains)                        | 1,093,087         | (623,947)  |
|                                                  | (6,800,523)       | 4,545,034  |
| <b>Members' contributions</b>                    | 216,595           | 223,619    |
| <b>Benefits paid</b>                             | (1,191,549)       | (990,226)  |
| <b>End of year</b>                               | 27,533,392        | 32,242,442 |

# GraceKennedy Limited

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### 14. Pensions and Other Post-Employment Obligations (Continued)

#### *Pension benefits (continued)*

The movement in the fair value of plan assets for the year is as follows:

|                                                                      | Group and Company |                |
|----------------------------------------------------------------------|-------------------|----------------|
|                                                                      | 2019<br>\$'000    | 2018<br>\$'000 |
| <b>Beginning of year</b>                                             | 35,512,367        | 32,217,824     |
| Interest income on plan assets                                       | 2,454,763         | 2,554,060      |
| Return on plan assets, excluding amounts included in interest income | 3,389,137         | 1,585,095      |
| Members' contributions                                               | 216,595           | 223,619        |
| Employers' contributions                                             | 503               | 527            |
| Benefits paid                                                        | (1,191,549)       | (990,226)      |
| Administration costs                                                 | (85,154)          | (78,532)       |
| <b>End of year</b>                                                   | 40,296,662        | 35,512,367     |

The amounts recognised in the income statement are as follows:

|                                                 | Group and Company |                |
|-------------------------------------------------|-------------------|----------------|
|                                                 | 2019<br>\$'000    | 2018<br>\$'000 |
| Current service cost                            | 837,694           | 755,812        |
| Interest income (net)                           | (226,030)         | (502,937)      |
| Curtailment                                     | -                 | (251,901)      |
| Administration costs                            | 85,154            | 78,532         |
| <b>Total, included in staff costs (Note 28)</b> | 696,818           | 79,506         |

As at the last valuation date, the present value of the defined benefit obligation was comprised of approximately \$13,382,218,000 (2018: \$16,280,837,000) relating to active employees, \$3,642,404,000 (2018: \$4,967,155,000) relating to deferred members and \$10,508,770,000 (2018: \$10,994,450,000) relating to members in retirement.

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### 14. Pensions and Other Post-Employment Obligations (Continued)

#### *Pension benefits (continued)*

The plan assets are comprised of:

|                       | Group and Company |      |            |      |
|-----------------------|-------------------|------|------------|------|
|                       | 2019              |      | 2018       |      |
|                       | \$'000            | %    | \$'000     | %    |
| Equity                | 19,906,929        | 49%  | 15,221,991 | 43%  |
| Debt                  | 5,427,324         | 13%  | 4,642,998  | 13%  |
| Real estate           | 3,532,862         | 9%   | 3,061,500  | 9%   |
| Government securities | 10,371,430        | 26%  | 11,023,873 | 31%  |
| Other                 | 1,058,117         | 3%   | 1,562,005  | 4%   |
|                       | 40,296,662        | 100% | 35,512,367 | 100% |

The pension plan assets include the company's ordinary stock units with a fair value of \$3,118,948,000 (2018: \$2,852,560,000) and buildings occupied by Group companies with fair values of \$1,327,994,000 (2018: \$1,229,701,000).

The benefit that the company derives from the surplus of the pension plan is limited to the extent of the reduction in future contributions that it will make to the pension scheme.

Expected contributions by the Group to the post-employment scheme for the year ending 31 December 2020 are \$504,000. The actual return on plan assets was \$5,843,812,000 (2018: \$4,139,155,000).

The principal actuarial assumptions used were as follows:

|                          | 2019 | 2018 |
|--------------------------|------|------|
| Discount rate            | 7.5% | 7.0% |
| Long term inflation rate | 4.0% | 5.0% |
| Future salary increases  | 5.0% | 6.0% |
| Future pension increases | 4.0% | 5.0% |

Assumptions regarding future mortality experience are set based on advice, published statistics and experience.

The average life expectancy in years of a pensioner retiring at age 60 on the statement of financial position date is as follows:

|        | 2019  | 2018  |
|--------|-------|-------|
| Male   | 27.40 | 27.38 |
| Female | 28.30 | 28.25 |

# GraceKennedy Limited

## Notes to the Financial Statements

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### 14. Pensions and Other Post-Employment Obligations (Continued)

#### *Pension benefits (continued)*

The sensitivity of the defined benefit obligation to changes in the principal assumptions is:

| Group and Company                     |                      |             |                        |       |             |                        |       |
|---------------------------------------|----------------------|-------------|------------------------|-------|-------------|------------------------|-------|
| Impact on post-employment obligations |                      |             |                        |       |             |                        |       |
|                                       | Change in Assumption |             | Increase in Assumption |       |             | Decrease in Assumption |       |
|                                       |                      |             | 2019                   | 2018  |             | 2019                   | 2018  |
| Discount rate                         | 1%                   | Decrease by | 14.3%                  | 16.3% | Increase by | 18.4%                  | 21.5% |
| Future salary increases               | 1%                   | Increase by | 4.0%                   | 4.7%  | Decrease by | 3.5%                   | 4.2%  |
| Expected pension increase             | 1%                   | Increase by | 13.2%                  | 15.0% | Decrease by | 10.9%                  | 12.2% |

| Group and Company                     |  |             |                                    |      |             |                                    |      |
|---------------------------------------|--|-------------|------------------------------------|------|-------------|------------------------------------|------|
| Impact on post-employment obligations |  |             |                                    |      |             |                                    |      |
|                                       |  |             | Increase in Assumption by One Year |      |             | Decrease in Assumption by One Year |      |
|                                       |  |             | 2019                               | 2018 |             | 2019                               | 2018 |
| Life expectancy                       |  | Increase by | 2.2%                               | 2.6% | Decrease by | 2.3%                               | 2.6% |

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

#### *Other post-employment obligations*

The Group operates a number of post-employment benefit schemes, principally in Jamaica. The benefits covered under the schemes include group life, insured and self-insured health care, gratuity and other supplementary plans. Funds are not built up to cover the obligations under these retirement benefit schemes. The method of accounting and the frequency of valuations are similar to those used for defined benefit pension schemes.

In addition to the assumptions used for the pension schemes, the main actuarial assumption is a long term increase in health costs of 6.0% per year (2018: 6.0% per year).

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**14. Pensions and Other Post-Employment Obligations (Continued)**

*Other post-employment obligations (continued)*

The amounts recognised in the statement of financial position were determined as follows:

|                                       | <b>Group</b>  |               | <b>Company</b> |               |
|---------------------------------------|---------------|---------------|----------------|---------------|
|                                       | <b>2019</b>   | <b>2018</b>   | <b>2019</b>    | <b>2018</b>   |
|                                       | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b>  | <b>\$'000</b> |
| Present value of unfunded obligations | 5,799,526     | 6,083,687     | 2,768,342      | 2,900,502     |

Movement in the defined benefit obligation is as follows:

|                                                    | <b>Group</b>  |               | <b>Company</b> |               |
|----------------------------------------------------|---------------|---------------|----------------|---------------|
|                                                    | <b>2019</b>   | <b>2018</b>   | <b>2019</b>    | <b>2018</b>   |
|                                                    | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b>  | <b>\$'000</b> |
| <b>Beginning of year</b>                           | 6,083,687     | 5,129,990     | 2,900,502      | 2,443,443     |
| Current service cost                               | 311,369       | 309,267       | 92,997         | 100,815       |
| Interest cost                                      | 419,240       | 402,696       | 198,515        | 190,038       |
| Past service cost - vested benefits                | 38,846        | (14,757)      | 51,334         | (23,678)      |
| Curtailment                                        | -             | (235,457)     | -              | (60,078)      |
|                                                    | 769,455       | 461,749       | 342,846        | 207,097       |
| <b>Remeasurements -</b>                            |               |               |                |               |
| (Gain)/loss from change in demographic assumptions | (133,233)     | 233,562       | (59,649)       | 112,949       |
| (Gain)/loss from change in financial assumptions   | (708,376)     | 657,172       | (310,994)      | 291,287       |
| Experience losses/(gains)                          | 31,176        | (190,265)     | 49,107         | (9,400)       |
|                                                    | (810,433)     | 700,469       | (321,536)      | 394,836       |
| <b>Benefits paid</b>                               | (243,183)     | (208,521)     | (153,470)      | (144,874)     |
| <b>End of year</b>                                 | 5,799,526     | 6,083,687     | 2,768,342      | 2,900,502     |

The amounts recognised in the income statement were as follows:

|                                                | <b>Group</b>  |               | <b>Company</b> |               |
|------------------------------------------------|---------------|---------------|----------------|---------------|
|                                                | <b>2019</b>   | <b>2018</b>   | <b>2019</b>    | <b>2018</b>   |
|                                                | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b>  | <b>\$'000</b> |
| Current service cost                           | 311,369       | 309,267       | 92,997         | 100,815       |
| Interest cost                                  | 419,240       | 402,696       | 198,515        | 190,038       |
| Past service cost                              | 38,846        | (14,757)      | 51,334         | (23,678)      |
| Curtailment                                    | -             | (235,457)     | -              | (60,078)      |
| <b>Total included in staff costs (Note 28)</b> | 769,455       | 461,749       | 342,846        | 207,097       |

The total charge was included in administration expenses.

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## Notes to the Financial Statements

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### 14. Pensions and Other Post-Employment Obligations (Continued)

#### Other post-employment obligations (continued)

The composition of the liability recognised in relation to the other post-employment obligations in the statement of financial position is as follows:

|                                                  | Group     |           | Company   |           |
|--------------------------------------------------|-----------|-----------|-----------|-----------|
|                                                  | 2019      | 2018      | 2019      | 2018      |
|                                                  | \$'000    | \$'000    | \$'000    | \$'000    |
| Gratuity Plan                                    | 744,162   | 803,497   | 423,331   | 431,416   |
| Group Life Plan                                  | 1,263,016 | 1,277,791 | 663,960   | 645,385   |
| Insured Group Health                             | 2,147,195 | 2,091,008 | 762,481   | 758,426   |
| Self Insured Health Plan                         | 1,158,681 | 1,345,040 | 546,354   | 623,716   |
| Supplementary Pension Plan                       | 486,472   | 566,351   | 372,216   | 441,559   |
| Liability in the statement of financial position | 5,799,526 | 6,083,687 | 2,768,342 | 2,900,502 |

The sensitivity of the post-employment medical benefits to changes in the principal assumptions is:

| Group                                 |                      |             |                        |       |             |                        |       |
|---------------------------------------|----------------------|-------------|------------------------|-------|-------------|------------------------|-------|
| Impact on post-employment obligations |                      |             |                        |       |             |                        |       |
|                                       | Change in Assumption |             | Increase in Assumption |       |             | Decrease in Assumption |       |
|                                       |                      |             | 2019                   | 2018  |             | 2019                   | 2018  |
| Discount rate                         | 1%                   | Decrease by | 16.0%                  | 16.7% | Increase by | 21.0%                  | 22.3% |
| Medical inflation rate                | 1%                   | Increase by | 21.1%                  | 22.3% | Decrease by | 16.3%                  | 17.0% |

  

| Company                               |                      |             |                        |       |             |                        |       |
|---------------------------------------|----------------------|-------------|------------------------|-------|-------------|------------------------|-------|
| Impact on post-employment obligations |                      |             |                        |       |             |                        |       |
|                                       | Change in Assumption |             | Increase in Assumption |       |             | Decrease in Assumption |       |
|                                       |                      |             | 2019                   | 2018  |             | 2019                   | 2018  |
| Discount rate                         | 1%                   | Decrease by | 14.4%                  | 14.9% | Increase by | 18.7%                  | 19.5% |
| Medical inflation rate                | 1%                   | Increase by | 18.8%                  | 19.5% | Decrease by | 14.7%                  | 15.2% |

#### Risks associated with pension plans and post-employment plans

Through its defined benefit pension plan and other post-employment benefits, the Group is exposed to a number of risks, the most significant of which are detailed below:

##### Asset volatility

The plan liabilities are calculated using a discount rate set with reference to Government of Jamaica bond yields; if plan assets underperform this yield, this will create a deficit.

As the plan matures, the Group intends to reduce the level of investment risk by investing more in assets that better match the liabilities. This process includes monitoring and rebalancing the asset classes and the maturity profile of assets within these classes. The Government bonds largely represent investments in Government of Jamaica securities.

However, the Group believes that due to the long-term nature of the plan liabilities, a level of continuing equity investment is an appropriate element of the Group's long term strategy to manage the plan efficiently.

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### 14. Pensions and Other Post-Employment Obligations (Continued)

#### *Risks associated with pension plans and post-employment plans (continued)*

##### **Changes in bond yields**

A decrease in Government of Jamaica bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the plans' bond holdings.

