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GRACEKENNEDY LIMITED

Financial Statements
31 December 2018

GraceKennedy Limited
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31 December 2018

Independent auditor's report

To the Members of GraceKennedy Limited

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

Our opinion

In our opinion, the consolidated financial statements and the stand-alone financial statements give a true and fair view of the consolidated financial position of GraceKennedy Limited (the Company) and its subsidiaries (together 'the Group') and the stand-alone financial position of the Company as at 31 December 2018, 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 2018;
- 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 2018;
- 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.

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.

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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.

Our audit approach

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

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

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements we designed and performed audit procedures over various components. The Group comprised 44 reporting components of which, we selected 19 components which mainly represent the principal business units within the Group and covered entities within Jamaica, Barbados, Bahamas, Trinidad and Tobago, Canada, the United Kingdom, the United States of America (USA) and Guyana.

Of the 19 components selected, we performed an audit of the complete financial information of 12 components ("full scope components") which were selected based on their size, risk characteristics or both. For the remaining 7 components ("specific scope components"), we performed audit procedures on specific accounts and or analytical procedures within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either due to the size of these accounts or their risk profile. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

In relation to the remaining components, none of which are individually greater than 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 financial statements.

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

Context

The context of our audit is set by the Group's major activities in 2018. One of the most significant events was the acquisition of a 35% interest in Catherine's Peak Bottling Company Limited which is accounted for as an investment in associate. Additionally, the impact of the Group's adoption of IFRS 9 in respect of estimates and judgments involved in expected credit loss (ECL) calculations for loans receivables and investments was significant. These have therefore become new key audit matters for our audit in 2018.

Our other key audit matters relating to goodwill impairment assessment of the United States of America operations and valuation of pension scheme assets and liabilities continue to be areas which are significant to the Group and involve significant levels of judgement by management and expert knowledge as in prior year.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Accounting for investment in associate (Group and Company) ***Refer to notes 2(c), 4(ix), 4(i) and 10 of the consolidated and stand-alone financial statements for disclosures of related accounting policies, judgments, estimates and balances.***	
During the year, the Group acquired a 35% interest in Catherine's Peak Bottling Company Limited (CP) for a consideration of $525 million which is accounted for as an investment in associate for both the Group and Company.	We read the share purchase agreement and evaluated the appropriateness of the accounting for the acquisition as an associate against management's accounting policies and the required accounting standards. We held discussions with management to gain an understanding and evaluate their basis for selecting assumptions used in value in use calculations for CP.

The consideration paid in the acquisition of the interest in CP resulted in the identification of intangible assets including brands, customer relationships and goodwill amounting to $498.5 million.

We focused on the investment due to the significance of the consideration paid, management's judgement and estimation involved in identifying intangible assets and the determination of any impairment in relation to goodwill.

The complex judgements include identifying all assets including intangibles, and liabilities of the newly acquired associate and estimating their associated fair value for initial recognition as part of the Purchase Price Allocation and value-in-use (VIU) calculations. Key inputs into the VIU were revenue growth and discount rates.

With the assistance of our valuation expert, we independently determined fair values for the identified intangible assets and compared to management's calculated value.

We corroborated the key inputs into the VIU, being the revenue growth and discount rates to historic and prospective financial, industry and economic information, taking into consideration our knowledge of the Group and the industries in which the Group operates.

Using management's projections, we sensitised the discount rate to recalculate a VIU for CP to evaluate whether there was any impairment on the carrying value of goodwill.

Based on the audit procedures performed, no adjustments to the financial statements were deemed necessary.

Expected credit losses in relation to financial assets (Group)

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

The Group adopted the accounting standard IFRS 9 'Financial instruments' effective 1 January 2018. The standard introduced new requirements around two main aspects of how financial instruments are treated namely; measurement & classification and impairment. In relation to impairment, the standard prescribes a new forward looking expected credit loss ('ECL') impairment model, which takes into account reasonable and supportable forward looking information and will generally result in the earlier recognition of impairment provisions.

The introduction of the new standard required the Group to build and implement new models to measure the expected credit losses for relevant financial assets. With the most significant impact to debt securities and loans and advances, including off balance sheet exposures.

We obtained the Group's accounting policies as it relates to IFRS 9 and assessed the reasonableness of those accounting policies with the requirements of the standard.

We evaluated the design and tested the operating effectiveness of the relevant controls for IFRS 9 including:

- Model development, validation and approval
- Review and approval of key assumptions, judgements and forward-looking assumptions prior to being incorporated in the expected credit loss models;
- Review and approval of the output of expected credit loss models and related transition impacts.

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

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We have focused on this area because there are a number of significant management determined judgements including:

- Determining the criteria for a significant increase in credit risk, which impacts the staging of the asset and the related calculation, ie one year or lifetime expected loss calculations.
- Determining management's use of the optional practical expedient to assess credit risk on financial assets as low at the date of initial application and at the reporting date which allowed management to measure impairment using a 12-month expected credit loss.
- Determining the relevant inputs and techniques included in the expected credit loss model utilised in probability of default (PD), loss given default (LGD) and exposures at default (EAD) parameters.
- For loans and advances, a significant amount of historical data is built into the PD, LGD and EAD risk parameters.
- PD models are developed based on the Group's specific historical default rates for each industry classification. LGD models are developed based on the Group's specific historical loss rate for the given exposure. For EAD, the Group evaluated both term loans and revolving loans. Term loans were evaluated based on the borrower's contractual terms over the forecast period. For revolving loans, specifically credit cards and overdrafts, the Group estimated the average utilization of limits at the point of default; and
- Use of multiple economic scenarios that are forward looking.
- Valuation of real estate property pledged as collateral for term loans: this is the most significant repayment source for credit-impaired assets (stage 3).

We evaluated the appropriateness of the Group's staging and where applicable, determined whether the significant increase in credit risk and default definitions were appropriately applied.

We obtained an understanding of management's ECL model including source data, evaluated the theoretical soundness and tested the mathematical integrity of the model. We tested reliability of source data used in the models on a sample basis by corroborating to historical data or external public information where available.

We tested the completeness of debt securities, loans and advances and off-balance sheet exposures to determine whether all financial instruments were included in the ECL calculation.

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

We tested the opening equity adjustments in relation to the adoption of the new standard's classification and measurement requirements.

Debt Securities:

Where management has applied practical expedients calculations in accordance with the standard, we tested the Group's application of the low credit risk simplification at reporting date by using rating agencies definition of investment grade and evaluated the appropriateness of the Group classifying all debt securities as stage 2.

We reperformed, on a sample basis, certain model calculations to confirm the risk parameter outputs, including PD, LGD and EAD. We have compared the PD and LGD associated with credit ratings that are published by rating agencies.

The impact of adopting the new standard resulted in a reduction in opening retained earnings of $205.9 million.

As at 31 December 2018, the Group's on-balance sheet gross loans and advances totalled $26.3 billion. Off-balance sheet exposures which include undrawn commitments such as credit cards, overdrafts and loan commitments amounted to $539.1 million. The Group's debt securities, measured at amortised cost and fair value through other comprehensive income (FVOCI) totalled $37.1 billion. Overall, the total of the above exposures represent 47% of total assets. The resultant impairment recorded under the ECL amounted to $943.5 million for loans and advances, including off balance sheet items and $293.9 million for debt securities.

Loans and advances, including the off-balance sheet exposures:

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 tested the completeness and accuracy of the three year historical data used by agreeing details on default rates and recovery rates. In addition, for credit cards and overdraft facilities, we tested the completeness and accuracy of utilisation rates at the point of default. 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, we agreed the critical data fields, such as origination date, maturity date, default date, principal, collateral value and cash recoveries and exposure limits, used in developing default, recovery and utilisation rates to source documents.

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 re-performed 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.

Based on the procedures described above, no material exceptions were noted in our assessment of the Group's implementation of IFRS 9, including its provisioning in accordance with its newly adopted expected credit loss model.

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

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

The total carrying value of goodwill is $1.4 billion of which $948 million relates to the USA operations.

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.

Management's focus on logistics and warehousing efficiencies continued in the current year while introducing new products and concentrating on improving the market penetration of existing products. The USA operations continue to receive working capital assistance from the parent company and as such, it remains an area of focus.

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

We obtained management's discounted cash flow model (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.

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

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

We agreed 31 December 2018 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.

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

We performed independent recalculation of the carrying value and performed sensitivity analysis by looking at changes in management's revenue growth rate assumptions.

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

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

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

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

The Group has defined benefit pension plans with pension plan assets and other post-employment obligations which are significant in the context of the overall statement of financial position of the Group and Company. Pension plan assets amounted to $3.3 billion for both Group and Company and other post-employment obligations amounted to $6.1 billion and $2.9 billion for Group and Company respectively.

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

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

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

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

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

We reviewed the audit work papers of the auditors of the pension scheme in relation to work on the fair valuation of pension assets.

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.

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

Based on the audit evidence obtained, we determined that the 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.

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.

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.

Report on other legal and regulatory requirements

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

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

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

Chartered Accountants
1 March 2019
Kingston, Jamaica

GraceKennedy Limited
Consolidated Statement of Financial Position
31 December 2018
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 $'000	2017 $'000
Assets			
Cash and deposits	5	14,824,799	12,084,245
Investment securities	6	28,261,306	31,853,036
Pledged assets	6	9,931,362	4,927,305
Receivables	7	15,226,423	15,848,567
Inventories	8	12,784,061	11,253,140
Loans receivable	9	26,469,557	27,548,329
Taxation recoverable		764,826	798,690
Investments in associates and joint ventures	10	2,964,841	1,798,220
Investment properties	37	628,000	618,000
Intangible assets	11	4,128,043	4,398,127
Fixed assets	12	14,300,969	11,715,661
Deferred tax assets	13	1,410,080	836,477
Pension plan asset	14	3,269,925	6,308,843
Assets classified as held for sale	12	271,208	-
Total Assets		135,235,400	129,988,640
Liabilities			
Deposits		34,371,026	33,530,523
Securities sold under agreements to repurchase		7,208,337	3,792,720
Bank and other loans	15	16,529,313	16,515,615
Payables	16	23,201,686	22,210,899
Taxation		464,890	427,486
Deferred tax liabilities	13	687,069	1,369,294
Other post-employment obligations	14	6,083,687	5,129,990
Total Liabilities		88,546,008	82,976,527
Equity			
Capital and reserves attributable to the company's owners			
Share capital	17	490,354	540,951
Capital and fair value reserves	18	6,346,838	6,089,245
Retained earnings		32,306,560	32,120,056
Banking reserves	19	3,118,867	3,044,111
Other reserves	20	2,351,808	3,428,449
		44,614,427	45,222,812
Non-Controlling Interests	21	2,074,965	1,789,301
Total Equity		46,689,392	47,012,113
Total Equity and Liabilities		135,235,400	129,988,640

Approved for issue by the Board of Directors on 1 March 2019 and signed on its behalf by:

Gordon Shirley	Chairman	Donald Wehby	Group Chief Executive Officer

GraceKennedy Limited

Consolidated Income Statement

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 $'000	2017 $'000
Revenue from products and services		93,522,584	88,222,714
Interest revenue		4,022,147	4,252,938
Revenues	23	97,544,731	92,475,652
Direct and operating expenses		(93,919,850)	(88,578,375)
Net impairment losses on financial assets		(484,367)	(366,048)
Expenses	24	(94,404,217)	(88,944,423)
		3,140,514	3,531,229
Other income	25	3,486,010	2,088,006
Profit from Operations		6,626,524	5,619,235
Interest income – non-financial services		427,501	378,212
Interest expense – non-financial services		(581,873)	(662,857)
Share of results of associates and joint ventures	10	490,873	484,972
Profit before Taxation		6,963,025	5,819,562
Taxation	27	(1,319,448)	(1,047,462)
NET PROFIT		5,643,577	4,772,100
Attributable to:			
Owners of GraceKennedy Limited	28	5,005,915	4,116,101
Non-Controlling interests	21	637,662	655,999
		5,643,577	4,772,100

		$	$
Earnings per Stock Unit for profit attributable to the owners of the company during the year:	30		
Basic		5.05	4.15
Diluted		5.04	4.14

GraceKennedy Limited
Consolidated Statement of Comprehensive Income
Year ended 31 December 2018
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 $'000	2017 $'000
Profit for the year		5,643,577	4,772,100
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Gains on revaluation of land and buildings		684,638	23,027
Changes in fair value of equity instruments at fair value through other comprehensive income		103,601	-
Remeasurements of post-employment benefit obligations		(2,734,637)	58,934
Share of other comprehensive income of associates and joint ventures		30,249	3,436
		(1,916,149)	85,397
Items that may be subsequently reclassified to profit or loss:			
Foreign currency translation adjustments		(1,180,883)	(201,407)
Changes in fair value of debt instruments at fair value through other comprehensive income		(279,949)	-
Changes in fair value of available-for-sale financial assets		-	250,677
Share of other comprehensive income of associates and joint ventures		15,373	(22,903)
		(1,445,459)	26,367
Other comprehensive income for the year, net of tax		(3,361,608)	111,764
Total comprehensive income for the year		2,281,969	4,883,864
Attributable to:			
Owners of GraceKennedy Limited		1,639,972	4,248,634
Non-Controlling interests	21	641,997	635,230
		2,281,969	4,883,864

GraceKennedy Limited

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Attributable to owners of the parent: Number of Stock Units '000	Share Capital $'000	Capital and Fair Value Reserves $'000	Retained Earnings $'000	Banking Reserves $'000	Other Reserves $'000	Non-Controlling Interest $'000	Total Equity $'000
Balance at 1 January 2017		992,379	534,249	5,805,054	29,333,152	2,772,209	3,619,261	1,474,683	43,538,608
Profit for the year		-	-	-	4,116,101	-	-	655,999	4,772,100
Other comprehensive income for the year		-	-	274,506	67,509	-	(209,482)	(20,769)	111,764
Total comprehensive income for 2017		-	-	274,506	4,183,610	-	(209,482)	635,230	4,883,864
Transactions with owners:									
Sale of treasury shares	17 (a)	122	5,027	-	-	-	-	-	5,027
Purchase of treasury shares	17 (a)	(736)	(29,592)	-	-	-	-	-	(29,592)
Share-based payments:									
Value of services received	17 (f)	-	-	-	-	-	56,337	623	56,960
Transfer of treasury shares to employees	17 (a)	889	31,267	6,400	-	-	(37,667)	-	-
Dividends paid by subsidiaries to non-controlling interests	21	-	-	-	-	-	-	(321,235)	(321,235)
Dividends paid	29	-	-	-	(1,121,519)	-	-	-	(1,121,519)
Total transactions with owners		275	6,702	6,400	(1,121,519)	-	18,670	(320,612)	(1,410,359)
Transfers between reserves:									
To capital reserves		-	-	3,285	(3,285)	-	-	-	-
To banking reserves		-	-	-	(271,902)	271,902	-	-	-
Balance at 31 December 2017 as originally presented		992,654	540,951	6,089,245	32,120,056	3,044,111	3,428,449	1,789,301	47,012,113
Effect of adopting new standards	40	-	-	(605,449)	(349,191)	-	-	(3,488)	(958,128)
Restated 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	17 (a)	(950)	(57,171)	-	-	-	-	-	(57,171)
Share-based payments:									
Value of services received	17 (f)	-	-	-	-	-	103,237	1,169	104,406
Transfer of treasury shares to employees	17 (a)	161	6,574	1,302	-	-	(7,876)	-	-
Dividends paid by subsidiaries to non-controlling interests	21	-	-	-	-	-	-	(354,014)	(354,014)
Dividends paid	29	-	-	-	(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

GraceKennedy Limited

Consolidated Statement of Cash Flows

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 $'000	2017 $'000
SOURCES/(USES) OF CASH:			
Operating Activities	31	9,444,736	(493,760)
Financing Activities			
Loans received		7,612,456	5,284,480
Loans repaid		(7,558,098)	(2,568,620)
Dividends paid by subsidiary to non-controlling interests	21	(354,014)	(321,235)
Purchase of treasury shares	17	(57,171)	(29,592)
Sale of treasury shares	17	-	5,027
Interest paid – non financial services		(583,910)	(674,091)
Dividends	29	(1,339,783)	(1,121,519)
		(2,280,520)	574,450
Investing Activities			
Additions to fixed assets[a]	12	(3,118,484)	(2,639,331)
Proceeds from disposal of fixed assets		112,479	65,518
Additions to investments		(8,775,656)	(8,087,043)
Cash outflow on acquisition of subsidiary	38	-	(641,970)
Cash outflow on purchase of interest in associates and joint ventures		(971,505)	-
Proceeds from sale of investments		8,377,691	10,265,348
Net proceeds from disposal of associated company		-	55,506
Additions to intangibles	11	(350,751)	(334,599)
Interest received – non financial services		422,630	379,809
		(4,303,596)	(936,762)
Increase/(decrease) in cash and cash equivalents		2,860,620	(856,072)
Cash and cash equivalents at beginning of year		9,402,295	10,310,801
Exchange and translation gains/(losses) on net foreign cash balances		15,283	(52,434)
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	12,278,198	9,402,295

The principal non-cash transactions include:

[a] Acquisition of fixed assets under finance lease of $23,140,000 (2017: $32,647,000), (Note 12).