##### **Inflation risk**

Higher inflation will lead to higher liabilities in the event that discretionary pension increases are granted. The majority of the plan's assets are either unaffected by (fixed interest securities) or loosely correlated with (equities) inflation, meaning that an increase in inflation has the potential to reduce the surplus or create a deficit.

##### **Life expectancy**

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant, where inflationary increases result in higher sensitivity to changes in life expectancy.

The Board of Trustees is ultimately responsible for the establishment and oversight of the plan's risk management framework, including monitoring the overall risk management process, as well as approving policies covering specific areas, such as limits for specific asset classes, foreign exchange risk, credit risk and investment of excess liquidity. The Board is responsible for monitoring the investment portfolio and investment strategies for the plan. A large portion of assets in 2019 consists of money market instruments, bonds and equities.

Funding levels are monitored on an annual basis and the current agreed contribution rate by the Group is 0.02% of pensionable salaries. The next triennial valuation is due to be completed for the plan's financial position as at 31 December 2019. The Group considers that the contribution rates set at the last valuation date to be sufficient to prevent a deficit. Regular contributions, which are based on service costs, will be assessed following the upcoming valuation to determine if any increase is required.

The average duration of the post-employment obligations is as follows:

| <b>Plans</b>             | <b>Years</b> |
|--------------------------|--------------|
| Gratuity Plan            | 9.5          |
| Group Life Plan          | 23.0         |
| Insured Group Health     | 21.8         |
| Pension Plan             | 16.7         |
| Self Insured Health Plan | 13.4         |
| Superannuation Plan      | 7.1          |

# GraceKennedy Limited

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### 15. Bank and Other Loans

|                   | Group      |            | Company   |           |
|-------------------|------------|------------|-----------|-----------|
|                   | 2019       | 2018       | 2019      | 2018      |
|                   | \$'000     | \$'000     | \$'000    | \$'000    |
| Secured on assets | 6,810,286  | 6,559,590  | -         | -         |
| Unsecured         | 17,221,968 | 9,969,723  | 9,051,347 | 6,114,341 |
|                   | 24,032,254 | 16,529,313 | 9,051,347 | 6,114,341 |

- (a) Unsecured loans of subsidiaries are supported by letters of comfort from the parent company. Interest rates on these loans range between 2.8% - 8.0% (2018: 2.5% - 9.6%).

- (b) Bank and other loans comprise:

|                             | Group      |            | Company   |           |
|-----------------------------|------------|------------|-----------|-----------|
|                             | 2019       | 2018       | 2019      | 2018      |
|                             | \$'000     | \$'000     | \$'000    | \$'000    |
| Bank overdrafts (Note 5)    | 768,263    | 2,546,601  | 627,868   | 1,521,391 |
| Bank borrowings             | 10,144,467 | 9,427,774  | 4,643,870 | 3,819,287 |
| Lease liabilities (Note 16) | 8,508,531  | 77,687     | 2,994,026 | -         |
| Other loans                 | 4,610,993  | 4,477,251  | 785,583   | 773,663   |
| Total borrowings            | 24,032,254 | 16,529,313 | 9,051,347 | 6,114,341 |

Certain bank borrowings are secured on the assets of subsidiaries that have the loans. All other borrowings are unsecured. Included in bank borrowings and other loans is interest payable of \$64,496,000 (2018: \$49,736,000) and \$23,875,000 (2018: \$32,128,000) for the Group and the company, respectively.

Included in bank borrowings and other loans is \$8,324,762,000 (2018: \$9,514,913,000) and \$3,796,655,000 (2018: \$4,626,906,000) for the Group and the company respectively, which matures in the next 12 months.

The fair value of current borrowings approximates their carrying amount, as the impact of discounting is not significant. The fair values are based on cash flows discounted using a rate based on the borrowing rate of 6.54% (2018: 5.54%) and are within level 2 of the fair value hierarchy.

- (c) Finance lease liabilities – minimum lease payments:

|                                              | Group  |         | Company |        |
|----------------------------------------------|--------|---------|---------|--------|
|                                              | 2019   | 2018    | 2019    | 2018   |
|                                              | \$'000 | \$'000  | \$'000  | \$'000 |
| Not later than 1 year                        | -      | 35,651  | -       | -      |
| Later than 1 year and not later than 5 years | -      | 46,471  | -       | -      |
|                                              | -      | 82,122  | -       | -      |
| Future finance charges on finance leases     | -      | (4,435) | -       | -      |
| Present value of finance lease liabilities   | -      | 77,687  | -       | -      |

The present value of finance lease liabilities is as follows:

|                                              | Group  |        | Company |        |
|----------------------------------------------|--------|--------|---------|--------|
|                                              | 2019   | 2018   | 2019    | 2018   |
|                                              | \$'000 | \$'000 | \$'000  | \$'000 |
| Not later than 1 year                        | -      | 42,599 | -       | -      |
| Later than 1 year and not later than 5 years | -      | 35,088 | -       | -      |
|                                              | -      | 77,687 | -       | -      |

# GraceKennedy Limited

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### 16. Leases

#### (a) Amounts recognised in the statement of financial position

|                                  | Group            |                  | Company          |                  |
|----------------------------------|------------------|------------------|------------------|------------------|
|                                  | 31 December      | 1 January        | 31 December      | 1 January        |
|                                  | 2019             | 2019             | 2019             | 2019             |
|                                  | \$'000           | \$'000           | \$'000           | \$'000           |
| Properties                       | 7,680,710        | 5,623,411        | 2,918,420        | 2,713,627        |
| Equipment                        | 221,058          | 39,663           | 128              | -                |
| Motor Vehicles                   | 433,040          | 574,298          | -                | -                |
| <b>Total right-of-use assets</b> | <b>8,334,808</b> | <b>6,237,372</b> | <b>2,918,548</b> | <b>2,713,627</b> |
| Current                          | 967,591          | 867,084          | 232,106          | 230,233          |
| Non-current                      | 7,540,940        | 5,370,288        | 2,761,920        | 2,483,394        |
| <b>Total lease liabilities</b>   | <b>8,508,531</b> | <b>6,237,372</b> | <b>2,994,026</b> | <b>2,713,627</b> |

Additions to the right-of-use assets during 2019 were \$2,975,546,000 and \$526,040,000 for the Group and company respectively.

#### (b) Amounts recognised in the income statement

|                                            | Group            |          | Company        |          |
|--------------------------------------------|------------------|----------|----------------|----------|
|                                            | 2019             | 2018     | 2019           | 2018     |
|                                            | \$'000           | \$'000   | \$'000         | \$'000   |
| Depreciation charge of right-of-use assets |                  |          |                |          |
| Properties                                 | 855,913          | -        | 285,290        | -        |
| Equipment                                  | 34,550           | -        | 128            | -        |
| Motor Vehicles                             | 174,566          | -        | -              | -        |
|                                            | <b>1,065,029</b> | <b>-</b> | <b>285,418</b> | <b>-</b> |
| Interest expense                           | 359,235          | -        | 181,314        | -        |
| Expense relating to short term leases      | 94,712           | -        | 9,154          | -        |

#### (c) Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of office space, warehouses and retail stores, the following factors are normally the most relevant:

- The existence of significant penalties to terminate (or not extend)
- The existence of leasehold improvements that are expected to have a significant remaining value
- Other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in equipment and vehicle leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

As at 31 December 2019, potential future cash outflows of \$3,477,594,000 (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

# GraceKennedy Limited

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### 17. Payables

|                                     | Group      |            | Company   |           |
|-------------------------------------|------------|------------|-----------|-----------|
|                                     | 2019       | 2018       | 2019      | 2018      |
|                                     | \$'000     | \$'000     | \$'000    | \$'000    |
| Trade payables                      | 9,038,244  | 9,769,723  | 1,199,504 | 1,909,934 |
| Payable to associates (Note 35 (e)) | 179,725    | 429,556    | 85,695    | 201,742   |
| Accruals                            | 3,017,627  | 3,418,218  | 754,168   | 872,568   |
| Claims outstanding                  | 3,425,831  | 3,043,375  | -         | -         |
| Insurance reserves                  | 3,428,523  | 3,216,436  | -         | -         |
| Customer loyalty programme          | 348,625    | 344,033    | 156,988   | 128,162   |
| Contract liabilities                | 525,236    | 78,565     | 17,352    | 10,341    |
| Other payables                      | 4,444,379  | 2,901,780  | 594,419   | 435,382   |
|                                     | 24,408,190 | 23,201,686 | 2,808,126 | 3,558,129 |

All payables balances are due within the next 12 months.

### 18. Provisions

Provisions comprise restoration costs as follows:

|                       | Group  |        | Company |        |
|-----------------------|--------|--------|---------|--------|
|                       | 2019   | 2018   | 2019    | 2018   |
|                       | \$'000 | \$'000 | \$'000  | \$'000 |
| Additional provisions | 37,779 | -      | -       | -      |
| At end of year        | 37,779 | -      | -       | -      |

This relates to the present value of the expected restoration costs to be incurred on the expiring of a lease of property by one of the food trading subsidiaries. The lease will expire in 2034.

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### 19. Share Capital

|                         | Group and Company    |                      |                |                |
|-------------------------|----------------------|----------------------|----------------|----------------|
|                         | 2019<br>Units ('000) | 2018<br>Units ('000) | 2019<br>\$'000 | 2018<br>\$'000 |
| Authorised -            |                      |                      |                |                |
| Ordinary shares         | 1,200,000            | 1,200,000            |                |                |
| Issued and fully paid - |                      |                      |                |                |
| Ordinary stock units    | 995,005              | 994,887              | 627,008        | 623,546        |
| Treasury shares         | (2,899)              | (3,022)              | (169,838)      | (133,192)      |
| Issued and outstanding  | 992,106              | 991,865              | 457,170        | 490,354        |

- (a) During the year, the company issued 113,000 (2018: Nil) shares to its employees for cash of \$3,150,000 (2018: \$Nil) and transferred 5,000 (2018: Nil) units to employees at a fair value of \$312,000 (2018: \$Nil). The shares were issued under the Long Term Incentive Plan.
- (b) During the year, the company through its employee investment trust sold 178,000 (2018: Nil) units of its own shares at a fair value of \$10,885,000 (2018: \$Nil), purchased 1,957,000 (2018: 950,000) units at a fair value of \$131,150,000 (2018: \$57,171,000) and transferred 1,902,000 (2018: 161,000) units to employees at a fair value of \$116,673,000 (2018: \$7,876,000). The total number of treasury shares held by the company at the end of the year was 2,899,000 (2018: 3,022,000) at a cost of \$169,838,000 (2018: \$133,192,000).

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### 19. Share Capital (Continued)

- (c) At the Annual General Meeting held on 27 May 2009, the stockholders passed a resolution for authorised but unissued shares up to a maximum of 7½% of the total number of issued shares of no par value to be set aside for allocation and sale to the directors, managers and employees of the company. The allocation and sale of these shares will be governed by the provisions of the 2009 Stock Offer Plan for the Directors, Managers and Employees of GraceKennedy Limited and the plan provides for equitable adjustment of the allocated number of shares by reason of stock splits, combinations or exchanges of shares, stock dividends, bonus issue, and reclassifications or similar corporate changes.

On 3 January 2011, under the rules of the Stock Offer Plan, the following allocation was made:

|           | No. of Shares |
|-----------|---------------|
| Directors | 1,085,184     |

The options were granted at a subscription price of \$16.75, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous three days prior to the grant date, and are exercisable over a period of six years, at the end of which time unexercised options will expire. The total of the grant to each director will fully vest on the third anniversary of the grant.

|                                 | 2019<br>'000 | 2018<br>'000 |
|---------------------------------|--------------|--------------|
| <b>Movement on this option:</b> |              |              |
| At 1 January                    | -            | 136          |
| Exercised                       | -            | (136)        |
| At 31 December                  | -            | -            |

On 8 December 2011, under the rules of the Stock Offer Plan, the following allocation was made:

|                                 | No. of Shares |
|---------------------------------|---------------|
| Directors and senior executives | 3,408,480     |

The options were granted at a subscription price of \$20.40, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous three days prior to the grant date, and are exercisable over a period of six years, at the end of which time unexercised options will expire. The total of the grant to each director and senior executive will fully vest on the third anniversary of the grant.

|                                 | 2019<br>'000 | 2018<br>'000 |
|---------------------------------|--------------|--------------|
| <b>Movement on this option:</b> |              |              |
| At 1 January                    | -            | 98           |
| Exercised                       | -            | (98)         |
| At 31 December                  | -            | -            |

- (d) In 2016, the company commenced operating a Long Term Incentive (LTI) Scheme administered by a committee of the Group's Board of Directors. The scheme is governed by the provisions of the 2009 Stock Offer Plan and includes the offer of restricted stock grants and stock options to executive directors and other senior executives. Participating executives are eligible to receive awards of restricted stock grants once certain predetermined Group performance objectives are met. These awards are earned annually following achievement of the performance objectives and are subject to a two year holding period from the end of the performance year after which the stock grants will vest and the executive will be entitled to receive the stock units. The stock option portion of the LTI scheme is granted annually and vesting is dependent on a time-based criterion.

The following allocation of stock options were made to executive directors and other senior executives:

|                    | 25 June 2019 | 10 May 2018 | 11 May 2017 | 12 May 2016 |
|--------------------|--------------|-------------|-------------|-------------|
| Number of shares   | 1,650,497    | 1,759,004   | 1,967,156   | 2,551,665   |
| Subscription price | \$61.72      | \$47.77     | \$42.09     | \$28.00     |

The subscription price that the options were granted at is the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous three days prior to the grant date. The total of the grant to each executive director and other senior executive will fully vest on the third anniversary of the grant. After vesting executives will have up to five years to exercise the stock options.

# GraceKennedy Limited

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### 19. Share Capital (Continued)

#### (d) Long term incentive plan (continued)

|                                 | 2019<br>Offer | 2018<br>Offer | 2017<br>Offer | 2016<br>Offer | Total   |
|---------------------------------|---------------|---------------|---------------|---------------|---------|
| <b>2019</b>                     |               |               |               |               |         |
| <b>Movement on this option:</b> | '000          | '000          | '000          | '000          | '000    |
| <b>At 1 January</b>             | -             | 1,751         | 1,907         | 2,468         | 6,126   |
| Granted                         | 1,650         | -             | -             | -             | 1,650   |
| Exercised                       | -             | (162)         | (204)         | (1,874)       | (2,240) |
| Forfeited                       | -             | (80)          | (83)          | -             | (163)   |
| <b>At 31 December</b>           | 1,650         | 1,509         | 1,620         | 594           | 5,373   |
| <b>2018</b>                     |               |               |               |               |         |
| <b>Movement on this option:</b> | '000          | '000          | '000          | '000          | '000    |
| <b>At 1 January</b>             | -             | -             | 1,948         | 2,513         | 4,461   |
| Granted                         | -             | 1,759         | -             | -             | 1,759   |
| Forfeited                       | -             | (8)           | (41)          | (45)          | (94)    |
| <b>At 31 December</b>           | -             | 1,751         | 1,907         | 2,468         | 6,126   |

#### (e) Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

|                                 | <b>2019</b>                                  |                 | <b>2018</b>                                  |                 |
|---------------------------------|----------------------------------------------|-----------------|----------------------------------------------|-----------------|
|                                 | Average<br>exercise price<br>in \$ per share | Options<br>'000 | Average<br>exercise price<br>in \$ per share | Options<br>'000 |
| <b>Movement on this option:</b> |                                              |                 |                                              |                 |
| <b>At 1 January</b>             | 38.04                                        | 6,126           | 33.36                                        | 4,695           |
| Granted                         | 61.72                                        | 1,650           | 47.77                                        | 1,759           |
| Exercised                       | 30.72                                        | (2,240)         | 18.28                                        | (234)           |
| Forfeited                       | 44.86                                        | (163)           | 35.88                                        | (94)            |
| <b>At 31 December</b>           | 48.16                                        | 5,373           | 38.04                                        | 6,126           |

Shares totalling 2,275,000 (2018: 2,503,000) are exercisable at the statement of financial position date.

Share options outstanding at the end of the year have the following expiry date and exercise prices:

|      | <b>2019</b>                          |                 | <b>2018</b>     |
|------|--------------------------------------|-----------------|-----------------|
|      | Exercise<br>price in \$ per<br>share | Options<br>'000 | Options<br>'000 |
| 2023 | 28.00                                | 594             | 2,468           |
| 2024 | 42.09                                | 1,620           | 1,907           |
| 2025 | 47.77                                | 1,509           | 1,751           |
| 2026 | 61.72                                | 1,650           | -               |
|      |                                      | 5,373           | 6,126           |

**GraceKennedy Limited****Notes to the Financial Statements****31 December 2019**(expressed in Jamaican dollars unless otherwise indicated)

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**19. Share Capital (Continued)**

- (f) The fair value of options granted determined using the Black-Scholes valuation model was \$115,024,000. The significant inputs into the model were the weighted average share prices and exercise prices ranging from \$28.00 to \$61.72 at the grant dates, standard deviation of expected share price returns ranging from 26.0% to 29.3%, option life of eight years and risk-free interest rates ranging between 2.13% to 6.40%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the term of the options. The fair value of potential restricted stock grants to be earned is \$326,621,000 and the fair value of restricted stock grants earned and vested is \$55,704,000.

The expense recognised in the income statement for share-based payments was \$132,888,000 (2018: \$104,406,000).

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## Notes to the Financial Statements

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### 20. Capital and Fair Value Reserves

|                                                                              | Group           |                   |                     |           |                 |                   |                     |           |
|------------------------------------------------------------------------------|-----------------|-------------------|---------------------|-----------|-----------------|-------------------|---------------------|-----------|
|                                                                              | Capital Reserve | Loan Loss Reserve | Fair Value Reserves | Total     | Capital Reserve | Loan Loss Reserve | Fair Value Reserves | Total     |
|                                                                              | 2019            |                   |                     |           | 2018            |                   |                     |           |
|                                                                              | \$'000          | \$'000            | \$'000              | \$'000    | \$'000          | \$'000            | \$'000              | \$'000    |
| Realised gains on disposal of assets                                         | 102,738         | -                 | -                   | 102,738   | 102,738         | -                 | -                   | 102,738   |
| Capital distributions received                                               | 46,164          | -                 | -                   | 46,164    | 46,164          | -                 | -                   | 46,164    |
| Realised gain on sale of shares                                              | 149,863         | -                 | -                   | 149,863   | 116,809         | -                 | -                   | 116,809   |
| Profits capitalised by Group companies                                       | 2,149,885       | -                 | -                   | 2,149,885 | 2,149,885       | -                 | -                   | 2,149,885 |
| Unrealised surplus on the revaluation of fixed assets, net of deferred taxes | -               | -                 | 3,039,825           | 3,039,825 | -               | -                 | 3,025,097           | 3,025,097 |
| Fair value gains, net of deferred taxes                                      | -               | -                 | 1,463,563           | 1,463,563 | -               | -                 | 302,656             | 302,656   |
| Loan loss reserve                                                            | -               | 235,032           | -                   | 235,032   | -               | 556,032           | -                   | 556,032   |
| Catastrophe reserve                                                          | 12,270          | -                 | -                   | 12,270    | 12,270          | -                 | -                   | 12,270    |
| Other                                                                        | 35,187          | -                 | -                   | 35,187    | 35,187          | -                 | -                   | 35,187    |
|                                                                              | 2,496,107       | 235,032           | 4,503,388           | 7,234,527 | 2,463,053       | 556,032           | 3,327,753           | 6,346,838 |

  

|                                                                              | Company         |                     |         |                 |                     |         |
|------------------------------------------------------------------------------|-----------------|---------------------|---------|-----------------|---------------------|---------|
|                                                                              | Capital Reserve | Fair Value Reserves | Total   | Capital Reserve | Fair Value Reserves | Total   |
|                                                                              | 2019            |                     |         | 2018            |                     |         |
|                                                                              | \$'000          | \$'000              | \$'000  | \$'000          | \$'000              | \$'000  |
| Capital distributions received                                               | 24,507          | -                   | 24,507  | 24,507          | -                   | 24,507  |
| Unrealised surplus on the revaluation of fixed assets, net of deferred taxes | -               | 42,028              | 42,028  | -               | 42,028              | 42,028  |
| Fair value gains, net of deferred taxes                                      | -               | 174,899             | 174,899 | -               | 110,975             | 110,975 |
|                                                                              | 24,507          | 216,927             | 241,434 | 24,507          | 153,003             | 177,510 |

# GraceKennedy Limited

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### 21. Banking Reserves

Banking reserves represent both those reserves required to be maintained by the banking subsidiary, First Global Bank Limited (FGB), in compliance with the Jamaica Banking Services Act; as well as additional reserves that the Banking Services Act permits FGB to transfer from net profit to constitute part of its capital base for purposes of determining the maximum level of deposit liabilities and lending to customers.

### 22. Other Reserves

|                                                     | Group                                        |                                   | Company         |                                   |
|-----------------------------------------------------|----------------------------------------------|-----------------------------------|-----------------|-----------------------------------|
|                                                     | Foreign<br>Currency<br>Translation<br>\$'000 | Share-based<br>Payments<br>\$'000 | Total<br>\$'000 | Share-based<br>Payments<br>\$'000 |
| <b>At 1 January 2018</b>                            | 3,298,867                                    | 129,582                           | 3,428,449       | 65,302                            |
| Equity holders' share of other comprehensive income | (1,172,002)                                  | -                                 | (1,172,002)     | -                                 |
| Share-based payment expense                         | -                                            | 103,237                           | 103,237         | 73,302                            |
| Transfer of treasury shares to employees            | -                                            | (7,876)                           | (7,876)         | (7,876)                           |
| <b>At 31 December 2018</b>                          | 2,126,865                                    | 224,943                           | 2,351,808       | 130,728                           |
| Equity holders' share of other comprehensive income | 571,054                                      | -                                 | 571,054         | -                                 |
| Share-based payment expense                         | -                                            | 131,521                           | 131,521         | 93,863                            |
| Transfer of treasury shares to employees            | -                                            | (115,453)                         | (115,453)       | (105,699)                         |
| Exercised directly through equity                   | -                                            | (26,460)                          | (26,460)        | (20,111)                          |
| Transfer of shares to employees                     | -                                            | (312)                             | (312)           | (312)                             |
| <b>At 31 December 2019</b>                          | 2,697,919                                    | 214,239                           | 2,912,158       | 98,469                            |

- (a) The reserve for foreign currency translation represents foreign exchange differences arising on translation of the Group's foreign operations to the presentation currency, Jamaican dollars.
- (b) The reserve for share-based payments represents stock options and restricted stock units granted under the various equity compensation plans as described in Note 19.

### 23. Non-Controlling Interests

|                                                          | 2019<br>\$'000 | 2018<br>\$'000 |
|----------------------------------------------------------|----------------|----------------|
| <b>Beginning of year</b>                                 | 2,074,965      | 1,789,301      |
| Amounts restated through opening equity                  | -              | (3,488)        |
| Share of total comprehensive income:                     |                |                |
| Share of net profit of subsidiaries                      | 612,527        | 637,662        |
| Remeasurement of post-employment benefit obligations     | 15,025         | (2,157)        |
| Other                                                    | 17,785         | 6,492          |
|                                                          | 645,337        | 641,997        |
| Employee share option scheme: value of services received | 1,367          | 1,169          |
| Share-based payments exercised                           | (637)          | -              |
| Transfer of treasury shares to employees                 | (1,220)        | -              |
| Dividends paid                                           | (334,535)      | (354,014)      |
| <b>End of year</b>                                       | 2,385,277      | 2,074,965      |

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### 23. Non-Controlling Interests (Continued)

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiary undertakings included in the Group.

The total non-controlling interest for the period is \$2,385,277,000 of which \$2,330,555,000 is for GraceKennedy Money Services Caribbean SRL. The non-controlling interest in respect of other subsidiaries is not material.