GraceKennedy Limited

Company Statement of Financial Position

31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 $'000	2017 $'000
Assets			
Cash and deposits	5	3,960,985	1,944,451
Investment securities	6	5,747,482	6,513,598
Receivables	7	1,954,015	1,434,445
Inventories	8	3,018,851	2,521,134
Loans receivable	9	1,434,966	3,359,306
Subsidiaries	34	1,867,140	1,063,372
Taxation recoverable		256,752	231,969
Investments in associates	10	574,698	49,698
Investments in subsidiaries		17,544,008	15,756,643
Intangible assets	11	293,246	222,025
Fixed assets	12	296,473	299,359
Deferred tax assets	13	93,516	-
Pension plan asset	14	3,269,925	6,308,843
Total Assets		**40,312,057**	**39,704,843**
Liabilities			
Bank and other loans	15	6,114,341	4,053,268
Payables	16	3,558,129	2,544,670
Subsidiaries	34	3,027,509	3,403,955
Deferred tax liabilities	13	-	882,998
Other post-employment obligations	14	2,900,502	2,443,443
Total Liabilities		**15,600,481**	**13,328,334**
Equity			
Share capital	17	490,354	540,951
Capital and fair value reserves	18	177,510	404,977
Retained earnings		23,912,984	25,365,279
Other reserves	20	130,728	65,302
Total Equity		**24,711,576**	**26,376,509**
Total Equity and Liabilities		**40,312,057**	**39,704,843**

Approved for issue by the Board of Directors on 1 March 2019 and signed on its behalf by:

Gordon Shirley Chairman

Donald Wehby Group Chief Executive Officer

GraceKennedy Limited
Company Income Statement
Year ended 31 December 2018
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 $'000	2017 $'000
Revenue	23	18,957,924	17,623,999
Cost of goods sold		(14,988,530)	(13,746,257)
Gross Profit		3,969,394	3,877,742
Other income	25	5,599,297	4,618,770
Administration expenses		(7,278,188)	(7,098,335)
Net impairment losses on financial assets		(25,870)	(17,588)
Profit from Operations		2,264,633	1,380,589
Interest income		504,893	541,547
Interest expense		(333,757)	(342,156)
Profit before Taxation		2,435,769	1,579,980
Taxation	27	11,048	154,744
NET PROFIT	28	**2,446,817**	**1,734,724**

GraceKennedy Limited

Company Statement of Comprehensive Income

Year ended 31 December 2018

(expressed in Jamaican dollars unless otherwise indicated)

	2018 $'000	2017 $'000
Profit for the year	2,446,817	1,734,724
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Gains on revaluation of land and buildings	4,799	-
Changes in fair value of equity instruments at fair value through other comprehensive income	(5,199)	-
Remeasurements of post-employment benefit obligations	(2,516,081)	166,639
	(2,516,481)	166,639
Items that may be subsequently reclassified to profit or loss:		
Changes in fair value of available-for-sale financial assets	-	42,279
	-	42,279
Other comprehensive income for the year, net of tax	(2,516,481)	208,918
Total comprehensive income for the year	(69,664)	1,943,642

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

GraceKennedy Limited
Company Statement of Changes in Equity
Year ended 31 December 2018
(expressed in Jamaican dollars unless otherwise indicated)

	Note	Number of Stock Units '000	Share Capital $'000	Capital and Fair Value Reserves $'000	Retained Earnings $'000	Other Reserves $'000	Total $'000
Balance at 1 January 2017		992,379	534,249	356,298	24,585,435	68,371	25,544,353
Profit for the year		-	-	-	1,734,724	-	1,734,724
Other comprehensive income for the year		-	-	42,279	166,639	-	208,918
Total comprehensive income for 2017		-	-	42,279	1,901,363	-	1,943,642
Transactions with owners:							
Sale of treasury shares	17 (a)	122	5,027	-	-	-	5,027
Purchase of treasury shares	17 (a)	(736)	(29,592)	-	-	-	(29,592)
Share-based payments:							
Value of services received	20	-	-	-	-	34,598	34,598
Transfer of treasury shares to employees	17 (a)	889	31,267	6,400	-	(37,667)	-
Dividends paid	29	-	-	-	(1,121,519)	-	(1,121,519)
Total transactions with owners		275	6,702	6,400	(1,121,519)	(3,069)	(1,111,486)
Transfers between reserves:							
Balance at 31 December 2017 as originally presented		992,654	540,951	404,977	25,365,279	65,302	26,376,509
Effect of adopting new standards	40	-	-	(228,369)	(43,248)	-	(271,617)
Restated balance at 1 January 2018		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)
Total comprehensive income for 2018		-	-	(400)	(69,264)	-	(69,664)
Transactions with owners:							
Purchase of treasury shares	17 (a)	(950)	(57,171)	-	-	-	(57,171)
Share-based payments:							
Value of services received	20	-	-	-	-	73,302	73,302
Transfer of treasury shares to employees	17 (a)	161	6,574	1,302	-	(7,876)	-
Dividends paid	29	-	-	-	(1,339,783)	-	(1,339,783)
Total transactions with owners		(789)	(50,597)	1,302	(1,339,783)	65,426	(1,323,652)
Balance at 31 December 2018		991,865	490,354	177,510	23,912,984	130,728	24,711,576

GraceKennedy Limited
Company Statement of Cash Flows
Year ended 31 December 2018
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2018 $'000	2017 $'000
SOURCES/(USES) OF CASH:			
Operating Activities	31	1,410,227	1,979,304
Financing Activities			
Loans received		3,061,883	1,805,086
Loans repaid		(2,629,854)	(1,108,119)
Purchase of treasury shares	17	(57,171)	(29,592)
Sale of treasury shares	17	-	5,027
Interest paid		(322,047)	(348,989)
Dividends	29	(1,339,783)	(1,121,519)
		(1,286,972)	(798,106)
Investing Activities			
Additions to fixed assets	12	(64,806)	(90,808)
Proceeds from disposal of fixed assets		5,051	20,630
Additions to investments		(1,257,860)	(1,138,110)
Loans receivable, net		1,924,340	(184,123)
Proceeds from sale of investments		1,749,105	1,305,128
Investment in subsidiary		(1,787,365)	(1,108,170)
Investment in associated company		(525,000)	-
Proceeds from disposal of subsidiary		-	10,597
Additions to intangibles	11	(141,539)	(155,400)
Interest received		500,021	543,143
		401,947	(797,113)
Increase in cash and cash equivalents		525,202	384,085
Cash and cash equivalents at beginning of year		1,913,626	1,546,002
Exchange and translation gains/(losses) on net foreign cash balances		766	(16,461)
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	2,439,594	1,913,626

GraceKennedy Limited
Notes to the Financial Statements
31 December 2018
(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 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 9, 'Financial instruments' (effective for annual periods beginning on or after 1 January 2018). This standard replaces the guidance in IAS 39. It includes requirements on the classification and measurement of financial assets and liabilities; it also includes an expected credit losses model that replaces the current incurred loss impairment model.

  IFRS 9 has three classification categories for debt instruments: amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ('FVPL'). Classification under IFRS 9 for debt instruments is based on the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest ('SPPI'). An entity's business model is how an entity manages its financial assets in order to generate cash flows and create value for the entity. That is, an entity's business model determines whether the cash flows will result from collecting contractual cash flows, selling financial assets or both.

  If a debt instrument is held to collect contractual cash flows, it is classified as amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held both to collect assets' contractual cash flows and to sell the assets are classified as FVOCI. Under the new model, FVPL is the residual category -financial assets should therefore be classified as FVPL if they do not meet the criteria of FVOCI or amortised cost.

GraceKennedy Limited

Notes to the Financial Statements
31 December 2018
(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)

- IFRS 9 (continued)

  IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses (ECL) model. The ECL model constitutes a change from the guidance in IAS 39 and seeks to address the criticisms of the incurred loss model which arose during the economic crisis. In practice, the new rules mean that entities will have to record a day 1 loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). IFRS 9 contains a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate how an entity measures impairment losses and applies the effective interest rate method. Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

  The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 9 [7.2.15], comparative figures have not been restated. Details of the new accounting policy in relation to IFRS 9 are outlined in Note 2 (h) and the impact on the financial statements on adoption of the new standard is disclosed in Note 40.

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

  A key change to current practice is the point at which revenue is able to be recognised, which may shift so that some revenue that is currently recognised at a point in time at the end of a contract may have to be recognised over the contract term and vice versa. Other effects of the new standard include variable consideration that involve contracts with customers which provide a right of return, trade discounts or volume rebates which in some cases result in more revenue being deferred. The treatment of customer loyalty programmes is also affected.

  The adoption of IFRS15 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 15 [C3(b)], comparative figures have not been restated. Details of the new accounting policy in relation to IFRS 15 are outlined in Note 2 (z) and the impact on the financial statements on adoption of the new standard is disclosed in Note 40.

- Amendments to IFRS 2, 'Share-based Payment' (effective for annual periods beginning on or after 1 January 2018). The amendment addresses the accounting for cash-settled, share-based payments and equity-settled awards that include a 'net settlement' feature in respect of withholding taxes. The amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. The Group has adopted this treatment for its equity compensation employee benefits.

- Amendment to IAS 40, 'Investment property' (effective for annual periods beginning on or after 1 January 2018). These amendments clarify that to transfer to, or from investment properties, there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition. This change must be supported by evidence.

- IFRIC 22, 'Foreign currency transactions and advance consideration' (effective for annual periods beginning on or after 1 January 2018). This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payments/receipts are made. There was no impact from the adoption of this amendment.

- Amendments to IFRS 4 'Insurance Contracts' (effective for annual periods beginning on or after 1 January 2018). This amendment addresses the concerns of insurance companies about the different effective dates of IFRS 9, 'Financial instruments', and the forthcoming new insurance contracts standard. The amendment to IFRS 4 provides two different solutions for insurance companies: a temporary exemption from IFRS 9 for entities that meet specific requirements (applied at the reporting entity level); and the 'overlay approach'. Both approaches are optional. IFRS 4 (including the amendments that have now been issued) will be superseded by the forthcoming new insurance contracts standard. Accordingly, both the temporary exemption and the 'overlay approach' are expected to cease to be applicable when the new insurance standard becomes effective. This amendment did not have an impact on the Group.

GraceKennedy Limited
Notes to the Financial Statements
31 December 2018
(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)

- Annual improvements to IFRSs 2014 – 2016 cycles. The amendment to IAS 28,'Investments in associates and joint ventures' (effective for annual periods beginning on or after 1 January 2018) clarifies that the election by venture capital organisations, mutual funds, unit trusts and similar entities to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture at initial recognition. The Group will apply this amendment where applicable to future transactions.

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 2018, 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 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 Group has been in the process of reviewing all of its leasing arrangements over the last year. A committee with representation from a number of functional areas and led by the Group's Finance Unit was created to oversee the implementation project. The project involves three main phases:

  - Phase 1: Impact assessment to determine the key potential areas of impact and to develop a plan to address these points throughout the project;

  - Phase 2: Conversion assessment to focus on key areas of impact identified in the first phase and quantification of the required changes to the financial statements; and scenario modelling, which includes modelling the impact of IFRS 16 on the financial statements of the Group including assessing the impact on ratios.

  - Phase 3: Embedding - This includes integration of the new accounting standard into the existing reporting structure, including modifications to processes and systems as required, staff training, converting and validating data, and drafting disclosures for the financial statements.

  The Group has substantially completed Phase 1 and Phase 2 of the project. Based on these phases of the implementation project, the main areas of impact include a significant increase in the overall value of assets and liabilities recognised in the statement of financial position and affect related ratios, such as debt/equity ratios. Based on the size and number of lease contracts previously classified as operating leases under IAS 17, the new approach will result in a significant increase in debt on the statement of financial position.

  In addition, an interest expense on the lease liability and depreciation on the right-of-use asset will be presented in the income statement. In comparison with operating leases under IAS 17, this will change not only the allocation of expenses but also the total amount of expenses recognised for each period of the lease term. The combination of a straight line depreciation of the right-of use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to profit or loss in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

  The Group intends to apply the simplified transition approach that allows the measurement of the right-of-use assets at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses), rather than full retrospective application. In addition, as a practical expedient, the Group is not required to reassess whether a contract is, or contains, a lease at the date of initial application (that is, such contracts are 'grandfathered'). As further provided under this approach, comparatives for 2018 will not be restated.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (continued)

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

- IFRS 17, 'Insurance contracts' (effective for annual periods beginning on or after 1 January 2021). This standard was issued as replacement for IFRS 4 'Insurance contracts' and requires a current measurement model where estimates are re-measured each reporting period. The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts. The Group is currently assessing the impact of this standard.

- Amendment to IFRS 9, 'Financial instruments on prepayment features with negative compensation' (effective for annual periods beginning on or after 1 January 2019). This amendment confirms that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. The Group is currently assessing the impact of this amendment.

- Amendments to IAS 28, 'Investments in associates and joint ventures' (effective for annual periods beginning on or after 1 January 2019). These amendments clarify that companies account for long term interests in an associate or joint venture to which the equity method is not applied using IFRS 9. The Group currently applies the equity method to its associates and joint ventures.

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

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

GraceKennedy Limited
Notes to the Financial Statements
31 December 2018
(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 2018
(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation (continued)

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

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2. Significant Accounting Policies (Continued)

(b) Basis of consolidation (continued)

Entity	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares held by the parent company %	Proportion of ordinary shares held by the Group %	Proportion of ordinary shares held by non-controlling interests %
Grace Foods Limited	St. Lucia	Brand owner	100	100	-
GraceKennedy (Belize) Limited	Belize	Food trading	100	100	-
Grace Foods Canada Inc. (formerly GraceKennedy (Ontario) Inc.)	Canada	Food trading	100	100	-
Grace Kennedy (Guyana) Limited	Guyana	Dormant	100	100	-
Grace Kennedy (USA) Inc. and its subsidiary –	USA	Food trading	100	100	-
Grace Foods (USA) Inc. and its subsidiary –	USA	Food trading	-	100	-
GraceKennedy Foods (USA) LLC	USA	Food trading	-	100	-
GraceKennedy (St. Lucia) Limited and its subsidiary –	St. Lucia	Holding company	100	100	-
GK Foods (UK) Limited and its subsidiaries –	United 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.

During the year GraceKennedy Money Services (Bahamas) Limited was capitalised. In the prior year, the Group acquired 100% of the share capital of Consumer Brands Limited (Note 38).

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

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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	
					2018	2017
Catherine's Peak Bottling Company Limited	31 March	Jamaica	Food trading	Associate	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
GKMusson Limited	31 December	Jamaica	Financial	Joint Venture	50.0	-
Gray's Pepper Products Limited	31 December	Jamaica	Food trading	Associate	33.3	-
Majesty Foods LLC	31 December	USA	Food trading	Associate	49.0	-
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 Catherine's Peak Bottling Company Limited, GKMusson Limited, Gray's Pepper Products Limited and Majesty Foods LLC (Note 10).