#### Summarised financial information on subsidiaries with material non-controlling interests.

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summarised statement of financial position

|                              | GraceKennedy Money Services<br>Caribbean SRL |             |
|------------------------------|----------------------------------------------|-------------|
|                              | 2019                                         | 2018        |
|                              | \$'000                                       | \$'000      |
| <b>Current</b>               |                                              |             |
| Assets                       | 9,584,316                                    | 8,055,233   |
| Liabilities                  | (2,376,636)                                  | (2,025,849) |
| Total current net assets     | 7,207,680                                    | 6,029,384   |
| <b>Non-current</b>           |                                              |             |
| Assets                       | 4,600,224                                    | 3,933,974   |
| Liabilities                  | (2,485,684)                                  | (1,866,208) |
| Total non-current net assets | 2,114,540                                    | 2,067,766   |
| Net assets                   | 9,322,220                                    | 8,097,150   |

# GraceKennedy Limited

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### 23. Non-Controlling Interests (Continued)

#### Summarised income statement

|                                                                  | GraceKennedy Money Services<br>Caribbean SRL |           |
|------------------------------------------------------------------|----------------------------------------------|-----------|
|                                                                  | 2019                                         | 2018      |
|                                                                  | \$'000                                       | \$'000    |
| Revenue                                                          | 7,906,423                                    | 7,685,985 |
| Profit before income tax                                         | 3,057,387                                    | 3,120,858 |
| Taxation expense                                                 | (624,840)                                    | (598,654) |
| Profit after tax                                                 | 2,432,547                                    | 2,522,204 |
| Other comprehensive income                                       | 124,882                                      | 13,606    |
| Total comprehensive income                                       | 2,557,429                                    | 2,535,810 |
| Total comprehensive income allocated to non-controlling interest | 639,357                                      | 633,953   |
| Dividends paid to non-controlling interest                       | (332,599)                                    | (354,014) |

#### Summarised cash flows

|                                                    | GraceKennedy Money Services<br>Caribbean SRL |                |
|----------------------------------------------------|----------------------------------------------|----------------|
|                                                    | 2019                                         | 2018           |
|                                                    | \$'000                                       | \$'000         |
| <b>Cash flows from operating activities</b>        |                                              |                |
| Cash generated from operations                     | 3,778,794                                    | 3,239,448      |
| Interest paid                                      | (68,024)                                     | (3,558)        |
| Income tax paid                                    | (763,304)                                    | (700,333)      |
| Net cash generated from operating activities       | 2,947,466                                    | 2,535,557      |
| Net cash used in investing activities              | (768,127)                                    | (1,633,773)    |
| Net cash used in financing activities              | (850,985)                                    | (336,283)      |
| <b>Net increase in cash and cash equivalents</b>   | <b>1,328,354</b>                             | <b>565,501</b> |
| Cash and cash equivalents at the beginning of year | 5,182,992                                    | 4,585,936      |
| Exchange gains on cash and cash equivalents        | 68,489                                       | 31,555         |
| Cash and cash equivalents at end of year           | 6,579,835                                    | 5,182,992      |

The information above represents amounts before intercompany eliminations.

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**24. Segment Information**

Management has determined the operating segments based on the reports reviewed by the Executive Committee that are used to make strategic decisions. The Group has four reportable segments which are based on the different types of products and services that it offers. These products and services are described in its principal activities (Note 1). The reportable segments derive their revenue primarily from food trading and financial services. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (Note 2). The Group evaluates performance on the basis of profit or loss before tax expense not including post-employment benefits, share-based payments and net corporate central office costs which are shown in unallocated amounts. Segment information also excludes discontinued operations.

The segment information provided to management for the reportable segments is as follows:

**Operating segments**

|                                                   | 2019              |                          |                   |                   |                             |                    |
|---------------------------------------------------|-------------------|--------------------------|-------------------|-------------------|-----------------------------|--------------------|
|                                                   | Food<br>Trading   | Banking &<br>Investments | Insurance         | Money<br>Services | Unallocated/<br>Elimination | Group              |
|                                                   | \$'000            | \$'000                   | \$'000            | \$'000            | \$'000                      | \$'000             |
| <b>REVENUE</b>                                    |                   |                          |                   |                   |                             |                    |
| External sales                                    | 81,441,465        | 6,158,222                | 7,583,783         | 7,906,423         | -                           | 103,089,893        |
| Inter-segment sales                               | 201,762           | 46,126                   | 484,769           | -                 | (732,657)                   | -                  |
| <b>Total Revenue</b>                              | <b>81,643,227</b> | <b>6,204,348</b>         | <b>8,068,552</b>  | <b>7,906,423</b>  | <b>(732,657)</b>            | <b>103,089,893</b> |
| Operating results                                 | 2,256,301         | 794,326                  | 891,570           | 3,163,098         | 20,361                      | 7,125,656          |
| Unallocated expense                               | -                 | -                        | -                 | -                 | (866,443)                   | (866,443)          |
| Profit from operations                            | -                 | -                        | -                 | -                 | -                           | 6,259,213          |
| Finance income                                    | 20,743            | 19,265                   | 18,936            | 17,348            | 361,106                     | 437,398            |
| Finance expense                                   | (741,975)         | (69,121)                 | (9,115)           | (96,799)          | (170,893)                   | (1,087,903)        |
| Share of results of associates and joint ventures | 441,830           | 153,632                  | (76,575)          | -                 | -                           | 518,887            |
| <b>Profit before taxation</b>                     | <b>1,976,899</b>  | <b>898,102</b>           | <b>824,816</b>    | <b>3,083,647</b>  | <b>(655,869)</b>            | <b>6,127,595</b>   |
| Taxation                                          |                   |                          |                   |                   |                             | (1,027,679)        |
| <b>Net Profit</b>                                 |                   |                          |                   |                   |                             | <b>5,099,916</b>   |
| Operating assets                                  | 54,693,481        | 65,672,735               | 16,505,733        | 13,342,521        | (6,760,019)                 | 143,454,451        |
| Investment in associates and joint ventures       | 1,987,681         | 1,393,299                | 120,821           | 10,133            | -                           | 3,511,934          |
| Unallocated assets                                | -                 | -                        | -                 | -                 | 7,739,496                   | 7,739,496          |
| <b>Total assets</b>                               | <b>56,681,162</b> | <b>67,066,034</b>        | <b>16,626,554</b> | <b>13,352,654</b> | <b>979,477</b>              | <b>154,705,881</b> |
| Operating liabilities                             | 30,659,134        | 53,774,996               | 10,086,773        | 4,391,572         | (6,736,684)                 | 92,175,791         |
| Unallocated liabilities                           | -                 | -                        | -                 | -                 | 7,818,403                   | 7,818,403          |
| <b>Total liabilities</b>                          | <b>30,659,134</b> | <b>53,774,996</b>        | <b>10,086,773</b> | <b>4,391,572</b>  | <b>1,081,719</b>            | <b>99,994,194</b>  |
| <b>Other segment items</b>                        |                   |                          |                   |                   |                             |                    |
| Additions to non-current assets <sup>(b)</sup>    | 4,760,868         | 421,347                  | 118,441           | 947,989           | -                           | 6,248,645          |
| Depreciation                                      | (1,761,558)       | (264,328)                | (103,907)         | (164,136)         | -                           | (2,293,929)        |
| Amortisation                                      | (301,576)         | (48,523)                 | (110,012)         | (79,487)          | -                           | (539,598)          |
| Impairment                                        | (30,978)          | -                        | -                 | (37,167)          | -                           | (68,145)           |

# GraceKennedy Limited

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### 24. Segment Information (Continued)

#### Operating segments (continued)

|                                                      | 2018              |                          |                   |                   |                             |                    |
|------------------------------------------------------|-------------------|--------------------------|-------------------|-------------------|-----------------------------|--------------------|
|                                                      | Food<br>Trading   | Banking &<br>Investments | Insurance         | Money<br>Services | Unallocated/<br>Elimination | Group              |
|                                                      | \$'000            | \$'000                   | \$'000            | \$'000            | \$'000                      | \$'000             |
| <b>REVENUE</b>                                       |                   |                          |                   |                   |                             |                    |
| External sales                                       | 77,106,135        | 5,772,300                | 6,980,311         | 7,685,985         | -                           | 97,544,731         |
| Inter-segment sales                                  | 186,524           | 55,071                   | 357,117           | -                 | (598,712)                   | -                  |
| <b>Total Revenue</b>                                 | <b>77,292,659</b> | <b>5,827,371</b>         | <b>7,337,428</b>  | <b>7,685,985</b>  | <b>(598,712)</b>            | <b>97,544,731</b>  |
| Operating results                                    | 1,630,855         | 558,498                  | 702,059           | 3,014,103         | 27,072                      | 5,932,587          |
| Unallocated income                                   | -                 | -                        | -                 | -                 | 693,937                     | 693,937            |
| Profit from operations                               | -                 | -                        | -                 | -                 | -                           | 6,626,524          |
| Finance income                                       | 21,433            | 37,402                   | 18,441            | 36,801            | 313,424                     | 427,501            |
| Finance expense                                      | (383,413)         | (47,323)                 | -                 | (3,558)           | (147,579)                   | (581,873)          |
| Share of results of associates and<br>joint ventures | 340,802           | 202,674                  | (52,603)          | -                 | -                           | 490,873            |
| <b>Profit before taxation</b>                        | <b>1,609,677</b>  | <b>751,251</b>           | <b>667,897</b>    | <b>3,047,346</b>  | <b>886,854</b>              | <b>6,963,025</b>   |
| Taxation                                             |                   |                          |                   |                   |                             | (1,319,448)        |
| <b>Net Profit</b>                                    |                   |                          |                   |                   |                             | <b>5,643,577</b>   |
| Operating assets                                     | 46,637,773        | 59,356,799               | 14,309,808        | 11,215,366        | (4,694,018)                 | 126,825,728        |
| Investment in associates and joint ventures          | 1,731,250         | 1,026,061                | 197,397           | 10,133            | -                           | 2,964,841          |
| Unallocated assets                                   | -                 | -                        | -                 | -                 | 5,444,831                   | 5,444,831          |
| <b>Total assets</b>                                  | <b>48,369,023</b> | <b>60,382,860</b>        | <b>14,507,205</b> | <b>11,225,499</b> | <b>750,813</b>              | <b>135,235,400</b> |
| Operating liabilities                                | 24,390,214        | 49,798,838               | 8,467,661         | 3,310,517         | (4,656,868)                 | 81,310,362         |
| Unallocated liabilities                              | -                 | -                        | -                 | -                 | 7,235,646                   | 7,235,646          |
| <b>Total liabilities</b>                             | <b>24,390,214</b> | <b>49,798,838</b>        | <b>8,467,661</b>  | <b>3,310,517</b>  | <b>2,578,778</b>            | <b>88,546,008</b>  |
| <b>Other segment items</b>                           |                   |                          |                   |                   |                             |                    |
| Additions to non-current assets <sup>(b)</sup>       | 1,413,642         | 112,233                  | 193,113           | 1,773,387         | -                           | 3,492,375          |
| Depreciation                                         | (793,361)         | (167,793)                | (76,095)          | (78,570)          | -                           | (1,115,819)        |
| Amortisation                                         | (285,240)         | (150,793)                | (104,925)         | (93,662)          | -                           | (634,620)          |

# GraceKennedy Limited

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### 24. Segment Information (Continued)

#### Operating segments (continued)

The profit or loss, assets and liabilities for reportable segments are reconciled to the totals for profit or loss, assets and liabilities as follows:

|                                   | Profit before Taxation |           | Assets      |             | Liabilities |             |
|-----------------------------------|------------------------|-----------|-------------|-------------|-------------|-------------|
|                                   | 2019                   | 2018      | 2019        | 2018        | 2019        | 2018        |
|                                   | \$'000                 | \$'000    | \$'000      | \$'000      | \$'000      | \$'000      |
| Total for reportable segments     | 6,783,464              | 6,076,171 | 153,726,404 | 134,484,587 | 98,912,475  | 85,967,230  |
| Inter-segment eliminations        | -                      | -         | (6,760,019) | (4,694,018) | (6,736,684) | (4,656,868) |
| <b>Unallocated amounts:</b>       |                        |           |             |             |             |             |
| Corporate central office results  | 699,606                | 1,323,467 | -           | -           | -           | -           |
| Post-employment benefits          | (1,222,587)            | (332,207) | -           | -           | -           | -           |
| Share-based payments              | (132,888)              | (104,406) | -           | -           | -           | -           |
| Taxation recoverable              | -                      | -         | 775,786     | 764,826     | -           | -           |
| Deferred tax assets               | -                      | -         | 1,142,161   | 1,410,080   | -           | -           |
| Pension plan asset                | -                      | -         | 5,821,549   | 3,269,925   | -           | -           |
| Taxation                          | -                      | -         | -           | -           | 459,191     | 464,890     |
| Deferred tax liabilities          | -                      | -         | -           | -           | 1,559,686   | 687,069     |
| Other post-employment obligations | -                      | -         | -           | -           | 5,799,526   | 6,083,687   |
| Total unallocated                 | (655,869)              | 886,854   | 7,739,496   | 5,444,831   | 7,818,403   | 7,235,646   |
| Total per financial statements    | 6,127,595              | 6,963,025 | 154,705,881 | 135,235,400 | 99,994,194  | 88,546,008  |

#### Geographical information

|                           | Revenue <sup>(a)</sup> |            | Non-current Assets <sup>(b)</sup> |            |
|---------------------------|------------------------|------------|-----------------------------------|------------|
|                           | 2019                   | 2018       | 2019                              | 2018       |
|                           | \$'000                 | \$'000     | \$'000                            | \$'000     |
| Jamaica                   | 57,413,374             | 51,777,307 | 21,651,482                        | 16,708,997 |
| United Kingdom            | 11,245,227             | 12,084,871 | 2,282,849                         | 1,183,305  |
| United States of America  | 19,474,217             | 18,674,249 | 6,797,678                         | 3,040,011  |
| Canada                    | 6,285,511              | 6,126,392  | 142,060                           | 54,918     |
| Other Caribbean countries | 6,878,529              | 6,940,647  | 1,670,693                         | 1,305,830  |
| Other European countries  | 1,656,214              | 1,752,896  | -                                 | -          |
| Africa                    | -                      | 29,046     | -                                 | -          |
| Other countries           | 136,821                | 159,323    | -                                 | -          |
| Total                     | 103,089,893            | 97,544,731 | 32,544,762                        | 22,293,061 |

(a) Revenue is attributed to countries on the basis of the customer's location.

(b) For the purposes of segment information, non-current assets exclude financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts, as well as discontinued operations.

# GraceKennedy Limited

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### 25. Revenues

Revenues can be disaggregated as follows:

|                                         | Group       |            | Company    |            |
|-----------------------------------------|-------------|------------|------------|------------|
|                                         | 2019        | 2018       | 2019       | 2018       |
|                                         | \$'000      | \$'000     | \$'000     | \$'000     |
| Timing of revenue recognition –         |             |            |            |            |
| Goods transferred at a point in time    | 81,441,465  | 77,106,135 | 21,566,624 | 18,957,924 |
| Services transferred at a point in time | 11,341,719  | 10,677,779 | -          | -          |
| Services transferred over time          | 162,789     | 132,795    | -          | -          |
| Revenue from insurance contracts        | 5,967,500   | 5,605,875  | -          | -          |
| Interest revenue –                      |             |            |            |            |
| Interest income on investments          | 1,102,639   | 1,018,298  | -          | -          |
| Interest income on loans receivable     | 3,073,781   | 3,003,849  | -          | -          |
|                                         | 103,089,893 | 97,544,731 | 21,566,624 | 18,957,924 |

### 26. Expense by Nature

|                                                        | Group      |            | Company    |            |
|--------------------------------------------------------|------------|------------|------------|------------|
|                                                        | 2019       | 2018       | 2019       | 2018       |
|                                                        | \$'000     | \$'000     | \$'000     | \$'000     |
| Auditors' remuneration                                 | 201,298    | 209,721    | 20,771     | 21,223     |
| Advertising and marketing                              | 2,713,810  | 2,711,918  | 1,062,031  | 1,087,806  |
| Amortisation of intangibles                            | 539,598    | 634,620    | 92,777     | 70,318     |
| Commissions and other money services costs             | 1,646,345  | 1,827,300  | -          | -          |
| Cost of inventory recognised as expense                | 55,980,741 | 54,116,666 | 16,110,487 | 14,479,386 |
| Depreciation                                           | 2,293,929  | 1,115,819  | 371,524    | 71,000     |
| Impairment                                             | 68,145     | -          | -          | -          |
| Impairment losses on financial assets (net)            | 488,116    | 484,367    | 43,929     | 25,870     |
| Information technology                                 | 1,199,653  | 1,056,551  | 412,666    | 393,493    |
| Insurance                                              | 789,051    | 629,302    | 119,931    | 102,683    |
| Interest expense and other financial services expenses | 6,072,112  | 5,691,319  | -          | -          |
| Legal, professional and other fees                     | 3,854,831  | 4,214,664  | 863,678    | 825,751    |
| Occupancy costs                                        | 2,797,771  | 3,402,879  | 276,462    | 596,477    |
| Repairs and maintenance expenditure                    | 1,113,670  | 754,671    | 84,114     | 40,203     |
| Staff costs (Note 28)                                  | 15,678,768 | 13,828,705 | 4,786,639  | 3,735,514  |
| Transportation                                         | 2,112,972  | 2,093,695  | 600,214    | 461,395    |
| Other expenses                                         | 1,800,082  | 1,632,020  | 327,380    | 381,469    |
|                                                        | 99,350,892 | 94,404,217 | 25,172,603 | 22,292,588 |

# GraceKennedy Limited

## Notes to the Financial Statements

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### 27. Other Income

|                                                                    | Group     |           | Company   |           |
|--------------------------------------------------------------------|-----------|-----------|-----------|-----------|
|                                                                    | 2019      | 2018      | 2019      | 2018      |
|                                                                    | \$'000    | \$'000    | \$'000    | \$'000    |
| Dividend income                                                    | 38,571    | 25,073    | 1,693,875 | 2,353,901 |
| Net foreign exchange gains                                         | 634,130   | 833,343   | 236,215   | 248,237   |
| Change in fair value of investment properties                      | 37,000    | 10,000    | -         | -         |
| Change in value of investments – fair value through profit or loss | 170,655   | 135,228   | -         | -         |
| Gain on disposal of investments                                    | 22,323    | 1,069,837 | -         | -         |
| Gain on disposal of fixed assets                                   | 9,788     | 27,704    | 1,785     | 947       |
| Fees and commissions                                               | 843,957   | 557,626   | 3,075,549 | 2,949,938 |
| Interest income                                                    | 271,561   | 310,027   | -         | -         |
| Rebates, reimbursements and recoveries                             | 170,911   | 227,696   | 57,361    | 38,011    |
| Rent                                                               | 216,174   | 235,596   | -         | -         |
| Miscellaneous                                                      | 105,142   | 53,880    | 12,438    | 8,263     |
|                                                                    | 2,520,212 | 3,486,010 | 5,077,223 | 5,599,297 |

### 28. Staff Costs

|                                                                | Group      |            | Company   |           |
|----------------------------------------------------------------|------------|------------|-----------|-----------|
|                                                                | 2019       | 2018       | 2019      | 2018      |
|                                                                | \$'000     | \$'000     | \$'000    | \$'000    |
| Wages and salaries                                             | 10,824,538 | 9,988,619  | 2,803,397 | 2,602,219 |
| Pension (Note 14)                                              | 696,818    | 79,506     | 696,818   | 79,506    |
| Pension contributions to defined contribution scheme (Note 14) | 373,708    | 330,859    | 78,066    | 65,683    |
| Other post-employment benefits (Note 14)                       | 769,455    | 461,749    | 342,846   | 207,097   |
| Share-based payments                                           | 132,888    | 104,406    | 93,863    | 73,302    |
| Statutory contributions                                        | 1,018,360  | 930,486    | 291,136   | 257,971   |
| Other costs                                                    | 1,863,001  | 1,933,080  | 480,513   | 449,736   |
|                                                                | 15,678,768 | 13,828,705 | 4,786,639 | 3,735,514 |

# GraceKennedy Limited

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### 29. Taxation

Taxation is based on the profit for the year adjusted for taxation purposes:

|                                    | Group     |           | Company   |          |
|------------------------------------|-----------|-----------|-----------|----------|
|                                    | 2019      | 2018      | 2019      | 2018     |
|                                    | \$'000    | \$'000    | \$'000    | \$'000   |
| Current tax                        | 1,582,856 | 1,542,417 | 100,653   | 37,113   |
| Adjustment to prior year provision | (100,411) | (52,467)  | -         | -        |
| Deferred tax (Note 13)             | (454,766) | (170,502) | (180,744) | (48,161) |
|                                    | 1,027,679 | 1,319,448 | (80,091)  | (11,048) |

The tax on the Group's and company's profit before tax differs from the theoretical amount that would arise using the tax rate of the home country of the company as follows:

|                                                                       | Group     |           | Company   |           |
|-----------------------------------------------------------------------|-----------|-----------|-----------|-----------|
|                                                                       | 2019      | 2018      | 2019      | 2018      |
|                                                                       | \$'000    | \$'000    | \$'000    | \$'000    |
| Profit before tax                                                     | 6,127,595 | 6,963,025 | 1,510,650 | 2,435,769 |
| Tax calculated at a tax rate of 25%                                   | 1,531,899 | 1,740,756 | 377,663   | 608,942   |
| Adjusted for the effects of:                                          |           |           |           |           |
| Different tax rates in other countries                                | (46,744)  | 26,933    | -         | -         |
| Different tax rate of regulated Jamaican companies                    | 350,238   | 361,696   | -         | -         |
| Income not subject to tax                                             | (229,627) | (525,230) | (472,039) | (637,315) |
| Expenses not deductible for tax purposes                              | 198,731   | 318,953   | 15,593    | 17,325    |
| Adjustment to prior year provision                                    | (100,411) | (52,467)  | -         | -         |
| Share of profits of associates and joint ventures included net of tax | (129,722) | (122,718) | -         | -         |
| Urban renewal tax credit                                              | (549,475) | (427,697) | -         | -         |
| Other                                                                 | 2,790     | (778)     | (1,308)   | -         |
| Tax expense/(credit)                                                  | 1,027,679 | 1,319,448 | (80,091)  | (11,048)  |

# GraceKennedy Limited

## Notes to the Financial Statements

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### 29. Taxation (Continued)

The tax (charge)/credit relating to components of other comprehensive income is as follows:

|                                                                       | Group                   |                         |                        |                         |                                      |                        |
|-----------------------------------------------------------------------|-------------------------|-------------------------|------------------------|-------------------------|--------------------------------------|------------------------|
|                                                                       | 2019                    |                         |                        | 2018                    |                                      |                        |
|                                                                       | Before<br>tax<br>\$'000 | Tax<br>charge<br>\$'000 | After<br>tax<br>\$'000 | Before<br>tax<br>\$'000 | Tax<br>(charge)/<br>credit<br>\$'000 | After<br>tax<br>\$'000 |
| <i>Items that will not be reclassified to profit or loss:</i>         |                         |                         |                        |                         |                                      |                        |
| Revaluation surplus                                                   | 2,500                   | 17,815                  | 20,315                 | 899,329                 | (214,691)                            | 684,638                |
| Fair value gains                                                      | 927,030                 | (305,580)               | 621,450                | 156,268                 | (52,667)                             | 103,601                |
| Remeasurements of post-employment benefit obligations                 | 4,058,372               | (1,036,135)             | 3,022,237              | (3,660,408)             | 925,771                              | (2,734,637)            |
| Share of other comprehensive income of associates and joint ventures  | 14,989                  | -                       | 14,989                 | 30,249                  | -                                    | 30,249                 |
|                                                                       | 5,002,891               | (1,323,900)             | 3,678,991              | (2,574,562)             | 658,413                              | (1,916,149)            |
| <i>Items that may be subsequently reclassified to profit or loss:</i> |                         |                         |                        |                         |                                      |                        |
| Foreign currency translation adjustments                              | 551,187                 | -                       | 551,187                | (1,180,883)             | -                                    | (1,180,883)            |
| Fair value gains/(losses)                                             | 808,563                 | (269,502)               | 539,061                | (402,511)               | 122,562                              | (279,949)              |
| Share of other comprehensive income of associates and joint ventures  | 38,048                  | -                       | 38,048                 | 15,373                  | -                                    | 15,373                 |
|                                                                       | 1,397,798               | (269,502)               | 1,128,296              | (1,568,021)             | 122,562                              | (1,445,459)            |
| Other comprehensive income                                            | 6,400,689               | (1,593,402)             | 4,807,287              | (4,142,583)             | 780,975                              | (3,361,608)            |
| Deferred tax (Note 13)                                                | -                       | (1,593,402)             | -                      | -                       | 780,975                              | -                      |
|                                                                       |                         |                         |                        |                         |                                      |                        |
|                                                                       | Company                 |                         |                        |                         |                                      |                        |
|                                                                       | 2019                    |                         |                        | 2018                    |                                      |                        |
|                                                                       | Before<br>tax<br>\$'000 | Tax<br>charge<br>\$'000 | After<br>tax<br>\$'000 | Before<br>tax<br>\$'000 | Tax<br>credit/<br>(charge)<br>\$'000 | After<br>tax<br>\$'000 |
| <i>Items that will not be reclassified to profit or loss:</i>         |                         |                         |                        |                         |                                      |                        |
| Revaluation surplus                                                   | -                       | -                       | -                      | 7,412                   | (2,613)                              | 4,799                  |
| Fair value gains/(losses)                                             | 41,160                  | (10,290)                | 30,870                 | (6,932)                 | 1,733                                | (5,199)                |
| Remeasurements of post-employment benefit obligations                 | 3,569,475               | (892,369)               | 2,677,106              | (3,354,775)             | 838,694                              | (2,516,081)            |
|                                                                       | 3,610,635               | (902,659)               | 2,707,976              | (3,354,295)             | 837,814                              | (2,516,481)            |
| <i>Items that may be subsequently reclassified to profit or loss:</i> |                         |                         |                        |                         |                                      |                        |
| Other comprehensive income                                            | 3,610,635               | (902,659)               | 2,707,976              | (3,354,295)             | 837,814                              | (2,516,481)            |
| Deferred tax (Note 13)                                                | -                       | (902,659)               | -                      | -                       | 837,814                              | -                      |

# GraceKennedy Limited

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### 30. Net Profit Attributable to the Owners of GraceKennedy Limited

Dealt with as follows in the financial statements of:

|                                                                                                                     | 2019        | 2018        |
|---------------------------------------------------------------------------------------------------------------------|-------------|-------------|
|                                                                                                                     | \$'000      | \$'000      |
| The company                                                                                                         | 1,590,741   | 2,446,817   |
| Intra-group dividends, gain on disposal of subsidiaries within the Group<br>and other eliminations on consolidation | (1,690,353) | (2,352,957) |
| Adjusted company (loss)/profit                                                                                      | (99,612)    | 93,860      |
| The subsidiaries                                                                                                    | 4,068,114   | 4,421,182   |
| The associates and joint ventures                                                                                   | 518,887     | 490,873     |
|                                                                                                                     | 4,487,389   | 5,005,915   |

### 31. Dividends

|                                                      | 2019      | 2018      |
|------------------------------------------------------|-----------|-----------|
|                                                      | \$'000    | \$'000    |
| Paid,                                                |           |           |
| Interim – 35 cents per stock unit (2018 : nil cents) | 347,618   | -         |
| Interim – 40 cents per stock unit (2018 : 40 cents)  | 397,288   | 397,117   |
| Interim – 40 cents per stock unit (2018 : 45 cents)  | 397,166   | 446,668   |
| Final – 40 cents per stock unit (2018 : 50 cents)    | 396,977   | 495,998   |
|                                                      | 1,539,049 | 1,339,783 |

### 32. Earnings Per Stock Unit

Basic earnings per stock unit is calculated by dividing the net profit attributable to owners by the weighted average number of ordinary stock units outstanding during the year.

|                                                           | 2019      | 2018      |
|-----------------------------------------------------------|-----------|-----------|
| Net profit attributable to owners (\$'000)                | 4,487,389 | 5,005,915 |
| Weighted average number of stock units outstanding ('000) | 992,033   | 991,865   |
| Basic earnings per stock unit (\$)                        | 4.52      | 5.05      |

The diluted earnings per stock unit is calculated by adjusting the weighted average number of ordinary stock units outstanding to assume conversion of all dilutive potential ordinary stock units.