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

(d) Segment reporting

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

(e) Foreign currency translation

Functional and presentation currency

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

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 available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in the income statement, and other changes in the carrying amount are recognised in other comprehensive income.

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

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

(a) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised in other comprehensive income.

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

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

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

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

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

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

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

Land is not depreciated.

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

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2. Significant Accounting Policies (Continued)

(f) Fixed assets (continued)

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

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

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

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

(g) Intangible assets

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

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

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

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

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

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

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

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

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

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

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

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

Measurement

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

- Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in the income statement using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss. Impairment losses are presented as a separate line item in the income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Changes in fair value are taken through OCI. The recognition of interest income and impairment gains or losses are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in the income statement using the effective interest rate method. Impairment losses are presented as a separate line item in the income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is measured at FVPL is recognised in profit or loss in the period in which it arises.

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

Impairment

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

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

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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.

Application of this policy until 31 December 2017

The Group applied IFRS 9 on 1 January 2018 and has elected not to restate comparative information in accordance with the transitional provisions in IFRS 9 [7.2.15]. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Until 31 December 2018, the Group classified its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The accounting policy for trade and insurance receivables is dealt with in Note 2 (o). The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity of another entity.

2. Significant Accounting Policies (Continued)

(h) Financial assets (continued)

Financial assets at fair value through profit or loss

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

Loans and receivables

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

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

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

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

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

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

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

Available-for-sale financial assets

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

Recognition and measurement

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

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2. Significant Accounting Policies (Continued)

(h) Financial assets (continued)

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

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

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

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

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

(i) Derivative financial instruments

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

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

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

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

(j) Investments in subsidiaries

Investments in subsidiaries are stated at cost.

(k) Impairment of non-financial assets

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

(l) Income taxes

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

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

2. Significant Accounting Policies (Continued)

(l) Income taxes (continued)

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

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

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

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

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

(m) Employee benefits

Pension obligations

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

Pension plan assets

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

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

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

Past-service costs are recognised immediately in income.

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

Other post-employment obligations

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

Equity compensation benefits

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

2. Significant Accounting Policies (Continued)

(m) Employee benefits (continued)

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

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

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

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

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

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

(r) Insurance business provisions

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

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

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

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

2. Significant Accounting Policies (Continued)

(s) Provisions

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

(t) Deposits

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

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

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

(v) Borrowings

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

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

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

(w) Borrowings costs

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

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

(x) Leases

As lessee

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

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

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

As lessor

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

(y) Share capital

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

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

2. Significant Accounting Policies (Continued)

(z) Revenue recognition

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

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.

Items (i), (ii) and (iii) below have been modified in the current year for the policy changes applied above, while items (iv) and (v) below remain unchanged.

__Application of this policy until 31 December 2017__

The Group applied IFRS 15 on 1 January 2018 and has elected not to restate comparative information in accordance with the transitional provisions. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

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

(i) Sales of goods – wholesale

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

2. Significant Accounting Policies (Continued)

(z) Revenue recognition (continued)

(ii) Sales of goods – retail

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

(iii) Sales of services

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

(iv) Interest income

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

(v) Dividend income

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

(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.

2. Significant Accounting Policies (Continued)

(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.

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.

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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:

	2018		2017	
	Policy Limit	**Maximum Net Retention**	**Policy Limit**	**Maximum Net Retention**
	$'000	**$'000**	**$'000**	**$'000**
Commercial property:				
Fire and consequential loss	1,287,320	10,299	1,243,041	9,944
Boiler and machinery	643,660	7,241	615,305	6,992
Engineering	643,660	7,241	615,305	6,992
Burglary, money and goods in transit	32,183	32,183	31,076	31,076
Glass and other	32,183	32,183	31,076	31,076
Liability	386,196	38,620	383,817	38,382
Marine, aviation and transport	77,239	3,862	74,582	1,865
Motor	31,000	16,000	31,000	16,000
Pecuniary loss:				
Fidelity	32,183	32,183	31,076	31,076
Surety/Bonds	148,042	29,608	142,950	28,590
Personal accident	32,183	32,183	31,076	31,076
Personal property	1,287,320	10,299	1,243,041	9,944

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 $3,216,436,000 were determined at the 50% confidence interval. Had the confidence interval increased/(decreased) by 10%, the net reserves would increase/(decrease) by $117,473,000/($117,730,000).

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 2009 - 2017 has changed at successive year-ends, up to 2018. 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.

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

(a) **Insurance risk (continued)**

Development Claim Liabilities (continued)

		2009 & prior $'000	2010 $'000	2010 & prior $'000	2011 $'000	2011 & prior $'000	2012 $'000	2012 & prior $'000	2013 $'000	2013 & prior $'000	2014 $'000	2014 & prior $'000	2015 $'000	2015 & prior $'000	2016 $'000	2016 & prior $'000	2017 $'000	2017 & prior $'000	2018 $'000	2018 & prior $'000
2009	UCAE, end of year	1,266,121																		
	IBNR, end of year	55,551																		
2010	Paid during year	467,835	559,019	1,026,854																
	UCAE, end of year	873,139	1,483,422	2,356,561																
	IBNR, end of year	-	63,254	63,254																
	Ratio: excess (deficiency)	(1.46%)																		
2011	Paid during year	237,777	339,348	577,125	599,110	1,176,235														
	UCAE, end of year	509,574	307,887	817,461	658,382	1,475,843														
	IBNR, end of year	-	2,365	2,365	67,945	70,310														
	Ratio: excess (deficiency)	8.06%		42.27%																
2012	Paid during year	134,513	94,437	228,950	318,022	546,972	593,905	1,140,877												
	UCAE, end of year	408,821	260,049	668,870	435,860	1,104,730	713,392	1,818,122												
	IBNR, end of year	-	-	-	4,023	4,023	78,759	82,782												
	Ratio: excess (deficiency)	5.50%		39.05%		(7.09%)														
2013	Paid during year	129,598	57,756	187,354	149,510	336,864	369,378	706,242	650,510	1,356,752										
	UCAE, end of year	433,044	250,470	683,514	418,313	1,101,827	505,321	1,607,148	790,007	2,397,155										
	IBNR, end of year	-	-	-	-	-	-	-	80,193	80,193										
	Ratio: excess (deficiency)	(6.14%)		30.70%		(28.43%)		(21.70%)												
2014	Paid during year	82,517	58,008	140,525	110,357	250,882	168,770	419,652	403,274	822,926	603,610	1,426,536								
	UCAE, end of year	325,733	186,250	511,983	321,479	833,462	387,304	1,220,766	527,622	1,748,388	614,433	2,362,821								
	IBNR, end of year	-	-	-	-	-	-	-	18,964	18,964	78,525	97,489								
	Ratio: excess (deficiency)	(4.26%)		31.98%		(27.30%)		(23.45%)		(4.56%)										
2015	Paid during year	60,937	34,665	95,602	97,848	193,450	91,814	285,264	124,467	409,731	280,934	690,665	596,463	1,287,128						
	UCAE, end of year	193,685	136,118	329,803	214,435	544,238	275,764	820,002	416,254	1,236,256	365,150	1,601,406	669,382	2,270,788						
	IBNR, end of year	-	-	-	-	-	-	-	(9,377)	(9,377)	18,167	8,790	128,397	137,187						
	Ratio: excess (deficiency)	1.12%		35.56%		(21.10%)		(17.37%)		0.72%		6.48%								
2016	Paid during year	61,871	19,519	81,390	35,172	116,562	42,221	158,783	70,547	229,330	109,743	339,073	333,798	672,871	640,700	1,313,571				
	UCAE, end of year	145,935	67,458	213,393	154,767	368,160	231,638	599,798	332,263	932,061	302,171	1,234,232	388,592	1,622,824	695,081	2,317,905				
	IBNR, end of year	-	-	-	-	-	-	-	(13,373)	(13,373)	(15,243)	(28,616)	22,506	(6,110)	124,657	118,547				
	Ratio: excess (deficiency)	0.05%		37.01%		(17.25%)		(14.14%)		3.90%		9.14%		4.92%						
2017	Paid during year	91,894	14,977	106,871	28,060	134,931	38,049	172,980	47,581	220,561	65,504	286,065	108,922	394,987	321,954	716,941	873,181	1,590,122		
	UCAE, end of year	55,081	50,019	105,100	70,038	175,138	156,148	331,286	265,168	596,454	227,093	823,547	291,005	1,114,552	383,637	1,498,189	869,470	2,367,659		
	IBNR, end of year	-	-	-	-	-	-	-	-	-	(13,167)	(13,167)	(16,683)	(29,850)	22,506	(7,344)	143,276	135,932		
	Ratio: excess (deficiency)	(0.03%)		37.06%		(13.49%)		(9.12%)		8.01%		13.58%		10.61%		9.39%				
2018	Paid during year	2,736	8,779	11,515	14,715	26,230	27,564	53,794	31,850	85,644	43,913	129,557	60,678	190,235	90,323	280,558	573,281	853,839	869,883	1,723,722
	UCAE, end of year	111,912	34,021	145,933	48,328	194,261	96,994	291,255	197,253	488,508	165,710	654,218	232,573	886,791	298,930	1,185,721	382,512	1,568,233	782,445	2,350,678
	IBNR, end of year	-	-	-	-	-	-	-	(10,677)	(10,677)	(9,745)	(20,422)	(13,680)	(34,102)	(11,874)	(45,976)	36,229	(9,747)	119,044	109,297
	Ratio: excess (deficiency)	(4.53%)	57.23%	34.90%	(10.42%)	(16.43%)	(5.38%)	(9.84%)	0.68%	9.34%	5.32%	15.49%	9.46%	12.34%	14.69%	12.28%	2.05%	3.65%		

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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:

a) The retention limit or maximum exposure on insurance policies under the reinsurance treaties range between $3,862,000 and $38,620,000 (2017: $1,865,000 and $38,382,000).
b) 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.
c) 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.
d) The amount of reinsurance recoveries recognised during the period is as follows:

	Group	
	2018	2017
	$'000	$'000
Property	324,790	1,936,168
Motor	23,137	41,163
Marine	1,735	997
Liability	830	(1,293)
Pecuniary loss	962	(1,219)
Accident	43	(1,857)
	351,497	1,973,959

(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.

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.

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.

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	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Low risk	18,595	6,712	-	-
Standard risk	8,726,918	10,602,914	1,240,434	1,076,896
Past due	3,132,208	3,038,645	160,363	184,264
Credit impaired	975,379	588,048	246,904	170,145
Gross carrying amount	12,853,100	14,236,319	1,647,701	1,431,305
Loss allowance	(662,828)	(446,689)	(63,822)	(70,672)
Carrying amount	12,190,272	13,789,630	1,583,879	1,360,633

Loss allowance

The loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows for trade and premium receivables:

	Group					
	at 31 December 2018			at 1 January 2018		
	Gross carrying amount $'000	Loss allowance $'000	Expected loss rate	Gross carrying amount $'000	Loss allowance $'000	Expected loss rate
Less than 1 month	8,034,872	36,491	0.45%	10,024,348	40,799	0.41%
Within 1 to 3 months	3,223,816	36,417	1.13%	3,033,692	88,627	2.92%
Over 3 months	1,594,412	589,920	37.00%	1,178,279	392,523	33.31%
	12,853,100	662,828		14,236,319	521,949	

	Company					
	at 31 December 2018			at 1 January 2018		
	Gross carrying amount $'000	Loss allowance $'000	Expected loss rate	Gross carrying amount $'000	Loss allowance $'000	Expected loss rate
Less than 1 month	531,752	1,523	0.29%	470,562	346	0.07%
Within 1 to 3 months	1,017,071	1,992	0.20%	843,324	528	0.06%
Over 3 months	98,878	60,307	60.99%	117,419	79,041	67.32%
	1,647,701	63,822		1,431,305	79,915	

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit Risk (continued)

Trade and premium receivables (continued)

Loss allowance (continued)

The closing loss allowances for trade and premium receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
At 31 December – calculated under IAS 39	446,689	413,566	70,672	100,448
Amounts restated through opening retained earnings	75,260	-	9,243	-
At 1 January 2018 – calculated under IFRS 9	521,949	413,566	79,915	100,448
Movement on loss allowance recognised in income statement during the year	321,280	181,900	24,487	13,710
Receivables written off during the year as uncollectible	(132,203)	(115,197)	(27,288)	(28,439)
Unused amount reversed	(48,198)	(33,580)	(13,292)	(15,047)
At 31 December	662,828	446,689	63,822	70,672

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.

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.

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 in the year ended 31 December 2018

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 unlikeliness 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.

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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.

Economic factor	Scenarios	Range
Gross Domestic Product (GDP)	Base	0.5% - 1.5%
	Upside	1.5% - 2.5%
	Downside	0.0%
Unemployment Rate	Base	12% - 14%
	Upside	8% - 10%
	Downside	13% - 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 2018 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions.

Forward Looking Indicator	Change in basis points:	Effect on ECL $'000	Forward Looking Indicator	Change in basis points:	Effect on ECL $'000
GDP growth	+ 100bp	21,968	Unemployment rate	+ 100bp	(13,419)
GDP growth	- 100bp	(21,968)	Unemployment rate	- 100bp	13,419

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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				
	2018				2017
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Total
	$'000	$'000	$'000	$'000	$'000
Standard risk	19,885,182	2,809,851	-	22,695,033	23,052,496
Past due	1,230,385	2,226,823	-	3,457,208	3,550,834
Credit impaired	-	-	1,288,858	1,288,858	1,585,287
Gross carrying amount	21,115,567	5,036,674	1,288,858	27,441,099	28,188,617
Loss allowance	(241,370)	(272,963)	(457,209)	(971,542)	(640,288)
Carrying amount	20,874,197	4,763,711	831,649	26,469,557	27,548,329

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

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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.

As at 31 December 2018, the fair value of collateral held in respect of credit impaired financial assets is $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			
	2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	$'000	$'000	$'000	$'000
At 1 January	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)
Total net income statement charge	(7,018)	24,489	84,763	102,234
Other movements:				
Write-offs	-	-	(212,663)	(212,663)
At 31 December	236,709	330,794	404,039	971,542

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 ended 31 December 2018 was $212,663,000.

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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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Public sector	124,493	624,461	-	-
Professional and other services	4,222,647	4,912,337	-	-
Personal	10,874,645	10,142,129	98,161	120,978
Agriculture, fishing and mining	895,146	798,016	-	-
Construction and real estate	720,660	1,416,054	15,614	25,005
Electricity, gas and water	1,563,480	1,578,671	-	-
Distribution	3,399,521	3,347,061	1,129,085	2,976,332
Manufacturing	2,279,239	2,095,016	-	-
Transportation	3,037,717	3,103,536	-	-
Tourism and entertainment	2,104,036	1,938,084	228,611	196,306
Financial and other money services	911,044	1,448,080	191,349	191,389
Brokers and agents	1,605,196	1,691,442	-	-
Reinsurers and coinsurers	791,486	1,830,415	-	-
Supermarket chains	2,275,455	2,046,520	376,278	313,796
Wholesalers	1,738,376	1,506,222	344,298	372,972
Retail and direct customers	2,938,835	3,039,363	540,840	438,797
Other	692,578	695,067	154,058	108,723
	40,174,554	42,212,474	3,078,294	4,744,298
Loss allowance	(1,634,370)	(1,086,977)	(63,822)	(70,672)
	38,540,184	41,125,497	3,014,472	4,673,626
Interest receivable	119,645	212,462	4,373	46,313
	38,659,829	41,337,959	3,018,845	4,719,939

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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	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Government of Jamaica:				
At amortised cost	7,285,868	-	2,500,246	-
At fair value through other comprehensive income	5,589,468	-	-	-
Available-for-sale securities	-	12,944,286	-	2,995,852
Corporate:				
At amortised cost	12,131,707	-	1,664,825	-
Available-for-sale securities	-	9,472,499	-	1,954,336
Other government:				
At amortised cost	434,167	-	-	-
At fair value through other comprehensive income	430,355	-	-	-
Available-for-sale securities	-	885,415	-	-
Bank of Jamaica	9,108,105	9,912,692	-	-
Other	2,166,938	2,954,634	1,540,506	1,514,573
	37,146,608	36,169,526	5,705,577	6,464,761

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit Risk (continued)

Debt Investments (continued)

Debt investments at amortised cost

The loss allowance for debt investments at amortised cost as at 31 December 2017 reconciles to the opening loss allowance on 1 January 2018 and to the closing loss allowance as at 31 December 2018 as follows:

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Amounts restated through opening retained earnings and non-controlling interests	182,263	-	48,421	-
At 1 January 2018 – calculated under IFRS 9	182,263	-	48,421	-
Loss allowance recognised in income statement	24,486	-	1,340	-
At 31 December	206,749	-	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 loss allowance for debt investments at FVOCI as at 31 December 2017 reconciles to the opening loss allowance on 1 January 2018 and to the closing loss allowance as at 31 December 2018 as follows:

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Amounts restated through opening retained earnings	90,545	-	-	-
At 1 January 2018 – calculated under IFRS 9	90,545	-	-	-
Loss allowance recognised in income statement	16,035	-	-	-
Unused amounts reversed	(19,474)	-	-	-
At 31 December	87,106	-	-	-

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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.