- (a) 1,758,000 (2018: 2,493,000) ordinary stock units for the full year in respect of stock options for directors.
- (b) 3,615,000 (2018: 3,633,000) ordinary stock units for the full year in respect of the stock options for managers.
- (c) 2,184,000 (2018: nil) ordinary stock units for the full year in respect of the restricted stock grants earned.

|                                                                 | 2019      | 2018      |
|-----------------------------------------------------------------|-----------|-----------|
| Net profit attributable to owners (\$'000)                      | 4,487,389 | 5,005,915 |
| Weighted average number of stock units outstanding ('000)       | 992,033   | 991,865   |
| Adjustment for share options and restricted stock grants ('000) | 3,497     | 1,602     |
|                                                                 | 995,530   | 993,467   |
| Diluted earnings per stock unit (\$)                            | 4.51      | 5.04      |

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### 33. Cash Flows from Operating Activities

Reconciliation of net profit to cash generated from operating activities:

|                                                           | Note | Group          |                | Company        |                |
|-----------------------------------------------------------|------|----------------|----------------|----------------|----------------|
|                                                           |      | 2019<br>\$'000 | 2018<br>\$'000 | 2019<br>\$'000 | 2018<br>\$'000 |
| Net profit                                                |      | 5,099,916      | 5,643,577      | 1,590,741      | 2,446,817      |
| Items not affecting cash:                                 |      |                |                |                |                |
| Depreciation                                              | 12   | 2,293,929      | 1,115,819      | 371,524        | 71,000         |
| Amortisation                                              | 11   | 539,598        | 634,620        | 92,777         | 70,318         |
| Impairment charge                                         |      | 68,145         | -              | -              | -              |
| Change in value of investment properties                  |      | (37,000)       | (10,000)       | -              | -              |
| Change in value of investments                            |      | (170,655)      | (135,228)      | -              | -              |
| Gain on disposal of fixed assets                          |      | (9,788)        | (27,704)       | (1,785)        | (947)          |
| Gain on disposal of investments                           |      | (22,323)       | (1,069,837)    | -              | -              |
| Share-based payments                                      | 19   | 132,888        | 104,406        | 93,863         | 73,302         |
| Exchange loss/(gain) on foreign balances                  |      | 233,608        | (210,951)      | (128,153)      | 60,562         |
| Interest income – non financial services                  |      | (437,398)      | (427,501)      | (572,086)      | (504,893)      |
| Interest income – financial services                      |      | (4,447,981)    | (4,332,173)    | -              | -              |
| Interest expense – non financial services                 |      | 1,087,903      | 581,873        | 532,680        | 333,757        |
| Interest expense – financial services                     |      | 779,520        | 781,454        | -              | -              |
| Taxation expense                                          | 29   | 1,027,679      | 1,319,448      | (80,091)       | (11,048)       |
| Unremitted equity income in associates and joint ventures |      | (291,153)      | (197,225)      | -              | -              |
| Pension plan surplus                                      |      | 696,315        | 78,979         | 696,315        | 78,979         |
| Other post-employment obligations                         |      | 526,272        | 253,228        | 189,376        | 62,223         |
|                                                           |      | 7,069,475      | 4,102,785      | 2,785,161      | 2,680,070      |
| Changes in working capital components:                    |      |                |                |                |                |
| Inventories                                               |      | (531,094)      | (1,530,921)    | 254,748        | (497,717)      |
| Receivables                                               |      | (682,194)      | 546,885        | 293,278        | (528,674)      |
| Loans receivable, net                                     |      | (3,943,433)    | 654,147        | -              | -              |
| Payables                                                  |      | 1,206,504      | 847,465        | (785,365)      | 998,656        |
| Deposits                                                  |      | 803,112        | 558,099        | -              | -              |
| Securities sold under repurchase agreements               |      | 507,522        | 3,342,339      | -              | -              |
| Subsidiaries                                              |      | -              | -              | 290,304        | (1,180,214)    |
| Provisions                                                |      | 37,779         | -              | -              | -              |
| Total provided by operating activities                    |      | 4,467,671      | 8,520,799      | 2,838,126      | 1,472,121      |

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### 33. Cash Flows from Operating Activities (Continued)

Reconciliation of net profit to cash generated from operating activities (continued):

|                                           | Group       |             | Company   |           |
|-------------------------------------------|-------------|-------------|-----------|-----------|
|                                           | 2019        | 2018        | 2019      | 2018      |
|                                           | \$'000      | \$'000      | \$'000    | \$'000    |
| Cash provided by operating activities     | 4,467,671   | 8,520,799   | 2,838,126 | 1,472,121 |
| Interest received – financial services    | 4,467,044   | 4,404,330   | -         | -         |
| Interest paid – financial services        | (738,166)   | (818,882)   | -         | -         |
| Translation gains/(losses)                | 352,009     | (1,242,828) | -         | -         |
| Taxation paid                             | (1,499,102) | (1,418,683) | (42,913)  | (61,894)  |
| Net cash provided by operating activities | 7,049,456   | 9,444,736   | 2,795,213 | 1,410,227 |

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

Amounts represent bank and other loans, excluding bank overdrafts

|                                               | Group       |             | Company     |             |
|-----------------------------------------------|-------------|-------------|-------------|-------------|
|                                               | 2019        | 2018        | 2019        | 2018        |
|                                               | \$'000      | \$'000      | \$'000      | \$'000      |
| At 1 January                                  | 13,982,712  | 13,833,665  | 4,592,950   | 4,022,443   |
| Effect of adopting IFRS 16                    | 6,237,372   | -           | 2,713,627   | -           |
| Lease liability to acquire right-of-use asset | 2,975,546   | -           | 526,040     | -           |
| Loans received                                | 6,030,765   | 7,612,456   | 4,515,827   | 3,061,883   |
| Loans repaid                                  | (6,306,514) | (7,558,098) | (3,963,828) | (2,629,854) |
| Foreign exchange adjustments                  | 329,350     | 104,937     | 46,182      | 126,788     |
| Net interest movements                        | 14,760      | (10,248)    | (7,319)     | 11,690      |
| At 31 December                                | 23,263,991  | 13,982,712  | 8,423,479   | 4,592,950   |

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### 34. Contingent Liabilities

- (a) By letter dated 17 May 2018, the Guyana Revenue Authority (GRA) indicated that GraceKennedy Remittance Services Guyana ('GKRS Guyana') was "incorrectly" classified as a non-commercial company rather than a commercial company. Based on this, the GRA asserted that GKRS Guyana had wrongly paid corporation taxes at the lower non-commercial company rate. GKRS Guyana's tax liability was assessed by the GRA to be the equivalent of J\$225,116,000, excluding penalties and interest if applicable. GKRS Guyana lodged objections to the GRA's assessment on the basis that the GRA wrongly assessed GKRS Guyana as a commercial company and that GKRS Guyana had filed (and the GRA had accepted), returns for a period of over 20 years as a non-commercial company. By letter dated 26 September 2018, received on 4 October 2018, the GRA indicated that it would maintain its assessments despite the objection.

GKRS Guyana filed an appeal on 26 October 2018 and defence in response filed by the GRA on 21 December 2018. Oral submissions were heard in chambers before the Judge on 27 March 2019 and on 8 July 2019, the court ruled in favour of GKRS Guyana; setting aside the decision by the GRA to reclassify the company as a commercial company and therefore reversing the decision by the GRA to impose corporation tax at the commercial rate.

The GRA is appealing the court's decision, however the appeal was filed outside of the prescribed time-line. The GRA has filed an application to extend the time for the filing of the appeal so that the appeal may be heard. The GRA was granted permission to file an appeal at a hearing held on 27 November 2019. The appeal was filed and a cross-appeal filed on behalf of GKRS Guyana. The matter is set to be heard within the next five months.

- (b) The company established a standby letter of credit for the equivalent of \$196,765,000 in favour of the lessors for a warehouse utilised by a food trading subsidiary. The facility is priced at 2% per annum and expires after 1 year with an option to renew annually.
- (c) Various companies in the Group are involved in certain legal proceedings incidental to the normal conduct of business. The management of these companies believes that none of these proceedings, individually or in aggregate, will have a material effect on the Group.

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### 35. Related Party Transactions and Balances

The following transactions were carried out with related parties:

|                                           | Group     |           | Company   |           |
|-------------------------------------------|-----------|-----------|-----------|-----------|
|                                           | 2019      | 2018      | 2019      | 2018      |
|                                           | \$'000    | \$'000    | \$'000    | \$'000    |
| <b>(a) Sales of goods and services</b>    |           |           |           |           |
| Sales of goods                            | 3,677     | 2,104     | 510,024   | 460,952   |
| Sales of services                         | 100,772   | 82,976    | 2,557,482 | 2,689,342 |
| <b>(b) Purchase of goods and services</b> |           |           |           |           |
| Purchases of goods                        | 3,699,098 | 4,096,454 | 7,622,909 | 7,894,680 |
| Purchases of services                     | -         | -         | 632,830   | 563,539   |
| <b>(c) Interest</b>                       |           |           |           |           |
| Interest income                           | 4,688     | 1,369     | 170,647   | 126,759   |
| Interest expense                          | 1,150     | 16,173    | 214,426   | 86,741    |

Dividends received by the company from subsidiaries and associates were \$1,462,619,000 (2018: \$2,102,957,000) and \$227,734,000 (2018: \$250,000,000) respectively.

#### (d) Transactions with key management

Key management includes directors (executive and non-executive) and members of the Executive Committee

The compensation of key management for services is shown below:

|                                                 | Group    |          | Company  |          |
|-------------------------------------------------|----------|----------|----------|----------|
|                                                 | 2019     | 2018     | 2019     | 2018     |
|                                                 | \$'000   | \$'000   | \$'000   | \$'000   |
| Salaries and other short-term employee benefits | 483,216  | 411,074  | 319,427  | 284,976  |
| Fees paid to directors                          | 36,667   | 35,976   | 30,844   | 28,799   |
| Post-employment benefits                        | (30,714) | (28,052) | (37,380) | (33,536) |
| Share-based payments                            | 88,909   | 68,963   | 74,703   | 59,486   |
|                                                 | 578,078  | 487,961  | 387,594  | 339,725  |

The following amounts are in respect of directors' emoluments:

|                               | Group   |         | Company |         |
|-------------------------------|---------|---------|---------|---------|
|                               | 2019    | 2018    | 2019    | 2018    |
|                               | \$'000  | \$'000  | \$'000  | \$'000  |
| Fees                          | 36,667  | 35,976  | 30,844  | 28,799  |
| Management remuneration       | 145,688 | 132,100 | 145,688 | 132,100 |
| Consultancy services          | 18,040  | 9,019   | 18,040  | 9,019   |
| Post-employment benefits paid | -       | 16,074  | -       | 3,020   |
| Share-based payments          | 23,581  | -       | 23,581  | -       |
|                               | 223,976 | 193,169 | 218,153 | 172,938 |

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**35. Related Party Transactions and Balances (Continued)**

**(d) Transactions with key management (continued)**

Transactions with directors and other key management personnel (and their families)

|                                  | <b>Group</b>  |               | <b>Company</b> |               |
|----------------------------------|---------------|---------------|----------------|---------------|
|                                  | <b>2019</b>   | <b>2018</b>   | <b>2019</b>    | <b>2018</b>   |
|                                  | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b>  | <b>\$'000</b> |
| Sale of goods and services –     |               |               |                |               |
| Sales of goods                   | 836           | 1,180         | 426            | 861           |
| Sales of services                | 4,045         | 2,364         | -              | -             |
| Purchase of goods and services – |               |               |                |               |
| Purchase of services             | 1,024         | 4,095         | 1,024          | 4,095         |
| Interest earned and incurred –   |               |               |                |               |
| Interest income                  | 1,004         | 1,148         | -              | -             |
| Interest expense                 | 2,177         | 4,001         | -              | -             |

Transactions with companies controlled by directors and other key management personnel

|                              | <b>Group</b>  |               | <b>Company</b> |               |
|------------------------------|---------------|---------------|----------------|---------------|
|                              | <b>2019</b>   | <b>2018</b>   | <b>2019</b>    | <b>2018</b>   |
|                              | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b>  | <b>\$'000</b> |
| Sale of goods and services – |               |               |                |               |
| Sales of services            | -             | 298           | -              | -             |

**(e) Year-end balances with related parties**

|                                                              | <b>Group</b>  |               | <b>Company</b> |               |
|--------------------------------------------------------------|---------------|---------------|----------------|---------------|
|                                                              | <b>2019</b>   | <b>2018</b>   | <b>2019</b>    | <b>2018</b>   |
|                                                              | <b>\$'000</b> | <b>\$'000</b> | <b>\$'000</b>  | <b>\$'000</b> |
| Cash and deposits with subsidiaries                          | -             | -             | 602,936        | 1,081,416     |
| Investment securities with subsidiaries                      | -             | -             | 126,326        | 86,159        |
| Receivable from subsidiaries                                 | -             | -             | 1,930,889      | 1,867,140     |
| Receivable from associates and joint ventures (Note 7)       | 21,712        | 29,591        | 15,471         | 17,465        |
| Loans receivable from subsidiaries (Note 9)                  | -             | -             | 1,981,257      | 1,336,805     |
| Loans receivable from associates and joint ventures (Note 9) | 46,648        | -             | 37,325         | -             |
| Payable to subsidiaries                                      | -             | -             | 3,381,561      | 3,027,509     |
| Payable to associates and joint ventures (Note 17)           | 179,725       | 429,556       | 85,695         | 201,742       |
| Loans & leases payable to subsidiaries                       | -             | -             | 3,069,224      | 249,243       |
| Deposits payable to associates and joint ventures            | 945,029       | 493,982       | -              | -             |

**(f) Loans to related parties**

Loans receivable from subsidiaries are repayable in the years 2019 - 2025 and bear interest at 4.25% - 7.0% (2018: 4.0% - 8.0%). No provision was required in 2019 and 2018 for loans made to subsidiaries.

# GraceKennedy Limited

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### 35. Related Party Transactions and Balances (Continued)

#### (f) Loans to related parties (continued)

|                                | Company        |                |
|--------------------------------|----------------|----------------|
|                                | 2019<br>\$'000 | 2018<br>\$'000 |
| Loans to subsidiaries:         |                |                |
| At 1 January                   | 1,336,805      | 3,238,328      |
| Loans advanced during the year | 972,548        | 698,199        |
| Loan repayments received       | (324,114)      | (2,671,547)    |
| Exchange differences           | (13,755)       | 113,765        |
| Interest charged               | 111,866        | 46,312         |
| Interest received              | (102,093)      | (88,252)       |
| At 31 December                 | 1,981,257      | 1,336,805      |

#### (g) Year end balances with directors and other key management

Balances with directors and other key management personnel (and their families)

|                  | Group          |                | Company        |                |
|------------------|----------------|----------------|----------------|----------------|
|                  | 2019<br>\$'000 | 2018<br>\$'000 | 2019<br>\$'000 | 2018<br>\$'000 |
| Receivables      | 330            | 357            | 98             | 58             |
| Loans receivable | 123,732        | 73,869         | 51,688         | 52,833         |
| Payables         | 154            | -              | -              | -              |
| Loans payable    | 7,559          | -              | -              | -              |
| Deposits payable | 223,146        | 226,327        | -              | -              |

#### (h) Loans to directors and other key management

The loans receivable attract interest at rates ranging between 0% - 8.5% (2018: 0% - 10.5%) and are repayable in the years 2021 - 2045. These loans are secured and are made on terms similar to those offered to other employees. No provision was required in 2019 and 2018 for the loans made to directors and senior managers.

|                                              | Group          |                | Company        |                |
|----------------------------------------------|----------------|----------------|----------------|----------------|
|                                              | 2019<br>\$'000 | 2018<br>\$'000 | 2019<br>\$'000 | 2018<br>\$'000 |
| Loans to directors and other key management: |                |                |                |                |
| At 1 January                                 | 73,869         | 75,818         | 52,833         | 59,114         |
| Loans advanced during the year               | 68,910         | 28,723         | 5,316          | 4,781          |
| Loan repayments received                     | (19,047)       | (30,760)       | (6,461)        | (11,062)       |
| Interest charged                             | 1,004          | 1,148          | -              | -              |
| Interest received                            | (1,004)        | (1,060)        | -              | -              |
| At 31 December                               | 123,732        | 73,869         | 51,688         | 52,833         |

#### (i) Share options granted to directors

The outstanding number of share options granted to the directors of the company at the end of the year was 1,758,000 (2018: 2,493,000).

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### 36. Fair Values Estimation

#### Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following tables provide an analysis of the Group's and company's financial instruments held as at 31 December that, subsequent to initial recognition, are measured at fair value. The financial instruments are grouped into levels 1 to 3 based on the degree to which the fair values are observable, as follows:

- Level 1 includes those instruments which are measured based on quoted prices in active markets for identical assets or liabilities.
- Level 2 includes those instruments which are measured using inputs other than quoted prices within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 includes those instruments which are measured using valuation techniques that include inputs for the instrument that are not based on observable market data (unobservable inputs).

|                                                                    | Group            |                  |          |                   |
|--------------------------------------------------------------------|------------------|------------------|----------|-------------------|
|                                                                    | 2019             |                  |          |                   |
|                                                                    | Level 1          | Level 2          | Level 3  | Total             |
|                                                                    | \$'000           | \$'000           | \$'000   | \$'000            |
| <b>Assets</b>                                                      |                  |                  |          |                   |
| Financial assets at fair value through other comprehensive income: |                  |                  |          |                   |
| Quoted equities                                                    | 1,504,099        | -                | -        | 1,504,099         |
| Government of Jamaica securities                                   | -                | 6,305,175        | -        | 6,305,175         |
| Foreign governments                                                | -                | 931,501          | -        | 931,501           |
| Corporate bonds                                                    | -                | 1,853,342        | -        | 1,853,342         |
| Other                                                              | -                | 1,279            | -        | 1,279             |
| Financial assets at fair value through profit or loss:             |                  |                  |          |                   |
| Quoted equities                                                    | 701,694          | -                | -        | 701,694           |
| <b>Total Assets</b>                                                | <b>2,205,793</b> | <b>9,091,297</b> | <b>-</b> | <b>11,297,090</b> |

# GraceKennedy Limited

## Notes to the Financial Statements

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### 36. Fair Values Estimation (Continued)

#### Financial Instruments (continued)

| Group                                                              |                  |                  |          |                  |
|--------------------------------------------------------------------|------------------|------------------|----------|------------------|
| 2018                                                               |                  |                  |          |                  |
|                                                                    | Level 1          | Level 2          | Level 3  | Total            |
|                                                                    | \$'000           | \$'000           | \$'000   | \$'000           |
| <b>Assets</b>                                                      |                  |                  |          |                  |
| Financial assets at fair value through other comprehensive income: |                  |                  |          |                  |
| Quoted equities                                                    | 577,070          | -                | -        | 577,070          |
| Government of Jamaica securities                                   | -                | 5,589,468        | -        | 5,589,468        |
| Foreign governments                                                | -                | 430,355          | -        | 430,355          |
| Other                                                              | -                | 424              | -        | 424              |
| Financial assets at fair value through profit or loss:             |                  |                  |          |                  |
| Quoted equities                                                    | 463,211          | -                | -        | 463,211          |
| <b>Total Assets</b>                                                | <b>1,040,281</b> | <b>6,020,247</b> | <b>-</b> | <b>7,060,528</b> |
|                                                                    |                  |                  |          |                  |
| Company                                                            |                  |                  |          |                  |
| 2019                                                               |                  |                  |          |                  |
|                                                                    | Level 1          | Level 2          | Level 3  | Total            |
|                                                                    | \$'000           | \$'000           | \$'000   | \$'000           |
| <b>Assets</b>                                                      |                  |                  |          |                  |
| Financial assets at fair value through other comprehensive income: |                  |                  |          |                  |
| Quoted equities                                                    | 82,729           | -                | -        | 82,729           |
| <b>Total Assets</b>                                                | <b>82,729</b>    | <b>-</b>         | <b>-</b> | <b>82,729</b>    |

# GraceKennedy Limited

## Notes to the Financial Statements

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### 36. Fair Values Estimation (Continued)

#### Financial Instruments (continued)

|                                                                    | Company           |                   |                   |                 |
|--------------------------------------------------------------------|-------------------|-------------------|-------------------|-----------------|
|                                                                    | 2018              |                   |                   |                 |
|                                                                    | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total<br>\$'000 |
| <b>Assets</b>                                                      |                   |                   |                   |                 |
| Financial assets at fair value through other comprehensive income: |                   |                   |                   |                 |
| Quoted equities                                                    | 41,570            | -                 | -                 | 41,570          |
| <b>Total Assets</b>                                                | <b>41,570</b>     | <b>-</b>          | <b>-</b>          | <b>41,570</b>   |

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investments listed on a public stock exchange classified as either fair value through other comprehensive income or fair value through profit or loss.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all of the resulting fair value estimates are included in level 2.

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### 36. Fair Values Estimation (Continued)

#### Fair Value of Land and Buildings and Investment Properties

An independent valuation of the Group's land and buildings was performed by valuers to determine the fair value of the land and buildings as at 31 December 2018. The revaluation surplus net of applicable deferred income taxes was credited to other comprehensive income and is shown in 'capital and fair value reserves' in shareholders' equity (Note 20). The following table analyses the non-financial assets carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Land and buildings and investment properties are classified as level 3. The valuations have been performed using the sales comparison and income approaches for all properties except the Distribution Centre, which is valued using the cost approach.

The carrying value of land and buildings classified as level 3 is \$10,042,268,000 (2018: \$6,417,246,000) and \$80,412,000 (2018: \$82,000,000) for the Group and company respectively. Included in Group's land and buildings is the Distribution Centre with a carrying value of \$4,363,461,000 (2018: \$3,822,000,000).

The carrying value of investment properties classified as level 3 is \$665,000,000 (2018: \$628,000,000).

Reconciliation of the opening and closing balances of the Group's land and buildings:

|                             | Distribution<br>center | Other land<br>and buildings | Total      | Distribution<br>center | Other land<br>and buildings | Total     |
|-----------------------------|------------------------|-----------------------------|------------|------------------------|-----------------------------|-----------|
|                             | 2019                   |                             |            | 2018                   |                             |           |
|                             | \$'000                 | \$'000                      | \$'000     | \$'000                 | \$'000                      | \$'000    |
| At beginning of year        | 3,822,000              | 2,595,246                   | 6,417,246  | 3,207,522              | 2,533,812                   | 5,741,334 |
| Additions and transfers in  | 646,553                | 3,143,392                   | 3,789,945  | 48,598                 | 61,764                      | 110,362   |
| Revaluation adjustment      | -                      | 2,500                       | 2,500      | 648,879                | 250,450                     | 899,329   |
| Disposals and transfers out | -                      | (2,976)                     | (2,976)    | -                      | (242,244)                   | (242,244) |
| Depreciation                | (105,092)              | (85,958)                    | (191,050)  | (82,999)               | (27,791)                    | (110,790) |
| Translation adjustment      | -                      | 26,603                      | 26,603     | -                      | 19,255                      | 19,255    |
| At end of year              | 4,363,461              | 5,678,807                   | 10,042,268 | 3,822,000              | 2,595,246                   | 6,417,246 |

# GraceKennedy Limited

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### 36. Fair Values Estimation (Continued)

#### Fair Value of Land and Buildings and Investment Properties (continued)

A reconciliation of the opening and closing balances for the company's land and buildings and the Group's investment properties are disclosed in Notes 12 and 38 respectively.