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial liabilities cash flows

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

	Group				
	1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 2018:					
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
Total financial liabilities (contractual dates)	58,437,261	12,438,398	7,468,302	2,536,453	80,880,414

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

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial liabilities cash flows (continued)

	Company				
	1 to 3 Months $'000	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Total $'000**
As at 31 December 2018:					
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
Total financial liabilities (contractual dates)	8,992,662	2,372,237	1,458,056	213,180	13,036,135

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

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	
	2018 $'000	**2017 $'000**	**2018 $'000**	**2017 $'000**
Floating rate –				
Expiring within one year	9,781,765	9,860,401	5,008,867	6,032,827

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.

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Off-statement of financial position items

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

	Group			
	No Later Than 1 Year $'000	1 to 5 Years $'000	Over 5 Years $'000	Total $'000
As at 31 December 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
As at 31 December 2017:				
Loan commitments	1,443,956	-	-	1,443,956
Guarantees, acceptances and other financial facilities	267,678	-	-	267,678
Capital commitments	2,126,181	-	-	2,126,181
Operating lease commitments	1,403,165	3,525,894	1,258,585	6,187,644
	5,240,980	3,525,894	1,258,585	10,025,459

(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.

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Currency risk (continued)

Concentrations of currency risk

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

	Group						
	Jamaican$ J$'000	**US$ J$'000**	**GBP J$'000**	**CAN$ J$'000**	**EURO J$'000**	**Other J$'000**	**Total J$'000**
As at 31 December 2018:							
Financial Assets							
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
Total financial assets	47,799,217	38,307,336	2,338,753	579,726	140,072	2,512,192	91,677,296
Financial Liabilities							
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
Total financial liabilities	39,425,917	33,387,860	2,796,072	1,167,646	308,121	1,008,310	78,093,926
Net financial position	8,373,300	4,919,476	(457,319)	(587,920)	(168,049)	1,503,882	13,583,370

	Group						
	Jamaican$ J$'000	**US$ J$'000**	**GBP J$'000**	**CAN$ J$'000**	**EURO J$'000**	**Other J$'000**	**Total J$'000**
As at 31 December 2017:							
Financial Assets							
Cash and deposits	6,372,877	4,261,822	408,957	105,791	76,570	858,228	12,084,245
Investment securities and pledged assets	12,327,152	23,904,163	44,731	12,369	-	491,926	36,780,341
Trade and other receivables	4,842,197	5,061,631	1,667,149	479,965	223,030	1,515,658	13,789,630
Loans receivable	20,678,545	6,865,060	-	-	-	4,724	27,548,329
Total financial assets	44,220,771	40,092,676	2,120,837	598,125	299,600	2,870,536	90,202,545
Financial Liabilities							
Deposits	16,352,761	16,762,672	276,535	85,567	52,988	-	33,530,523
Securities sold under agreements to repurchase	1,746,757	2,045,963	-	-	-	-	3,792,720
Bank and other loans	7,303,113	8,104,344	861,183	170,957	-	76,018	16,515,615
Trade and other payables	7,142,533	7,898,384	1,887,841	582,707	186,627	1,668,403	19,366,495
Total financial liabilities	32,545,164	34,811,363	3,025,559	839,231	239,615	1,744,421	73,205,353
Net financial position	11,675,607	5,281,313	(904,722)	(241,106)	59,985	1,126,115	16,997,192

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Currency risk (continued)

Concentrations of currency risk (continued)

	Company						
	Jamaican$ J$'000	**US$ J$'000**	**GBP J$'000**	**CAN$ J$'000**	**EURO J$'000**	**Other J$'000**	**Total J$'000**
As at 31 December 2018:							
Financial Assets							
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
Total financial assets	8,947,410	5,641,783	3,659	1,600	-	-	14,594,452
Financial Liabilities							
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
Total financial liabilities	9,835,588	2,859,569	1,422	479	2,921	-	12,699,979
Net financial position	(888,178)	2,782,214	2,237	1,121	(2,921)	-	1,894,473

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

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Currency risk (continued)

Foreign currency sensitivity

The following tables indicate the currencies to which the Group and company had significant exposure on its monetary assets and liabilities and its forecast cash flows. The change in currency rates below represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis represents the changes in carrying amounts of outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 4% increase (2017: 4%) and a 2% decrease (2017: 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 Currency Rate 2018	Effect on Profit before Taxation 2018 $'000	% Change in Currency Rate 2017	Effect on Profit before Taxation 2017 $'000
Currency:				
USD	+4%	196,700	+4%	199,229
GBP	+4%	602	+4%	934
CAN	+4%	2,040	+4%	1,179
EURO	+4%	(43)	+4%	64
USD	-2%	(98,350)	-2%	(99,614)
GBP	-2%	(301)	-2%	(467)
CAN	-2%	(1,020)	-2%	(590)
EURO	-2%	22	-2%	(32)

	Company			
	% Change in Currency Rate 2018	Effect on Profit before Taxation 2018 $'000	% Change in Currency Rate 2017	Effect on Profit before Taxation 2017 $'000
Currency:				
USD	+4%	113,512	+4%	115,662
GBP	+4%	80	+4%	(103)
CAN	+4%	38	+4%	(120)
EURO	+4%	(121)	+4%	(140)
USD	-2%	(56,756)	-2%	(57,831)
GBP	-2%	(40)	-2%	51
CAN	-2%	(19)	-2%	60
EURO	-2%	61	-2%	70

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

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

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

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

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

	Group						
	Within 1 Month $'000	**1 to 3 Months $'000**	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Non-rate Sensitive $'000**	**Total $'000**
At 31 December 2018:							
Assets							
Cash and deposits	5,447,400	2,609,520	-	-	-	6,767,879	14,824,799
Investment securities 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 receivables	-	-	-	-	-	12,190,272	12,190,272
Total financial assets	11,694,398	4,689,684	6,755,180	19,267,271	24,031,563	25,239,200	91,677,296
Liabilities							
Deposits	24,404,588	4,654,285	5,285,838	26,315	-	-	34,371,026
Securities sold under agreements to 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
Total financial liabilities	31,465,919	7,598,291	12,891,733	4,172,158	1,980,575	19,985,250	78,093,926
Total interest repricing gap	(19,771,521)	(2,908,607)	(6,136,553)	15,095,113	22,050,988	5,253,950	13,583,370

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

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

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

	Company						
	Within 1 Month $'000	**1 to 3 Months $'000**	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Over 5 Years $'000**	**Non-rate Sensitive $'000**	**Total $'000**
At 31 December 2018:							
Assets							
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 receivables	-	-	-	-	-	1,583,879	1,583,879
Subsidiaries	-	-	-	-	-	1,867,140	1,867,140
Total financial assets	575,242	3,492,712	2,061,531	1,961,802	1,955,328	4,547,837	14,594,452
Liabilities							
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
Total financial liabilities	2,252,259	891,313	2,970,769	-	-	6,585,638	12,699,979
Total interest repricing gap	(1,677,017)	2,601,399	(909,238)	1,961,802	1,955,328	(2,037,801)	1,894,473

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

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

Interest rate sensitivity

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

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

Group

Change in basis points: 2018	Effect on Profit before Taxation 2018	Effect on Other Components of Equity 2018	Change in basis points: 2017	Effect on Profit before Taxation 2017	Effect on Other Components of Equity 2017
JMD / USD	$'000	$'000	JMD / USD	$'000	$'000
-100 / -100	164,837	464,956	-100 / -50	44,004	233,261
+100 / +100	(164,837)	(384,777)	+100 / +50	(44,004)	(196,323)

Company

Change in basis points: 2018	Effect on Profit before Taxation 2018	Effect on Other Components of Equity 2018	Change in basis points: 2017	Effect on Profit before Taxation 2017	Effect on Other Components of Equity 2017
JMD / USD	$'000	$'000	JMD / USD	$'000	$'000
-100 / -100	13,526	-	-100 / -50	3,929	53,842
+100 / +100	(13,526)	-	+100 / +50	(3,929)	(51,943)

Price Risk

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

The impact of a 10% (2017: 15%) change in the quoted prices for these equities would be an increase or decrease in the carrying value of $46,321,000 (2017: $3,802,000) in income and $57,707,000 (2017: $86,954,000) in other comprehensive income.

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% (2017: 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.

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 2018, the Group's strategy, which was unchanged from 2017, was to maintain a debt to equity ratio not exceeding 100%. The debt to equity ratios at 31 December 2018 and 2017 were as follows:

	Group	
	2018	**2017**
	$'000	**$'000**
Total borrowings (Note 15)	16,529,313	16,515,615
Owners' equity	44,614,427	45,222,812
Gearing ratio	37.0%	36.5%

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

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

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 $2,467,570,000, 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.

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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.

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5. Cash and Deposits

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Cash at bank and in hand	10,650,785	9,761,362	1,531,995	1,177,550
Deposits	4,174,014	2,322,883	2,428,990	766,901
	14,824,799	12,084,245	3,960,985	1,944,451

Included in deposits is interest receivable of $14,413,000 (2017: $7,124,000) and $12,919,000 (2017: $4,027,000) for the Group and company, respectively. The weighted average effective interest rate on deposits was 2.46% (2017: 3.71%) and 4.17% (2017: 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	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Cash at bank and in hand	10,650,785	9,761,362	1,531,995	1,177,550
Deposits	4,174,014	2,322,883	2,428,990	766,901
	14,824,799	12,084,245	3,960,985	1,944,451
Bank overdrafts (Note 15)	(2,546,601)	(2,681,950)	(1,521,391)	(30,825)
	12,278,198	9,402,295	2,439,594	1,913,626

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6. Investment Securities and Pledged Assets

(a) Investment securities

	Group		Company	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
At amortised cost:				
Bank of Jamaica	9,108,105	-	-	-
Government of Jamaica securities	7,285,868	-	2,500,246	-
Foreign government securities	434,167	-	-	-
Corporate bonds	12,131,707	-	1,664,825	-
Other debt securities	2,166,938	-	1,540,506	-
Other	5,355	-	335	-
	31,132,140	-	5,705,912	-
At fair value through other comprehensive income:				
Quoted equities	577,070	-	41,570	-
Government of Jamaica securities	5,589,468	-	-	-
Foreign government securities	430,355	-	-	-
Other	424	-	-	-
	6,597,317	-	41,570	-
Previously classified as available-for-sale:				
Quoted equities	-	579,692	-	48,502
Bank of Jamaica	-	9,912,692	-	-
Government of Jamaica securities	-	12,944,286	-	2,995,852
Foreign government securities	-	885,415	-	-
Corporate bonds	-	9,472,499	-	1,954,336
Other debt securities	-	2,954,634	-	1,514,573
Other	-	5,779	-	335
	-	36,754,997	-	6,513,598
At fair value through profit or loss:				
Quoted equities	463,211	25,344	-	-
	463,211	25,344	-	-
Total	38,192,668	36,780,341	5,747,482	6,513,598
Less: Pledged assets (Note 6b)	(9,931,362)	(4,927,305)	-	-
Investment securities in the statement of financial position	28,261,306	31,853,036	5,747,482	6,513,598

The change in classification of investment securities between 2017 and 2018 is based on the adoption of IFRS 9 as disclosed in Note 40.

Included in investment securities is interest receivable of $496,680,000 (2017: $471,149,000) and $96,800,000 (2017: $92,605,000) 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 4.73% (2017: 5.10%) and 2.25% (2017: 3.03%) for the Group and the company respectively.

Included in Bank of Jamaica securities is $5,035,909,000 (2017: $5,338,710,000) held at the Bank of Jamaica under Section 14(1) of the Banking Act, 1992, representing the required ratio of 12% (2017: 12%) for Jamaican dollar cash reserves and 15% (2017: 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 $10,106,882,000 (2017: $10,570,440,000) and company $3,279,050,000 (2017: $1,564,603,000) which matures within the next 12 months.

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	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Total in the statement of financial position (Note 6a)	9,931,362	4,927,305	9,595,774	4,772,630

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	
	2018 $'000	2017 $'000
Pledged assets with right to sell or repledge	9,931,362	4,927,305

(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 $577,070,000 and $41,570,000 for the Group and company respectively as at 31 December 2018. Dividends of $16,217,000 and $942,000 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 $166,199,000 in the income statement during the year, being reclassified from other comprehensive income on sale.

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7. Receivables

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Trade receivables, less provision for impairment	8,339,881	9,307,666	1,534,125	1,334,718
Insurance receivables, less provision for impairment	2,035,809	2,985,224	-	-
Reinsurers' portion of unearned premiums	1,340,082	1,153,637	-	-
Deferred policy acquisition costs	269,803	238,750	-	-
Receivable from associates and joint ventures (Note 34e)	29,591	14,122	17,465	3,168
Prepayments	1,426,266	666,550	370,136	73,812
Other receivables	1,784,991	1,482,618	32,289	22,747
	15,226,423	15,848,567	1,954,015	1,434,445

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	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Raw materials and spares	814,284	661,089	-	-
Finished goods	2,614,250	2,198,264	-	-
Merchandise	7,335,388	6,907,589	1,942,839	1,951,038
Goods in transit	2,020,139	1,486,198	1,076,012	570,096
	12,784,061	11,253,140	3,018,851	2,521,134

The inventory write-down recognised as an expense amounted to $287,380,000 (2017: $319,178,000) and $157,115,000 (2017: $144,799,000) for the Group and the company respectively.

9. Loans Receivable

(a) Loans receivable comprise:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Finance leases, less deferred profit	104,085	301,425	-	-
Loans and receivables:				
Loans to subsidiaries (Note 34e)	-	-	1,336,805	3,238,328
Loans to others	26,365,472	27,246,904	98,161	120,978
	26,469,557	27,548,329	1,434,966	3,359,306

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

Included in loans receivable is interest receivable of $119,645,000 (2017: $212,462,000) and $4,373,000 (2017: $46,313,000) for the Group and company, respectively.

Included in loans receivable is $3,829,627,000 (2017: $5,517,889,000) and $645,216,000 (2017: $908,872,000) which matures in the next 12 months for the Group and the company respectively.

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9. Loans Receivable (Continued)

(b) Finance lease receivables:

	Group	
	2018	**2017**
	$'000	**$'000**
Gross receivables from finance leases:		
Not later than 1 year	94,333	195,317
Later than 1 year and not later than 5 years	19,007	153,513
	113,340	348,830
Unearned future finance income on finance leases	(9,255)	(47,405)
Net investment in finance leases	104,085	301,425
The net investment in finance leases is analysed as follows:		
Not later than 1 year	87,384	165,445
Later than 1 year and not later than 5 years	16,701	135,980
Total	104,085	301,425

10. Investments in Associates and Joint Ventures

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
At beginning of year	1,798,220	1,743,984	49,698	49,698
Amounts restated through opening retained earnings	(47,732)	-	-	-
Amounts recognised in the income statement	490,873	484,972	-	-
Amounts recognised in other comprehensive income	45,622	(19,467)	-	-
Dividends paid	(293,647)	(338,482)	-	-
Additions	971,505	-	525,000	-
Disposal	-	(72,787)	-	-
Amounts recognised in the statement of financial position	2,964,841	1,798,220	574,698	49,698

	Group	
	2018	2017
	$'000	$'000
Dairy Industries (Jamaica) Limited	1,050,390	933,140
CSGK Finance Holdings Limited	972,139	854,947
Catherine's Peak Bottling Company Limited	528,694	-
GKMusson Limited	197,397	-
Immaterial associated companies	216,221	10,133
Amounts recognised in the statement of financial position	2,964,841	1,798,220

On 8 May 2017, the Group disposed of its 30.0% interest in Trident Insurance Company Limited, a general insurance underwriter, operating in Barbados. The net proceeds amounted to $55,506,000 and the Group recorded a gain of $6,540,000 on the sale.