#### Valuation processes of the Group

On a biennial basis, the Group engages external, independent and qualified valuers to determine the fair value of the Group's land and buildings. The most recent valuations were performed as at 31 December 2016. The Group engages external, independent and qualified valuers to determine the fair value of its investment properties on an annual basis.

#### Sales Comparison Approach

There have been a limited number of similar sales in the local market, and consequently the sales comparison approach incorporates unobservable inputs which in the valuator's judgement reflects suitable adjustments regarding size, age, condition, time of sale, quality of land and buildings and improvements. The most significant input into this valuation is the price per square foot. The higher the price per square foot the higher the fair value.

#### Income Approach

The projected net income of the subject properties are discounted using an appropriate capitalisation rate. The most significant inputs to this valuation is the rental rate per square foot and the capitalisation rate. Rental rates of the subject properties are adjusted to reflect the market rent for properties of similar size, location and condition. The higher the rental rate per square foot the higher the fair value. The higher the capitalisation rate the lower the fair value. The average rent per square foot ranges between \$450 to \$500 and the capitalisation rate ranges between 9% - 10%.

#### Cost Approach

The fair value of the Distribution Centre has been determined using the cost approach due to specialised nature of the asset. The key inputs into this valuation are shown in the table below.

| Distribution Centre |                                                |                                                |                           |                                                                      |                                                                                 |
|---------------------|------------------------------------------------|------------------------------------------------|---------------------------|----------------------------------------------------------------------|---------------------------------------------------------------------------------|
| Description         | Fair value at<br>31 December<br>2019<br>\$'000 | Fair value at<br>31 December<br>2018<br>\$'000 | Valuation<br>technique(s) | Unobservable inputs                                                  | Relationship of<br>unobservable<br>inputs                                       |
| Distribution centre | 4,363,461                                      | 3,822,000                                      | Cost approach             | Certified costs of construction as at date of completion of property | The higher the costs of construction the higher the fair value                  |
|                     |                                                |                                                |                           | Range of unobservable inputs                                         |                                                                                 |
|                     |                                                |                                                |                           | US\$21,500,000 - US\$22,000,000                                      |                                                                                 |
|                     |                                                |                                                |                           | Rate of increase in construction costs from date of last valuation   | The higher the rate of increase in construction costs the higher the fair value |
|                     |                                                |                                                |                           | 2019: 10% - 12%<br>2018: 10% - 12%                                   |                                                                                 |
|                     |                                                |                                                |                           | Professional fees - architects, quantity surveyors, engineers        | The higher the professional fees the higher the fair value                      |
|                     |                                                |                                                |                           | 8%                                                                   |                                                                                 |
|                     |                                                |                                                |                           | Interest cost                                                        | The higher the interest cost the higher the fair value                          |
|                     |                                                |                                                |                           | 2019: 10% - 12%<br>2018: 10% - 12%                                   |                                                                                 |
|                     |                                                |                                                |                           | Estimated profit margin required by developer                        | The higher the developer's profit the higher the fair value                     |
|                     |                                                |                                                |                           | 5%                                                                   |                                                                                 |
|                     |                                                |                                                |                           | Rate of obsolescence                                                 | The higher the rate of obsolescence the lower the fair value                    |
|                     |                                                |                                                |                           | 9%                                                                   |                                                                                 |
|                     | 4,363,461                                      | 3,822,000                                      |                           |                                                                      |                                                                                 |

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### 37. Financial Instruments by Category

|                                          | Group                                 |                                                             |                                                                               |                   |
|------------------------------------------|---------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------------------------|-------------------|
|                                          | Assets at<br>amortised cost<br>\$'000 | Assets at fair<br>value through<br>profit or loss<br>\$'000 | Assets at fair<br>value through<br>other<br>comprehensive<br>income<br>\$'000 | Total<br>\$'000   |
| <b>As at 31 December 2019:</b>           |                                       |                                                             |                                                                               |                   |
| Cash and deposits                        | 14,627,178                            | -                                                           | -                                                                             | 14,627,178        |
| Investment securities and pledged assets | 28,596,581                            | 701,694                                                     | 10,595,396                                                                    | 39,893,671        |
| Loans receivable                         | 30,677,003                            | -                                                           | -                                                                             | 30,677,003        |
| Trade and other receivables              | 12,853,206                            | -                                                           | -                                                                             | 12,853,206        |
| <b>Total financial assets</b>            | <b>86,753,968</b>                     | <b>701,694</b>                                              | <b>10,595,396</b>                                                             | <b>98,051,058</b> |

|                                          | Group                                 |                                                             |                                                                               |                   |
|------------------------------------------|---------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------------------------|-------------------|
|                                          | Assets at<br>amortised cost<br>\$'000 | Assets at fair<br>value through<br>profit or loss<br>\$'000 | Assets at fair<br>value through<br>other<br>comprehensive<br>income<br>\$'000 | Total<br>\$'000   |
| <b>As at 31 December 2018:</b>           |                                       |                                                             |                                                                               |                   |
| Cash and deposits                        | 14,824,799                            | -                                                           | -                                                                             | 14,824,799        |
| Investment securities and pledged assets | 31,132,140                            | 463,211                                                     | 6,597,317                                                                     | 38,192,668        |
| Loans receivable                         | 26,469,557                            | -                                                           | -                                                                             | 26,469,557        |
| Trade and other receivables              | 12,190,272                            | -                                                           | -                                                                             | 12,190,272        |
| <b>Total financial assets</b>            | <b>84,616,768</b>                     | <b>463,211</b>                                              | <b>6,597,317</b>                                                              | <b>91,677,296</b> |

|                                                | Group |  |                                                                  |
|------------------------------------------------|-------|--|------------------------------------------------------------------|
|                                                |       |  | Other financial<br>liabilities at<br>amortised<br>cost<br>\$'000 |
| <b>As at 31 December 2019:</b>                 |       |  |                                                                  |
| Deposits                                       |       |  | 35,805,361                                                       |
| Securities sold under agreements to repurchase |       |  | 7,892,207                                                        |
| Bank and other loans                           |       |  | 24,032,254                                                       |
| Trade and other payables                       |       |  | 20,979,667                                                       |
| <b>Total financial liabilities</b>             |       |  | <b>88,709,489</b>                                                |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

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### 37. Financial Instruments by Category (Continued)

|                                                | Group | Other financial liabilities at amortised cost \$'000 |
|------------------------------------------------|-------|------------------------------------------------------|
| <b>As at 31 December 2018:</b>                 |       |                                                      |
| Deposits                                       |       | 34,371,026                                           |
| Securities sold under agreements to repurchase |       | 7,208,337                                            |
| Bank and other loans                           |       | 16,529,313                                           |
| Trade and other payables                       |       | 19,985,250                                           |
| <b>Total financial liabilities</b>             |       | <b>78,093,926</b>                                    |

|                                          | Company                         |                                                                |                   |
|------------------------------------------|---------------------------------|----------------------------------------------------------------|-------------------|
|                                          | Assets at amortised cost \$'000 | Assets at fair value through other comprehensive income \$'000 | Total \$'000      |
| <b>As at 31 December 2019:</b>           |                                 |                                                                |                   |
| Cash and deposits                        | 2,633,161                       | -                                                              | 2,633,161         |
| Investment securities and pledged assets | 6,604,859                       | 82,729                                                         | 6,687,588         |
| Loans receivable                         | 2,096,204                       | -                                                              | 2,096,204         |
| Trade and other receivables              | 1,561,989                       | -                                                              | 1,561,989         |
| Subsidiaries                             | 1,930,889                       | -                                                              | 1,930,889         |
| <b>Total financial assets</b>            | <b>14,827,102</b>               | <b>82,729</b>                                                  | <b>14,909,831</b> |

|                                          | Company                         |                                                                |                   |
|------------------------------------------|---------------------------------|----------------------------------------------------------------|-------------------|
|                                          | Assets at amortised cost \$'000 | Assets at fair value through other comprehensive income \$'000 | Total \$'000      |
| <b>As at 31 December 2018:</b>           |                                 |                                                                |                   |
| Cash and deposits                        | 3,960,985                       | -                                                              | 3,960,985         |
| Investment securities and pledged assets | 5,705,912                       | 41,570                                                         | 5,747,482         |
| Loans receivable                         | 1,434,966                       | -                                                              | 1,434,966         |
| Trade and other receivables              | 1,583,879                       | -                                                              | 1,583,879         |
| Subsidiaries                             | 1,867,140                       | -                                                              | 1,867,140         |
| <b>Total financial assets</b>            | <b>14,552,882</b>               | <b>41,570</b>                                                  | <b>14,594,452</b> |

# GraceKennedy Limited

## Notes to the Financial Statements

31 December 2019

(expressed in Jamaican dollars unless otherwise indicated)

### 37. Financial Instruments by Category (Continued)

|                                    | Company | Other financial liabilities at amortised cost \$'000 |
|------------------------------------|---------|------------------------------------------------------|
| <b>As at 31 December 2019:</b>     |         |                                                      |
| Bank and other loans               |         | 9,051,347                                            |
| Trade and other payables           |         | 2,808,126                                            |
| Subsidiaries                       |         | 3,381,561                                            |
| <b>Total financial liabilities</b> |         | <b>15,241,034</b>                                    |

|                                    | Company | Other financial liabilities at amortised cost \$'000 |
|------------------------------------|---------|------------------------------------------------------|
| <b>As at 31 December 2018:</b>     |         |                                                      |
| Bank and other loans               |         | 6,114,341                                            |
| Trade and other payables           |         | 3,558,129                                            |
| Subsidiaries                       |         | 3,027,509                                            |
| <b>Total financial liabilities</b> |         | <b>12,699,979</b>                                    |

### 38. Investment Properties

|                       | Group          |                |
|-----------------------|----------------|----------------|
|                       | 2019 \$'000    | 2018 \$'000    |
| <b>At 1 January</b>   | 628,000        | 618,000        |
| Change in fair value  | 37,000         | 10,000         |
| <b>At 31 December</b> | <b>665,000</b> | <b>628,000</b> |

The following amounts have been recognised in the income statement:

|                                                              | Group       |             |
|--------------------------------------------------------------|-------------|-------------|
|                                                              | 2019 \$'000 | 2018 \$'000 |
| Rental income arising from investment properties             | 43,769      | 40,176      |
| Direct operating expenses arising from investment properties | 11,597      | 10,718      |

Investment properties comprise commercial properties that are leased to third parties.

### 39. Subsequent Events

- On 27 February 2020, the Board of Directors approved an interim dividend in respect of 2020 of 40 cents per ordinary stock unit. The dividend is payable on 6 April 2020 to shareholders on record as at 16 March 2020.
- On 20 January 2020, the Group made an offer to acquire general insurance entity, Key Insurance Company Limited (Key), a company listed on the Junior Market of the Jamaica Stock Exchange. The offer was made to the existing shareholders of Key to purchase 313,192,000 units at a price of \$2.01 per share. The offer opened on 27 January 2020 and will close on 2 March 2020.

# GraceKennedy Limited

## Notes to the Financial Statements

### 31 December 2019

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#### 40. Adoption of New Accounting Standard

The Group has adopted IFRS 16 'Leases', from 1 January 2019, and the financial statements of the Group have been restated as of that date to reflect the effect of this adoption. The Group recognised lease liabilities and right-of-use assets in relation to leases which had previously been classified as operating leases under the principles of IAS 17 'Leases'.

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 2019.

The adoption of IFRS 16 resulted in an increase in the lease liabilities of \$6,237,372,000 and a corresponding increase in the right-of-use assets of \$6,237,372,000 on 1 January 2019.

The lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.15%.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

The table below shows the reconciliation of the operating lease commitments disclosed as at 31 December 2018 to the lease liabilities recognised as at 1 January 2019:

|                                                                                    | <b>Group</b>     |
|------------------------------------------------------------------------------------|------------------|
|                                                                                    | <b>January 1</b> |
|                                                                                    | <b>2019</b>      |
|                                                                                    | <b>\$'000</b>    |
| Operating lease commitments disclosed as at 31 December 2018                       | 6,197,274        |
| Discounted using the incremental borrowing rate at the date of initial application | 5,186,392        |
| Adjustments arising from different treatment of extension and termination options  | 2,531,522        |
| Adjustments relating to changes in the index or rate affecting variable payments   | (1,140,492)      |
| Short-term leases not recognised as a liability                                    | (340,050)        |
| <b>Lease liabilities recognised on adoption of IFRS 16</b>                         | <b>6,237,372</b> |
| Finance lease liabilities recognised as at 31 December 2018                        | 77,687           |
| <b>Lease liabilities recognised as at 1 January 2019</b>                           | <b>6,315,059</b> |

The right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Reliance on previous assessments on whether leases are onerous
- Reliance on previous assessments on whether a contract is, or contains, a lease applying IAS 17 and IFRIC 4
- The application of a single discount rate to a portfolio of leases with reasonably similar characteristics
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.