Dairy Industries (Jamaica) Limited (DIJL), CSGK Finance Holdings Limited (CSGK), Catherine's Peak Bottling Company Limited (CPBC), and GKMusson Limited (GKM) 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.

GKM 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 GKM. GKM is a company formed to explore business opportunities in the financial services sector.

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

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

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10. Investments in Associates and Joint Ventures (Continued)

The summarised information for DIJL, CSGK, CPBC and GKM that was accounted for using the equity method for the years ended 31 December 2018 and 31 December 2017 is as follows:

Summarised statement of financial position

	Dairy Industries (Jamaica) Limited		CSGK Finance Holdings Limited	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Current				
Cash and cash equivalents	130,191	133,791	5,219,419	1,580,012
Other current assets (excluding cash)	1,794,370	1,662,842	441,474	156,403
Total current net assets	1,924,561	1,796,633	5,660,893	1,736,415
Financial liabilities (excluding trade payables)	-	-	24,550,623	11,643,691
Other current liabilities (including trade payables)	453,712	462,543	1,500,714	377,617
Total current liabilities	453,712	462,543	26,051,337	12,021,308
Non-current				
Assets	956,694	816,403	22,820,792	12,422,261
Non-financial liabilities	326,764	284,213	-	-
Total non-current liabilities	326,764	284,213	-	-
Net assets	2,100,779	1,866,280	2,430,348	2,137,368

	Catherine's Peak Bottling Company Limited		GKMusson Limited	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Current				
Cash and cash equivalents	79,203	-	222,349	-
Other current assets (excluding cash)	180,373	-	4,155	-
Total current net assets	259,576	-	226,504	-
Other current liabilities (including trade payables)	246,796	-	47,882	-
Total current liabilities	246,796	-	47,882	-
Non-current				
Assets	73,377	-	216,172	-
Net assets	86,157	-	394,794	-

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10. Investments in Associates and Joint Ventures (Continued)

Summarised income statement

	Dairy Industries (Jamaica) Limited		CSGK Finance Holdings Limited	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Revenue	4,094,669	3,750,013	1,598,085	1,289,117
Depreciation	(56,206)	(48,401)	(15,069)	(13,537)
Interest income - non-financial services	17,195	24,945	-	-
Interest expense - non-financial services	(8,890)	(8,336)	-	-
Profit before income tax	905,274	957,324	458,289	390,726
Taxation expense	(231,058)	(217,356)	21,091	(101,925)
Profit after tax	674,216	739,968	479,380	288,801
Other comprehensive income	60,500	6,871	41,780	(58,195)
Total comprehensive income	734,716	746,839	521,160	230,606
Dividends received by the Group from associates	250,000	300,000	43,648	38,482

	Catherine's Peak Bottling Company Limited		GKMusson Limited	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Revenue	139,360	-	-	-
Depreciation	(2,363)	-	-	-
Interest income - non-financial services	-	-	1,340	-
Interest expense - non-financial services	(563)	-	-	-
Profit before income tax	14,072	-	(105,206)	-
Taxation expense	(3,519)	-	-	-
Profit after tax	10,553	-	(105,206)	-
Total comprehensive income	10,553	-	(105,206)	-

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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) Limited		CSGK Finance Holdings Limited	
	2018	**2017**	**2018**	**2017**
Summarised financial information	**$'000**	**$'000**	**$'000**	**$'000**
Opening net assets at 1 January	1,866,279	1,719,441	2,137,367	2,002,964
Amounts restated through opening retained earnings	(216)	-	(119,061)	-
Profit for the period	674,216	739,967	479,380	288,801
Other comprehensive income	60,500	6,871	41,780	(58,195)
Dividends paid	(500,000)	(600,000)	(109,118)	(96,203)
Closing net assets	2,100,779	1,866,279	2,430,348	2,137,367
Interest in associates (%)	50	50	40	40
Interest in associates (J$)	1,050,390	933,140	972,139	854,947
Carrying value	1,050,390	933,140	972,139	854,947

	Catherine's Peak Bottling Company Limited		GKMusson Limited	
	2018	**2017**	**2018**	**2017**
Summarised financial information	**$'000**	**$'000**	**$'000**	**$'000**
Net assets of entity on purchase of interest	75,604	-	500,000	-
Profit for the period	10,553	-	(105,206)	-
Closing net assets	86,157	-	394,794	-
Interest in associates and joint ventures (%)	35	-	50	-
Interest in associates and joint ventures (J$)	30,155	-	197,397	-
Intangible assets	498,539	-	-	-
Carrying value	528,694	-	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	
	2018	**2017**
	$'000	**$'000**
Profit/(loss)	10,922	(532)
Other comprehensive income	(1,340)	375
Total comprehensive income	9,582	(157)

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11. Intangible Assets

	Brands, Customer and Supplier Relationships $'000	Goodwill $'000	Computer Software $'000	Policy Contracts $'000	Total $'000
			Group		
Cost					
At 1 January 2017	2,773,264	1,717,499	2,949,645	589,088	8,029,496
Additions	-	-	334,599	-	334,599
Acquisition through business combination (Note 38)	637,000	-	-	-	637,000
Retirement of asset	-	-	(7,358)	-	(7,358)
Exchange differences	(26,691)	(2,525)	(3,503)	-	(32,719)
At 31 December 2017	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
Accumulated Amortisation					
At 1 January 2017	1,217,863	308,490	2,046,874	431,997	4,005,224
Amortisation charge for the year	179,556	-	367,542	39,272	586,370
Retirement of asset	-	-	(7,358)	-	(7,358)
Exchange differences	(18,536)	(1)	(2,808)	-	(21,345)
At 31 December 2017	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
Net Book Amount					
31 December 2018	1,796,834	1,408,240	803,272	119,697	4,128,043
31 December 2017	2,004,690	1,406,485	869,133	117,819	4,398,127

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.

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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:

	2018 $'000	2017 $'000
Food Trading		
- Jamaica operations	16,854	16,854
- United Kingdom operations	443,142	460,089
- United States operations	948,244	929,542
	1,408,240	1,406,485

For the year ended 31 December 2018, 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 Growth Rate	EBITDA to Revenue	Capital Expenditure to Revenue	Discount Rate
Food Trading				
- Jamaica operations	6.66%	0.50%	0.24%	14.59%
- United Kingdom operations	7.69%	5.29%	1.24%	11.10%
- United States operations	9.19%	3.29%	0.18%	8.92%

	Computer Software $'000
	Company
Cost	
At 1 January 2017	880,218
Additions	155,400
Retirement of asset	(153)
At 31 December 2017	1,035,465
Additions	141,539
Retirement of asset	(11,407)
At 31 December 2018	1,165,597
Accumulated Amortisation	
At 1 January 2017	750,204
Amortisation charge for the year	63,389
Retirement of asset	(153)
At 31 December 2017	813,440
Amortisation charge for the year	70,318
Retirement of asset	(11,407)
At 31 December 2018	872,351
Net Book Amount	
31 December 2018	293,246
31 December 2017	222,025

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12. Fixed Assets

	Freehold Land and Buildings $'000	Leasehold Buildings and Improvements $'000	Plant, Equipment, Fixtures & Vehicles $'000	Capital Work in Progress $'000	Total $'000
			Group		
Cost					
At 1 January 2017	5,844,749	1,666,760	7,638,409	683,432	15,833,350
Additions	20,562	403,946	693,013	1,554,457	2,671,978
Revaluation adjustment	2,500	-	-	-	2,500
Transfers	10,872	121,178	415,805	(547,855)	-
Disposals	-	(16,632)	(336,139)	(16,540)	(369,311)
Exchange differences	(28,087)	8,810	24,835	(389)	5,169
At 31 December 2017	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
Accumulated Depreciation					
At 1 January 2017	-	898,289	4,823,390	-	5,721,679
Charge for the year	109,558	172,040	702,568	-	984,166
On disposals	-	(7,567)	(288,026)	-	(295,593)
Exchange differences	(296)	4,519	13,550	-	17,773
At 31 December 2017	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
Net Book Amount					
31 December 2018	6,417,246	1,015,390	2,980,426	3,887,907	14,300,969
31 December 2017	5,741,334	1,116,781	3,184,441	1,673,105	11,715,661

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12. Fixed Assets (Continued)

	Freehold Land and Buildings $'000	Leasehold Buildings and Improvements $'000	Plant, Equipment, Fixtures & Vehicles $'000	Capital Work in Progress $'000	Total $'000
			Company		
Cost					
At 1 January 2017	74,000	106,056	952,606	210	1,132,872
Additions	14	8,487	81,143	1,164	90,808
Disposals	-	(10,234)	(151,619)	(210)	(162,063)
At 31 December 2017	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
Accumulated Depreciation					
At 1 January 2017	-	78,881	754,707	-	833,588
Charge for the year	1,438	4,467	65,408	-	71,313
On disposals	-	(1,279)	(141,364)	-	(142,643)
At 31 December 2017	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
Net Book Amount					
31 December 2018	82,000	17,669	192,455	4,349	296,473
31 December 2017	72,576	22,240	203,379	1,164	299,359

(a) The tables above include carrying values of $87,514,000 (2017: $91,534,000) and $256,000 (2017: $384,000) 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.

12. Fixed Assets (Continued)

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

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Cost	4,256,068	4,320,417	44,660	41,137
Accumulated depreciation	635,662	565,625	13,033	11,916
Net Book Amount	3,620,406	3,754,792	31,627	29,221

(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 18).

(d) Borrowing costs of $18,747,000 (2017: $7,819,000) 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% (2017: 7.00%) was used, representing the borrowing cost of the loan used to finance the project.

(e) Assets classified as held for sale

	Group	
	2018	2017
	$'000	$'000
Land and building	242,244	-
Plant and equipment	28,964	-
Net Book Amount	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 2019. The assets are presented within total assets of the Food Trading segment (Note 22).

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 ⅓% for regulated companies.

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

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
At beginning of year	(532,817)	(596,649)	(882,998)	(981,093)
Amounts restated through opening equity	303,790	-	90,539	-
Income statement credit (Note 27)	170,502	126,071	48,161	167,735
Tax credit/(charge) relating to components of other comprehensive income (Note 27)	780,975	(63,798)	837,814	(69,640)
Exchange differences	561	1,559	-	-
At end of year	723,011	(532,817)	93,516	(882,998)

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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 $1,633,717,000 (2017: $1,871,768,000) and recognised tax credits of $375,682,000 (2017: $224,740,000) to carry forward indefinitely against future taxable income. The Group also has unrecognised tax losses of $1,022,802,000 (2017: $683,830,000) in respect of some subsidiaries.

Deferred income tax liabilities of $197,154,000 (2017: $183,754,000) 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 $788,617,000 (2017: $735,017,000).

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

	Group					
Deferred tax liabilities	**Fixed Assets $'000**	**Fair Value Gains $'000**	**Unrealised Foreign Exchange Gains $'000**	**Pension Plan Assets $'000**	**Other $'000**	**Total $'000**
At 1 January 2017	426,511	326,120	14,455	1,535,521	592,147	2,894,754
Charged/(credited) to the income statement	5,299	9,593	-	(43,255)	16,325	(12,038)
(Credited)/charged to other comprehensive income	(20,527)	71,244	-	84,945	-	135,662
Exchange differences	(377)	-	-	-	(2,168)	(2,545)
At 31 December 2017	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

Deferred tax assets	**Fixed Assets $'000**	**Fair Value Losses $'000**	**Unutilised Tax Losses and Credits $'000**	**Employee Benefit Obligations $'000**	**Other $'000**	**Total $'000**
At 1 January 2017	185,231	-	755,475	1,198,871	158,528	2,298,105
Credited/(charged) to the income statement	41,002	-	1,013	129,254	(57,236)	114,033
Credited to other comprehensive income	-	-	-	71,864	-	71,864
Exchange differences	1,401	-	(2,131)	-	(256)	(986)
At 31 December 2017	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

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13. Deferred Income Taxes (Continued)

	Company					
Deferred tax liabilities	**Fixed Assets $'000**	**Fair Value Gains $'000**	**Unrealised Foreign Exchange Gains $'000**	**Pension Plan Assets $'000**	**Other $'000**	**Total $'000**
At 1 January 2017	8,318	61,609	-	1,535,521	8,466	1,613,914
Charged/(credited) to the income statement	10,286	-	-	(43,255)	11,750	(21,219)
Charged to other comprehensive income	-	14,093	-	84,944	-	99,037
At 31 December 2017	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

Deferred tax assets	**Fixed Assets $'000**	**Fair Value Losses $'000**	**Unutilised Tax Losses and Credits $'000**	**Employee Benefit Obligations $'000**	**Other $'000**	**Total $'000**
At 1 January 2017	34,928	-	35,438	540,819	21,636	632,821
Credited/(charged) to the income statement	22,676	-	86,129	40,645	(2,934)	146,516
Credited to other comprehensive income	-	-	-	29,397	-	29,397
At 31 December 2017	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

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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	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Deferred tax assets	1,410,080	836,477	93,516	-
Deferred tax liabilities	(687,069)	(1,369,294)	-	(882,998)
	723,011	(532,817)	93,516	(882,998)

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	2,797,344	2,381,980	895,816	790,032
Deferred tax assets to be recovered within 12 months	275,247	101,036	48,458	18,702
	3,072,591	2,483,016	944,274	808,734
Deferred tax liabilities:				
Deferred tax liabilities to be settled after more than 12 months	(1,385,910)	(1,988,117)	(838,646)	(1,595,814)
Deferred tax liabilities to be settled within 12 months	(963,670)	(1,027,716)	(12,112)	(95,918)
	(2,349,580)	(3,015,833)	(850,758)	(1,691,732)
Deferred tax assets/(liabilities) net	723,011	(532,817)	93,516	(882,998)

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 $330,859,000 (2017: $293,859,000) and $65,683,000 (2017: $60,073,000) 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.

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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	
	2018	**2017**
	$'000	**$'000**
Present value of funded obligations	32,242,442	25,908,981
Fair value of plan assets	(35,512,367)	(32,217,824)
Asset in the statement of financial position	(3,269,925)	(6,308,843)

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

	Group and Company	
	2018	**2017**
	$'000	**$'000**
Beginning of year	25,908,981	22,330,364
Current service cost	755,812	696,188
Interest cost	2,051,123	2,005,634
Curtailment	(251,901)	-
	2,555,034	2,701,822
Remeasurements -		
Loss from change in financial assumptions	5,168,981	1,255,690
Experience (gains)/losses	(623,947)	100,728
	4,545,034	1,356,418
Members' contributions	223,619	230,209
Benefits paid	(990,226)	(709,832)
End of year	32,242,442	25,908,981

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	
	2018	**2017**
	$'000	**$'000**
Beginning of year	32,217,824	28,472,442
Interest income on plan assets	2,554,060	2,557,525
Return on plan assets, excluding amounts included in interest income	1,585,095	1,696,197
Members' contributions	223,619	230,209
Employers' contributions	527	986
Benefits paid	(990,226)	(709,832)
Administration costs	(78,532)	(29,703)
End of year	35,512,367	32,217,824

The amounts recognised in the income statement are as follows:

	Group and Company	
	2018	**2017**
	$'000	**$'000**
Current service cost	755,812	696,188
Interest income (net)	(502,937)	(551,891)
Curtailment	(251,901)	-
Administration costs	78,532	29,703
Total, included in staff costs (Note 26)	79,506	174,000

As at the last valuation date, the present value of the defined benefit obligation was comprised of approximately $16,280,837,000 (2017: $14,815,707,000) relating to active employees, $4,967,155,000 (2017: $3,018,986,000) relating to deferred members and $10,994,450,000 (2017: $8,074,288,000) relating to members in retirement.

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

Pension benefits (continued)

The plan assets are comprised of:

	Group and Company			
	2018		2017	
	$'000	%	$'000	%
Equity	15,221,991	43%	12,203,592	38%
Debt	4,642,998	13%	4,575,658	14%
Real estate	3,061,500	9%	2,821,614	9%
Government securities	11,023,873	31%	10,691,437	33%
Other	1,562,005	4%	1,925,523	6%
	35,512,367	100%	32,217,824	100%

The pension plan assets include the company's ordinary stock units with a fair value of $2,852,560,000 (2017: $1,954,116,000) and buildings occupied by Group companies with fair values of $1,229,701,000 (2017: $1,168,278,000).

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 2019 are $476,000. The actual return on plan assets was $4,139,155,000 (2017: $4,253,720,000).

The principal actuarial assumptions used were as follows:

	2018	2017
Discount rate	7.0%	8.0%
Long term inflation rate	5.0%	5.0%
Future salary increases	6.0%	6.0%
Future pension increases	5.0%	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:

	2018	2017
Male	27.38	27.31
Female	28.25	28.21

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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		
			2018	2017		2018	2017
Discount rate	1%	Decrease by	16.3%	15.3%	Increase by	21.5%	20.0%
Future salary increases	1%	Increase by	4.7%	4.9%	Decrease by	4.2%	4.3%
Expected pension increase	1%	Increase by	15.0%	13.5%	Decrease by	12.2%	11.1%

	Group and Company					
	Impact on post-employment obligations					
	Increase in Assumption by One Year			Decrease in Assumption by One Year		
		2018	2017		2018	2017
Life expectancy	Increase by	2.6%	2.3%	Decrease by	2.6%	2.4%

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 (2017: 6.5% 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:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Present value of unfunded obligations	6,083,687	5,129,990	2,900,502	2,443,443

Movement in the defined benefit obligation is as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Beginning of year	5,129,990	4,406,015	2,443,443	2,163,271
Current service cost	309,267	237,731	100,815	80,940
Interest cost	402,696	388,653	190,038	189,206
Past service cost - vested benefits	(14,757)	(5,160)	(23,678)	1,806
Curtailment	(235,457)	-	(60,078)	-
	461,749	621,224	207,097	271,952
Remeasurements -				
Loss from change in demographic assumptions	233,562	126,759	112,949	62,434
Loss from change in financial assumptions	657,172	197,855	291,287	93,623
Experience gains	(190,265)	(56,852)	(9,400)	(38,464)
	700,469	267,762	394,836	117,593
Benefits paid	(208,521)	(165,011)	(144,874)	(109,373)
End of year	6,083,687	5,129,990	2,900,502	2,443,443

The amounts recognised in the income statement were as follows:

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Current service cost	309,267	237,731	100,815	80,940
Interest cost	402,696	388,653	190,038	189,206
Past service cost	(14,757)	(5,160)	(23,678)	1,806
Curtailment	(235,457)	-	(60,078)	-
Total included in staff costs (Note 26)	461,749	621,224	207,097	271,952

The total charge was included in administration expenses.

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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	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Gratuity Plan	803,497	773,590	431,416	405,006
Group Life Plan	1,277,791	890,425	645,385	415,250
Insured Group Health	2,091,008	1,530,524	758,426	567,775
Self Insured Health Plan	1,345,040	1,400,143	623,716	641,010
Supplementary Pension Plan	566,351	535,308	441,559	414,402
Liability in the statement of financial position	6,083,687	5,129,990	2,900,502	2,443,443

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		
			2018	2017		2018	2017
Discount rate	1%	Decrease by	16.7%	15.1%	Increase by	22.3%	19.4%
Medical inflation rate	1%	Increase by	22.3%	19.5%	Decrease by	17.0%	15.4%

	Company						
	Impact on post-employment obligations						
	Change in Assumption	Increase in Assumption			Decrease in Assumption		
			2018	2017		2018	2017
Discount rate	1%	Decrease by	14.9%	13.7%	Increase by	19.5%	17.4%
Medical inflation rate	1%	Increase by	19.5%	17.5%	Decrease by	15.2%	14.0%

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 2018 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:

Plans	Years
Gratuity Plan	9.6
Group Life Plan	24.7
Insured Group Health	23.3
Pension Plan	19.2
Self Insured Health Plan	14.3
Superannuation Plan	7.7

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15. Bank and Other Loans

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Secured on assets	6,559,590	4,142,720	-	-
Unsecured	9,969,723	12,372,895	6,114,341	4,053,268
	16,529,313	16,515,615	6,114,341	4,053,268

(a) Unsecured loans of subsidiaries are supported by letters of comfort from the parent company. Interest rates on these loans range between 2.5% - 9.6% (2017: 2.0% - 10.13%).

(b) Bank and other loans comprise:

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Bank overdrafts (Note 5)	2,546,601	2,681,950	1,521,391	30,825
Bank borrowings	9,427,774	10,841,034	3,819,287	3,244,452
Finance leases	77,687	86,904	-	2,632
Other loans	4,477,251	2,905,727	773,663	775,359
Total borrowings	16,529,313	16,515,615	6,114,341	4,053,268

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default. 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 $49,736,000 (2017: $59,983,000) and $32,128,000 (2017: $20,905,000) for the Group and the company, respectively.

Included in bank borrowings and other loans is $9,514,913,000 (2017: $11,189,404,000) and $4,626,906,000 (2017: $2,660,996,000) 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 5.54% (2017: 5.06%) and are within level 2 of the fair value hierarchy.

(c) Finance lease liabilities – minimum lease payments:

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Not later than 1 year	35,651	37,983	-	2,740
Later than 1 year and not later than 5 years	46,471	74,471	-	-
	82,122	112,454	-	2,740
Future finance charges on finance leases	(4,435)	(25,550)	-	(108)
Present value of finance lease liabilities	77,687	86,904	-	2,632

15. Bank and Other Loans (Continued)

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

The present value of finance lease liabilities is as follows:

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Not later than 1 year	42,599	31,049	-	2,632
Later than 1 year and not later than 5 years	35,088	55,855	-	-
	77,687	86,904	-	2,632

16. Payables

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Trade payables	9,769,723	8,108,435	1,909,934	1,000,498
Payable to associates (Note 34 e)	429,556	246,867	201,742	143,778
Accruals	3,418,218	3,230,326	872,568	781,689
Claims outstanding	3,043,375	4,155,271	-	-
Insurance reserves	3,216,436	2,844,404	-	-
Customer loyalty programme	344,033	182,369	128,162	94,756
Contract liabilities	78,565	-	10,341	-
Other payables	2,901,780	3,443,227	435,382	523,949
	23,201,686	22,210,899	3,558,129	2,544,670

All payables balances are due within the next 12 months.

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17. Share Capital

	Group and Company			
	2018	**2017**	**2018**	**2017**
	Units ('000)	**Units ('000)**	**$'000**	**$'000**
Authorised -				
Ordinary shares	1,200,000	1,200,000		
Issued and fully paid -				
Ordinary stock units	994,887	994,887	623,546	623,546
Treasury shares	(3,022)	(2,233)	(133,192)	(82,595)
Issued and outstanding	991,865	992,654	490,354	540,951

(a) During the year, the company through its employee investment trust sold Nil (2017: 122,000) units of its own shares at a fair value of $Nil (2017: $5,027,000), purchased 950,000 (2017: 736,000) units at a fair value of $57,171,000 (2017: $29,592,000) and transferred 161,000 (2017: 889,000) units to employees at a fair value of $7,876,000 (2017: $37,667,000). The total number of treasury shares held by the company at the end of the year was 3,022,000 (2017: 2,233,000) at a cost of $133,192,000 (2017: $82,595,000).

(b) At the Annual General Meeting held on 29 May 2003, the stockholders passed a resolution for 30,000,000 of the authorised but unissued shares to be set aside for allocation and sale to the managers of the company. The allocation and sale of these shares will be governed by the provisions of the 2003 Stock Option Plan for the Managers of GraceKennedy Limited.

On 6 January 2011, under the rules of the Stock Option Plan, the following allocation was made:

	No. of Shares
Senior managers	8,796,024

The options were granted at a subscription price of $16.94, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous ten 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. One-third of the total of the grant to each senior manager will vest on each anniversary of the grant. 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.

	2018	**2017**
Movement on this option:	**'000**	**'000**
At 1 January	-	1,174
Exercised	-	(407)
Expired	-	(767)
At 31 December	-	-

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17. 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.

Movement on this option:	2018 '000	2017 '000
At 1 January	136	136
Exercised	(136)	-
At 31 December	-	136

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.

Movement on this option:	2018 '000	2017 '000
At 1 January	98	1,334
Exercised	(98)	(1,236)
At 31 December	-	98

(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:

	10 May 2018	11 May 2017	12 May 2016
Number of shares	1,759,004	1,967,156	2,551,665
Subscription price	$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.

17. Share Capital (Continued)

(d) Long term incentive plan (continued)

	2018 Offer	2017 Offer	2016 Offer	Total	2018 Offer	2017 Offer	2016 Offer	Total
	2018				2017			
Movement on this option:	'000	'000	'000	'000	'000	'000	'000	'000
At 1 January	-	1,948	2,513	4,461	-	-	2,552	2,552
Granted	1,759	-	-	1,759	-	1,967	-	1,967
Exercised	-	-	-	-	-	-	(12)	(12)
Forfeited	(8)	(41)	(45)	(94)	-	(19)	(27)	(46)
At 31 December	1,751	1,907	2,468	6,126	-	1,948	2,513	4,461

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

	2018		2017	
Movement on this option:	**Average exercise price in $ per share**	**Options '000**	**Average exercise price in $ per share**	**Options '000**
At 1 January	33.36	4,695	23.26	5,196
Granted	47.77	1,759	42.09	1,967
Exercised	18.28	(234)	33.83	(1,655)
Forfeited	35.88	(94)	19.60	(46)
Expired	-	-	16.94	(767)
At 31 December	38.04	6,126	33.36	4,695

Shares totalling 2,503,000 (2017: 234,000) 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:

		2018	2017
	Exercise price in $ per share	**Options '000**	**Options '000**
2018	20.40	-	234
2023	28.00	2,468	2,513
2024	42.09	1,907	1,948
2025	47.77	1,751	-
		6,126	4,695

(f) The fair value of options granted determined using the Black-Scholes valuation model was $216,851,000. The significant inputs into the model were the weighted average share prices ranging from $17.00 to $47.77 at the grant dates, exercise prices ranging from $16.94 to $47.77, standard deviation of expected share price returns ranging from 29.1% to 33.2%, option life of six and eight years and risk-free interest rates ranging between 2.98% to 7.48%. 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 $290,199,000 and the fair value of restricted stock grants earned and vested is $53,429,000.

The expense recognised in the income statement for share-based payments was $104,406,000 (2017: $56,960,000).

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18. Capital and Fair Value Reserves

	Group							
	Capital Reserve	Loan Loss Reserve	Fair Value Reserves	Total	Capital Reserve	Loan Loss Reserve	Fair Value Reserves	Total
	2018				2017			
	$'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	116,809	-	-	116,809	115,507	-	-	115,507
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	-	-	3,025,097	3,025,097	-	-	2,302,229	2,302,229
Fair value gains, net of deferred taxes	-	-	302,656	302,656	-	-	696,994	696,994
Loan loss reserve	-	556,032	-	556,032	-	628,271	-	628,271
Catastrophe reserve	12,270	-	-	12,270	12,270	-	-	12,270
Other	35,187	-	-	35,187	35,187	-	-	35,187
	2,463,053	556,032	3,327,753	6,346,838	2,461,751	628,271	2,999,223	6,089,245

	Company					
	Capital Reserve	Fair Value Reserves	Total	Capital Reserve	Fair Value Reserves	Total
	2018			2017		
	$'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	-	37,229	37,229
Fair value gains, net of deferred taxes	-	110,975	110,975	-	343,241	343,241
	24,507	153,003	177,510	24,507	380,470	404,977

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19. 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.

20. Other Reserves

	Group			Company
	Foreign Currency Translation $'000	Share-based Payments $'000	Total $'000	Share-based Payments $'000
At 1 January 2017	3,508,349	110,912	3,619,261	68,371
Equity holders' share of other comprehensive income	(209,482)	-	(209,482)	-
Share-based payment expense	-	56,337	56,337	34,598
Transfer of treasury shares to employees	-	(37,667)	(37,667)	(37,667)
At 31 December 2017	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)
At 31 December 2018	2,126,865	224,943	2,351,808	130,728

(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 17.

21. Non-Controlling Interests

	2018 $'000	2017 $'000
Beginning of year	1,789,301	1,474,683
Amounts restated through opening equity	(3,488)	-
Share of total comprehensive income:		
Share of net profit of subsidiaries	637,662	655,999
Remeasurement of post-employment benefit obligations	(2,157)	(6,189)
Other	6,492	(14,580)
	641,997	635,230
Employee share option scheme: value of services received	1,169	623
Dividends paid	(354,014)	(321,235)
End of year	2,074,965	1,789,301

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21. 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 $2,074,965,000 of which $2,024,288,000 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 Caribbean SRL	
	2018	**2017**
	$'000	**$'000**
Current		
Assets	8,055,233	7,887,532
Liabilities	(2,025,849)	(2,570,355)
Total current net assets	6,029,384	5,317,177
Non-current		
Assets	3,933,974	2,180,296
Liabilities	(1,866,208)	(513,625)
Total non-current net assets	2,067,766	1,666,671
Net assets	8,097,150	6,983,848

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21. Non-Controlling Interests (Continued)

Summarised income statement

	GraceKennedy Money Services Caribbean SRL	
	2018	2017
	$'000	$'000
Revenue	7,685,985	7,845,866
Profit before income tax	3,120,858	3,112,588
Taxation expense	(598,654)	(519,190)
Profit after tax	2,522,204	2,593,398
Other comprehensive income	13,606	(80,057)
Total comprehensive income	2,535,810	2,513,341
Total comprehensive income allocated to non-controlling interest	633,953	628,335
Dividends paid to non-controlling interest	(354,014)	(319,435)

Summarised cash flows

	GraceKennedy Money Services Caribbean SRL	
	2018	2017
	$'000	$'000
Cash flows from operating activities		
Cash generated from operations	3,239,448	3,491,539
Interest paid	(3,558)	(1,398)
Income tax paid	(700,333)	(1,069,860)
Net cash generated from operating activities	2,535,557	2,420,281
Net cash used in investing activities	(1,633,773)	(1,380,408)
Net cash used in financing activities	(336,283)	(940,234)
Net increase in cash and cash equivalents	565,501	99,639
Cash and cash equivalents at the beginning of year	4,585,936	4,546,868
Exchange gains/(losses) on cash and cash equivalents	31,555	(60,571)
Cash and cash equivalents at end of year	5,182,992	4,585,936

The information above represents amounts before intercompany eliminations.

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22. 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

			2018			
	Food Trading	**Banking & Investments**	**Insurance**	**Money Services**	**Unallocated/ Elimination**	**Group**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
REVENUE						
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)	-
Total Revenue	77,292,659	5,827,371	7,337,428	7,685,985	(598,712)	97,544,731
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 joint ventures	340,802	202,674	(52,603)	-	-	490,873
Profit before taxation	1,609,677	751,251	667,897	3,047,346	886,854	6,963,025
Taxation						(1,319,448)
Net Profit						5,643,577
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
Total assets	48,369,023	60,382,860	14,507,205	11,225,499	750,813	135,235,400
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
Total liabilities	24,390,214	49,798,838	8,467,661	3,310,517	2,578,778	88,546,008
Other segment items						
Additions to non-current assets [(b)]	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)

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22. Segment Information (Continued)

Operating segments (continued)

	2017					
	Food Trading	Banking & Investments	Insurance	Money Services	Unallocated/ Elimination	Group
	$'000	$'000	$'000	$'000	$'000	$'000
REVENUE						
External sales	72,609,349	5,979,211	6,041,226	7,845,866	-	92,475,652
Inter-segment sales	182,131	70,223	384,626	-	(636,980)	-
Total Revenue	72,791,480	6,049,434	6,425,852	7,845,866	(636,980)	92,475,652
Operating results	1,671,493	587,631	549,461	3,153,897	28,473	5,990,955
Unallocated expense	-	-	-	-	(371,720)	(371,720)
Profit from operations	-	-	-	-	-	5,619,235
Finance income	19,048	53,834	19,431	22,136	263,763	378,212
Finance expense	(509,495)	(81,615)	(1,679)	(1,397)	(68,671)	(662,857)
Share of results of associates and joint ventures	369,984	115,520	(532)	-	-	484,972
Profit before taxation	1,551,030	675,370	566,681	3,174,636	(148,155)	5,819,562
Taxation						(1,047,462)
Net Profit						4,772,100
Operating assets	42,103,242	58,311,856	14,898,295	9,373,867	(4,440,850)	120,246,410
Investment in associates and joint ventures	933,140	854,947	-	10,133	-	1,798,220
Unallocated assets	-	-	-	-	7,944,010	7,944,010
Total assets	43,036,382	59,166,803	14,898,295	9,384,000	3,503,160	129,988,640
Operating liabilities	20,830,212	47,818,655	9,453,650	2,467,771	(4,520,531)	76,049,757
Unallocated liabilities	-	-	-	-	6,926,770	6,926,770
Total liabilities	20,830,212	47,818,655	9,453,650	2,467,771	2,406,239	82,976,527
Other segment items						
Additions to non-current assets [b]	1,089,445	264,036	381,754	1,271,342	-	3,006,577
Depreciation	(723,982)	(141,545)	(46,146)	(72,493)	-	(984,166)
Amortisation	(236,727)	(160,088)	(98,296)	(91,259)	-	(586,370)

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22. 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	
	2018	2017	2018	2017	2018	2017
	$'000	$'000	$'000	$'000	$'000	$'000
Total for reportable segments	6,076,171	5,967,717	134,484,587	126,485,480	85,967,230	80,570,288
Inter-segment eliminations	-	-	(4,694,018)	(4,440,850)	(4,656,868)	(4,520,531)
Unallocated amounts:						
Corporate central office results	1,323,467	538,032	-	-	-	-
Post-employment benefits	(332,207)	(629,227)	-	-	-	-
Share-based payments	(104,406)	(56,960)	-	-	-	-
Taxation recoverable	-	-	764,826	798,690	-	-
Deferred tax assets	-	-	1,410,080	836,477	-	-
Pension plan asset	-	-	3,269,925	6,308,843	-	-
Taxation	-	-	-	-	464,890	427,486
Deferred tax liabilities	-	-	-	-	687,069	1,369,294
Other post-employment obligations	-	-	-	-	6,083,687	5,129,990
Total unallocated	886,854	(148,155)	5,444,831	7,944,010	7,235,646	6,926,770
Total per financial statements	6,963,025	5,819,562	135,235,400	129,988,640	88,546,008	82,976,527

Geographical information

	Revenue [a]		Non-current Assets [b]	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Jamaica	51,777,307	47,656,940	16,708,997	12,994,276
United Kingdom	12,084,871	12,297,058	1,183,305	1,280,831
United States of America	18,674,249	18,123,196	3,040,011	2,961,132
Canada	6,126,392	5,899,908	54,918	61,414
Other Caribbean countries	6,940,647	6,672,710	1,305,830	1,232,355
Other European countries	1,752,896	1,565,325	-	-
Africa	29,046	125,223	-	-
Other countries	159,323	135,292	-	-
Total	97,544,731	92,475,652	22,293,061	18,530,008

[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.

23. Revenues

Revenues can be disaggregated as follows:

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Timing of revenue recognition –				
Goods transferred at a point in time	77,106,135	72,609,349	18,957,924	17,623,999
Services transferred at a point in time	10,677,779	10,792,958	-	-
Services transferred over time	132,795	132,544	-	-
Revenue from insurance contracts	5,605,875	4,687,863	-	-
Interest revenue –				
Interest income on investments	1,018,298	1,198,332	-	-
Interest income on loans receivable	3,003,849	3,054,606	-	-
	97,544,731	92,475,652	18,957,924	17,623,999

24. Expense by Nature

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Auditors' remuneration	209,721	179,413	21,223	19,368
Advertising and marketing	2,711,918	2,748,920	1,087,806	1,013,069
Amortisation of intangibles	634,620	586,370	70,318	63,389
Commissions and other money services costs	1,827,300	1,772,962	-	-
Cost of inventory recognised as expense	54,116,666	50,430,582	14,479,386	13,310,172
Depreciation	1,115,819	984,166	71,000	71,313
Impairment losses on financial assets (net)	484,367	366,048	25,870	17,588
Information technology	1,056,551	996,115	393,493	457,741
Insurance	629,302	607,187	102,683	101,020
Interest expense and other financial services expenses	5,691,319	5,213,261	-	-
Legal, professional and other fees	4,214,664	3,639,848	825,751	573,564
Occupancy costs - Lease rental charges, utilities, etc.	3,402,879	3,265,280	596,477	605,355
Repairs and maintenance expenditure	754,671	714,627	40,203	41,001
Staff costs (Note 26)	13,828,705	13,795,418	3,735,514	3,583,723
Transportation	2,093,695	1,842,927	461,395	397,639
Other expenses	1,632,020	1,801,299	381,469	607,238
	94,404,217	88,944,423	22,292,588	20,862,180

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25. Other Income

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Dividend income	25,073	15,489	2,353,901	2,196,038
Net foreign exchange gains	833,343	282,776	248,237	16,817
Change in fair value of investment properties	10,000	34,000	-	-
Change in value of investments – fair value through profit or loss	135,228	(1,148)	-	-
Gain on acquisition of subsidiary (Note 38)	-	418,460	-	-
Gain on disposal of investments	1,069,837	45,699	-	10,531
Gain/(loss) on disposal of fixed assets	27,704	(8,200)	947	1,210
Fees and commissions	557,626	486,870	2,949,938	2,340,855
Interest income – available-for-sale securities	310,027	324,046	-	-
Rebates, reimbursements and recoveries	227,696	239,093	38,011	36,278
Rent	235,596	175,177	-	-
Miscellaneous	53,880	75,744	8,263	17,041
	3,486,010	2,088,006	5,599,297	4,618,770

26. Staff Costs

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Wages and salaries	9,988,619	9,743,090	2,602,219	2,335,102
Pension (Note 14)	79,506	174,000	79,506	174,000
Pension contributions to defined contribution scheme (Note 14)	330,859	293,859	65,683	60,073
Other post-employment benefits (Note 14)	461,749	621,224	207,097	271,952
Share-based payments	104,406	56,960	73,302	34,598
Statutory contributions	930,486	918,470	257,971	230,219
Other costs	1,933,080	1,987,815	449,736	477,779
	13,828,705	13,795,418	3,735,514	3,583,723

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27. Taxation

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

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Current tax	1,542,417	1,323,159	37,113	12,991
Adjustment to prior year provision	(52,467)	(149,626)	-	-
Deferred tax (Note 13)	(170,502)	(126,071)	(48,161)	(167,735)
	1,319,448	1,047,462	(11,048)	(154,744)

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	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Profit before tax	6,963,025	5,819,562	2,435,769	1,579,980
Tax calculated at a tax rate of 25%	1,740,756	1,454,891	608,942	394,995
Adjusted for the effects of:				
Different tax rates in other countries	26,933	68,857	-	-
Different tax rate of regulated Jamaican companies	361,696	276,446	-	-
Income not subject to tax	(525,230)	(296,163)	(637,315)	(582,440)
Expenses not deductible for tax purposes	318,953	230,385	17,325	33,432
Adjustment to prior year provision	(52,467)	(149,626)	-	-
Share of profits of associates and joint ventures included net of tax	(122,718)	(121,243)	-	-
Urban renewal tax credit	(427,697)	(416,449)	-	-
Other	(778)	364	-	(731)
Tax expense/(credit)	1,319,448	1,047,462	(11,048)	(154,744)

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27. Taxation (Continued)

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

	Group					
	2018			2017		
	Before tax	Tax charge	After tax	Before tax	Tax (charge)/ credit	After tax
	$'000	$'000	$'000	$'000	$'000	$'000
Items that will not be reclassified to profit or loss:						
Revaluation surplus	899,329	(214,691)	684,638	2,500	20,527	23,027
Fair value gains	156,268	(52,667)	103,601	-	-	-
Remeasurements of post-employment benefit obligations	(3,660,408)	925,771	(2,734,637)	72,015	(13,081)	58,934
Share of other comprehensive income of associates and joint ventures	30,249	-	30,249	3,436	-	3,436
	(2,574,562)	658,413	(1,916,149)	77,951	7,446	85,397
Items that may be subsequently reclassified to profit or loss:						
Foreign currency translation adjustments	(1,180,883)	-	(1,180,883)	(201,407)	-	(201,407)
Fair value (losses)/gains	(402,511)	122,562	(279,949)	321,921	(71,244)	250,677
Share of other comprehensive income of associates and joint ventures	15,373	-	15,373	(22,903)	-	(22,903)
	(1,568,021)	122,562	(1,445,459)	97,611	(71,244)	26,367
Other comprehensive income	(4,142,583)	780,975	(3,361,608)	175,562	(63,798)	111,764
Deferred tax (Note 13)	-	780,975	-	-	(63,798)	-

	Company					
	2018			2017		
	Before tax	Tax charge	After tax	Before tax	Tax credit/ (charge)	After tax
	$'000	$'000	$'000	$'000	$'000	$'000
Items that will not be reclassified to profit or loss:						
Revaluation surplus	7,412	(2,613)	4,799	-	-	-
Fair value losses	(6,932)	1,733	(5,199)	-	-	-
Remeasurements of post-employment benefit obligations	(3,354,775)	838,694	(2,516,081)	222,186	(55,547)	166,639
	(3,354,295)	837,814	(2,516,481)	222,186	(55,547)	166,639
Items that may be subsequently reclassified to profit or loss:						
Fair value gains	-	-	-	56,372	(14,093)	42,279
	-	-	-	56,372	(14,093)	42,279
Other comprehensive income	(3,354,295)	837,814	(2,516,481)	278,558	(69,640)	208,918
Deferred tax (Note 13)	-	837,814	-	-	(69,640)	-

28. Net Profit Attributable to the Owners of GraceKennedy Limited

Dealt with as follows in the financial statements of:

	2018 $'000	2017 $'000
The company	2,446,817	1,734,724
Intra-group dividends, gain on disposal of subsidiaries within the Group and other eliminations on consolidation	(2,352,957)	(2,198,630)
Adjusted company profit/(loss)	93,860	(463,906)
The subsidiaries	4,421,182	4,095,035
The associates and joint ventures	490,873	484,972
	5,005,915	4,116,101

29. Dividends

	2018 $'000	2017 $'000
Paid,		
Interim – 40 cents per stock unit (2017 : 30 cents)	397,117	297,804
Interim – 45 cents per stock unit (2017 : 38 cents)	446,668	377,111
Final – 50 cents per stock unit (2017 : 45 cents)	495,998	446,604
	1,339,783	1,121,519

30. 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.

	2018	2017
Net profit attributable to owners ($'000)	5,005,915	4,116,101
Weighted average number of stock units outstanding ('000)	991,865	992,654
Basic earnings per stock unit ($)	5.05	4.15

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) 2,493,000 (2017: 2,079,000) ordinary stock units for the full year in respect of stock options for directors.

(b) 3,633,000 (2017: 2,616,000) ordinary stock units for the full year in respect of the stock options for managers.

	2018	2017
Net profit attributable to owners ($'000)	5,005,915	4,116,101
Weighted average number of stock units outstanding ('000)	991,865	992,654
Adjustment for share options ('000)	1,602	964
	993,467	993,618
Diluted earnings per stock unit ($)	5.04	4.14

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31. Cash Flows from Operating Activities

Reconciliation of net profit to cash generated from operating activities:

		Group		Company	
		2018	2017	2018	2017
	Note	$'000	$'000	$'000	$'000
Net profit		5,643,577	4,772,100	2,446,817	1,734,724
Items not affecting cash:					
Depreciation	12	1,115,819	984,166	71,000	71,313
Amortisation	11	634,620	586,370	70,318	63,389
Change in value of investment properties		(10,000)	(34,000)	-	-
Change in value of investments		(135,228)	1,148	-	-
(Gain)/loss on disposal of fixed assets		(27,704)	8,200	(947)	(1,210)
Gain on disposal of investments		(1,069,837)	(45,699)	-	(10,531)
Gain on acquisition of subsidiary		-	(418,460)	-	-
Share-based payments	17	104,406	56,960	73,302	34,598
Exchange (gain)/loss on foreign balances		(210,951)	189,174	60,562	72,207
Interest income – non financial services		(427,501)	(378,212)	(504,893)	(541,547)
Interest income – financial services		(4,332,173)	(4,576,984)	-	-
Interest expense – non financial services		581,873	662,857	333,757	342,156
Interest expense – financial services		781,454	1,025,627	-	-
Taxation expense	27	1,319,448	1,047,462	(11,048)	(154,744)
Unremitted equity income in associates and joint ventures		(197,225)	(146,490)	-	-
Pension plan surplus		78,979	173,014	78,979	173,014
Other post-employment obligations		253,228	456,213	62,223	162,579
		4,102,785	4,363,446	2,680,070	1,945,948
Changes in working capital components:					
Inventories		(1,530,921)	452,306	(497,717)	168,509
Receivables		546,885	(1,858,404)	(528,674)	(83,080)
Loans receivable, net		654,147	(1,787,965)	-	-
Payables		847,465	1,763,059	998,656	(35,051)
Deposits		558,099	3,271,821	-	-
Securities sold under repurchase agreements		3,342,339	(8,388,536)	-	-
Subsidiaries		-	-	(1,180,214)	36,051
Total provided by/(used in) operating activities		8,520,799	(2,184,273)	1,472,121	2,032,377

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31. Cash Flows from Operating Activities (Continued)

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

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Cash provided by/(used in) operating activities	8,520,799	(2,184,273)	1,472,121	2,032,377
Interest received – financial services	4,404,330	4,555,353	-	-
Interest paid – financial services	(818,882)	(1,058,846)	-	-
Translation losses	(1,242,828)	(113,163)	-	-
Taxation paid	(1,418,683)	(1,692,831)	(61,894)	(53,073)
Net cash provided by/(used in) operating activities	9,444,736	(493,760)	1,410,227	1,979,304

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

Amounts represent bank and other loans, excluding bank overdrafts

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
At 1 January	13,833,665	11,276,191	4,022,443	3,391,830
Loans received	7,612,456	5,284,480	3,061,883	1,805,086
Loans repaid	(7,558,098)	(2,568,620)	(2,629,854)	(1,108,119)
Foreign exchange adjustments	104,937	(124,254)	126,788	(59,522)
Net interest movements	(10,248)	(34,132)	11,690	(6,832)
At 31 December	13,982,712	13,833,665	4,592,950	4,022,443

32. Commitments

(a) Future lease payments under operating leases at 31 December 2018 were as follows:

		$'000
In financial year	2019	1,366,102
	2020	1,080,861
	2021	944,297
	2022	722,364
	2023	566,589
	2024 and beyond	1,517,061

(b) At 31 December 2018, the Group had $452,651,000 (2017: $2,126,181,000) in authorised capital expenditure for which it had established contracts.

33. Contingent Liabilities

(a) By letter dated 17 May 2018, the Guyana Revenue Authority (GRA) indicated that GraceKennedy Remittance Services Guyana ('GKRS') was "incorrectly" classified as a non-commercial company rather than a commercial company. Based on this, the GRA asserted that GKRS had wrongly paid corporation taxes at the lower non-commercial company rate. GKRS' tax liability was assessed by the GRA to be the equivalent of J$228,254,000, excluding penalties and interest if applicable. GKRS lodged objections to the GRA's assessment on the basis that the GRA wrongly assessed GKRS as a commercial company and that GKRS 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 instructed counsel to file an appeal to a Judge in Chambers in the matter. The appeal was filed on 26 October 2018 and defence in response filed by the GRA on 21 December 2018. Written submissions were also filed by both parties thereafter. Both parties are expected to make oral submissions before the Judge in chambers by the end of March 2019, providing any clarification on the written submissions filed, subsequent to which the judge will deliver a decision.

GKRS is confident that it has a strong basis of appeal having regard to counsel's advice, that the requirement to pay taxes as a commercial company, as set out in the Corporation Tax Act of Guyana, does not apply because the company does not satisfy the criterion for this classification. Based on this, no amounts have been provided for in these financial statements in respect of this matter.

(b) On 27 December 2018, the company established a Standby Letter of Credit (SBLC) for the equivalent of J$190,207,000 in favour of the lessors for a new warehouse to be utilised by a Food Trading subsidiary. The facility is priced at 2% per annum and expires after 1 year. It is expected to be renewed for a further 12 months.

(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.

34. Related Party Transactions and Balances

The following transactions were carried out with related parties:

		Group		Company	
		2018	2017	2018	2017
		$'000	$'000	$'000	$'000
(a)	**Sales of goods and services**				
	Sales of goods	2,104	2,610	460,952	418,210
	Sales of services	82,976	91,443	2,689,342	2,166,356
(b)	**Purchase of goods and services**				
	Purchases of goods	4,096,454	3,094,559	7,894,680	7,076,255
	Purchases of services	-	-	563,539	472,557
(c)	**Interest**				
	Interest income	1,369	1,670	126,759	180,219
	Interest expense	16,173	25,273	86,741	93,685

Dividends received by the company from subsidiaries and associates were $2,102,957,000 (2017: $1,893,369,000) and $250,000,000 (2017: $300,000,000) 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	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Salaries and other short-term employee benefits	411,074	371,093	284,976	240,645
Fees paid to directors	35,976	35,204	28,799	29,057
Post-employment benefits	(28,052)	(4,550)	(33,536)	(13,851)
Share-based payments	68,963	37,742	59,486	27,604
	487,961	439,489	339,725	283,455

The following amounts are in respect of directors' emoluments:

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Fees	35,976	35,204	28,799	29,057
Management remuneration	132,100	135,774	132,100	135,774
Consultancy services	9,019	-	9,019	-
Post-employment benefits paid	16,074	37,208	3,020	7,262
	193,169	208,186	172,938	172,093

34. Related Party Transactions and Balances (Continued)

(d) Transactions with key management (continued)

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

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Sale of goods and services –				
Sales of goods	1,180	1,153	861	1,153
Sales of services	2,364	2,583	-	-
Purchase of goods and services –				
Purchase of services	4,095	-	4,095	-
Interest earned and incurred –				
Interest income	1,148	1,513	-	-
Interest expense	4,001	8,740	-	-

Transactions with companies controlled by directors and other key management personnel

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Sale of goods and services –				
Sales of services	298	557	-	-

(e) Year-end balances with related parties

	Group		Company	
	2018	2017	2018	2017
	$'000	$'000	$'000	$'000
Cash and deposits with subsidiaries	-	-	1,081,416	262,812
Investment securities with subsidiaries	-	-	86,159	227,035
Receivable from subsidiaries	-	-	1,867,140	1,063,372
Receivable from associates and joint ventures (Note 7)	29,591	14,122	17,465	3,168
Loans receivable from subsidiaries (Note 9)	-	-	1,336,805	3,238,328
Payable to subsidiaries	-	-	3,027,509	3,403,955
Payable to associates and joint ventures (Note 16)	429,556	246,867	201,742	143,778
Loans & leases payable to subsidiaries	-	-	249,243	245,073
Deposits payable to associates and joint ventures	493,982	538,500	-	-

(f) Loans to related parties

Loans receivable from subsidiaries are repayable in the years 2019 - 2025 and bear interest at 4.0% - 8.0% (2017: 0% - 9.5%). No provision was required in 2018 and 2017 for loans made to subsidiaries.

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34. Related Party Transactions and Balances (Continued)

(f) Loans to related parties (continued)

	Company	
	2018	**2017**
	$'000	**$'000**
Loans to subsidiaries:		
At 1 January	3,238,328	3,012,013
Loans advanced during the year	698,199	970,000
Loan repayments received	(2,671,547)	(718,285)
Exchange differences	113,765	(57,744)
Interest charged	46,312	143,451
Interest received	(88,252)	(111,107)
At 31 December	1,336,805	3,238,328

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

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

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Receivables	357	633	58	183
Loans receivable	73,869	75,818	52,833	59,114
Deposits payable	226,327	300,958	-	-

(h) Loans to directors and other key management

The loans receivable attract interest at rates ranging between 0% - 10.5% (2017: 0% - 10.5%) and are repayable in the years 2021 - 2025. These loans are secured and are made on terms similar to those offered to other employees. No provision was required in 2018 and 2017 for the loans made to directors and senior managers.

	Group		Company	
	2018	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**
Loans to directors and other key management:				
At 1 January	75,818	115,235	59,114	99,637
Loans advanced during the year	28,723	4,170	4,781	-
Loan repayments received	(30,760)	(43,051)	(11,062)	(40,523)
Exchange differences	-	(536)	-	-
Interest charged	1,148	1,513	-	-
Interest received	(1,060)	(1,513)	-	-
At 31 December	73,869	75,818	52,833	59,114

(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 2,493,000 (2017: 2,079,000).

35. 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			
	2018			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
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
Total Assets	1,040,281	6,020,247	-	7,060,528

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35. Fair Values Estimation (Continued)

Financial Instruments (continued)

	Group			
	2017			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Available-for-sale securities:				
Quoted equities	579,692	-	-	579,692
Bank of Jamaica	-	9,912,692	-	9,912,692
Government of Jamaica securities	-	12,944,286	-	12,944,286
Foreign governments	-	885,415	-	885,415
Corporate bonds	-	9,472,499	-	9,472,499
Other debt securities	-	2,954,634	-	2,954,634
Other	-	5,779	-	5,779
Financial assets at fair value through profit or loss:				
Quoted equities	25,344	-	-	25,344
Total Assets	605,036	36,175,305	-	36,780,341

	Company			
	2018			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Financial assets at fair value through other comprehensive income:				
Quoted equities	41,570	-	-	41,570
Total Assets	41,570	-	-	41,570

35. Fair Values Estimation (Continued)

Financial Instruments (continued)

	Company			
	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	$'000	**$'000**	**$'000**	**$'000**
Assets				
Available-for-sale securities:				
Quoted equities	48,502	-	-	48,502
Government of Jamaica securities	-	2,995,852	-	2,995,852
Corporate bonds	-	1,954,336	-	1,954,336
Other debt securities	-	1,514,573	-	1,514,573
Other	-	335	-	335
Total Assets	48,502	6,465,096	-	6,513,598

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 trading securities or available-for-sale.

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.

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35. Fair Values Estimation (Continued)

Financial Instruments (continued)

Note that all of the resulting fair value estimates are included in level 2 except for certain corporate bonds as explained below.

The following table presents the changes in level 3 instruments for the years ended 31 December.

	Group	
	2018	2017
	$'000	$'000
At beginning of year	-	969
Disposals	-	(969)
At end of year	-	-

There were no transfers between the levels during the year.

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 2016. 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 18). 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 $6,417,246,000 (2017: $5,741,334,000) and $82,000,000 (2017: $72,576,000) for the Group and company respectively. Included in Group's land and buildings is the Distribution Centre with a carrying value of $3,822,000,000 (2017: $3,207,522,000).

The carrying value of investment properties classified as level 3 is $628,000,000 (2017: $618,000,000).

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

	Distribution center	Other land and buildings	Total	Distribution center	Other land and buildings	Total
		2018			2017	
	$'000	$'000	$'000	$'000	$'000	$'000
At beginning of year	3,207,522	2,533,812	5,741,334	3,285,000	2,559,749	5,844,749
Additions and transfers in	48,598	61,764	110,362	4,806	26,628	31,434
Revaluation adjustment	648,879	250,450	899,329	-	2,500	2,500
Disposals and transfers out	-	(242,244)	(242,244)	-	-	-
Depreciation	(82,999)	(27,791)	(110,790)	(82,284)	(27,274)	(109,558)
Translation adjustment	-	19,255	19,255	-	(27,791)	(27,791)
At end of year	3,822,000	2,595,246	6,417,246	3,207,522	2,533,812	5,741,334

There were no transfers to/from Level 3 during the year.

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35. 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 37 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 31 December 2018 $'000	Fair value at 31 December 2017 $'000	Valuation technique(s)	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs
Distribution centre	3,822,000	3,207,522	Cost approach	Certified costs of construction as at date of completion of property	US$21,500,000 - US$22,000,000	The higher the costs of construction the higher the fair value
				Rate of increase in construction costs from date of last valuation	2018: 10% - 12% 2017: 10% - 12%	The higher the rate of increase in construction costs the higher the fair value
				Professional fees - architects, quantity surveyors, engineers	8%	The higher the professional fees the higher the fair value
				Interest cost	2018: 10% - 12% 2017: 10% - 12%	The higher the interest cost the higher the fair value
				Estimated profit margin required by developer	5%	The higher the developer's profit the higher the fair value
				Rate of obsolescence	9%	The higher the rate of obsolescence the lower the fair value
	3,822,000	3,207,522				

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36. Financial Instruments by Category

	Group			
	Assets at amortised cost $'000	Assets at fair value through profit or loss $'000	Assets at fair value through other comprehensive income $'000	Total $'000
As at 31 December 2018:				
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
Total financial assets	84,616,768	463,211	6,597,317	91,677,296

	Group			
	Loans and receivables $'000	Assets at fair value through profit or loss $'000	Available for for sale $'000	Total $'000
As at 31 December 2017:				
Cash and deposits	12,084,245	-	-	12,084,245
Investment securities and pledged assets	-	25,344	36,754,997	36,780,341
Loans receivable	27,548,329	-	-	27,548,329
Trade and other receivables	13,789,630	-	-	13,789,630
Total financial assets	53,422,204	25,344	36,754,997	90,202,545

	Group
	Other financial liabilities at amortised cost $'000
As at 31 December 2018:	
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
Total financial liabilities	78,093,926

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36. Financial Instruments by Category (Continued)

	Group
	Other financial liabilities at amortised cost
	$'000
As at 31 December 2017:	
Deposits	33,530,523
Securities sold under agreements to repurchase	3,792,720
Bank and other loans	16,515,615
Trade and other payables	19,366,495
Total financial liabilities	73,205,353

	Company		
	Assets at amortised cost	**Assets at fair value through other comprehensive income**	**Total**
	$'000	**$'000**	**$'000**
As at 31 December 2018:			
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
Total financial assets	14,552,882	41,570	14,594,452

	Company		
	Loans and receivables	**Available for for sale**	**Total**
	$'000	**$'000**	**$'000**
As at 31 December 2017:			
Cash and deposits	1,944,451	-	1,944,451
Investment securities and pledged assets	-	6,513,598	6,513,598
Loans receivable	3,359,306	-	3,359,306
Trade and other receivables	1,360,633	-	1,360,633
Subsidiaries	1,063,372	-	1,063,372
Total financial assets	7,727,762	6,513,598	14,241,360

36. Financial Instruments by Category (Continued)

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

	Company
	Other financial liabilities at amortised cost $'000
As at 31 December 2017:	
Bank and other loans	4,053,268
Trade and other payables	2,544,670
Subsidiaries	3,403,955
Total financial liabilities	10,001,893

37. Investment Properties

	Group	
	2018 $'000	2017 $'000
At 1 January	618,000	584,000
Change in fair value	10,000	34,000
At 31 December	628,000	618,000

The following amounts have been recognised in the income statement:

	Group	
	2018 $'000	2017 $'000
Rental income arising from investment properties	40,176	26,086
Direct operating expenses arising from investment properties	10,718	9,690

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

38. Business Combinations

In the prior year, the Group acquired 100% of the share capital of Consumer Brands Limited (CBL), a distributor of recognised international and local third party branded household products in Jamaica. The acquisition has expanded the range of branded products that the Group distributes in Jamaica and complements the Group's expertise in managing top tier brands and deep distribution channels.

The following table summarises the purchase consideration, net assets acquired and gain on acquisition:

	31 August 2017 $'000
Purchase consideration:	
Cash paid on date of acquisition	496,330
Cash paid subsequent to acquisition in relation to completion	228,181
Cash paid subsequent to acquisition in relation to contingent consideration	275,049
Balance due on contingent consideration	108,610
Total purchase consideration	1,108,170
Fair value of net assets acquired	1,526,630
Gain on acquisition of subsidiary (Note 25)	(418,460)
Purchase consideration settled in cash	496,330
Cash and cash equivalents in business acquired	(357,590)
Cash outflow on acquisition	138,740
Purchase consideration settled in cash	999,560
Cash and cash equivalents in business acquired	(357,590)
Cash outflow at end of prior year	641,970

Contingent consideration

From the date of acquisition, on the retention of certain supplier relationships over the next two years, further consideration up to an amount of $108,610,000 is payable in cash with 50% being payable on 31 August 2018 and the remaining amount on 31 August 2019.

The following table summarises the change in contingent consideration:

	$'000
Balance at 1 January 2018	108,610
Payment during the year	(54,331)
Balance at 31 December 2018	54,279

39. Subsequent Event

On 28 February 2019, the Board of Directors approved an interim dividend in respect of 2019 of 35 cents per ordinary stock unit. The dividend is payable on 4 April 2019 to shareholders on record as at 15 March 2019.

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40. Adoption of New Accounting Standards

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

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

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have either not been included or are shown in aggregate. The adjustments are explained in more detail by standard below.

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

	Group			
	December 31 2017 As originally presented $'000	Effects of IFRS 9 $'000	Effects of IFRS 15 $'000	January 1 2018 As restated $'000
Assets				
Investment securities and pledged assets	36,780,341	(553,921)	-	36,226,420
Receivables	15,848,567	(75,260)	-	15,773,307
Loans receivable	27,548,329	(441,683)	-	27,106,646
Investments in associates	1,798,220	(47,732)	-	1,750,488
Deferred tax assets	836,477	208,980	-	1,045,457
Other assets unaffected by adoption of new standards	47,176,706	-	-	47,176,706
Total Assets	129,988,640	(909,616)	-	129,079,024
Liabilities				
Payables	22,210,899	-	143,322	22,354,221
Deferred tax liabilities	1,369,294	(94,810)	-	1,274,484
Other liabilities unaffected by adoption of new standards	59,396,334	-	-	59,396,334
Total Liabilities	82,976,527	(94,810)	143,322	83,025,039
EQUITY				
Capital & reserves attributable to the company's owners				
Capital and fair value reserves	6,089,245	(605,449)	-	5,483,796
Retained earnings	32,120,056	(205,869)	(143,322)	31,770,865
Share capital, banking and other reserves	7,013,511	-	-	7,013,511
	45,222,812	(811,318)	(143,322)	44,268,172
Non-Controlling Interests	1,789,301	(3,488)	-	1,785,813
Total Equity	47,012,113	(814,806)	(143,322)	46,053,985
Total Equity and Liabilities	129,988,640	(909,616)	-	129,079,024

40. Adoption of New Accounting Standards (Continued)

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

	Company		
	December 31 2017 As originally presented $'000	**Effects of IFRS 9 $'000**	**January 1 2018 As restated $'000**
Assets			
Investment securities	6,513,598	(352,913)	6,160,685
Receivables	1,434,445	(9,243)	1,425,202
Other assets unaffected by adoption of new standards	31,756,800	-	31,756,800
Total Assets	39,704,843	(362,156)	39,342,687
Liabilities			
Deferred tax liabilities	882,998	(90,539)	792,459
Other liabilities unaffected by adoption of new standards	12,445,336	-	12,445,336
Total Liabilities	13,328,334	(90,539)	13,237,795
EQUITY			
Capital & reserves attributable to the company's owners			
Capital and fair value reserves	404,977	(228,369)	176,608
Retained earnings	25,365,279	(43,248)	25,322,031
Share capital and other reserves	606,253	-	606,253
Total Equity	26,376,509	(271,617)	26,104,892
Total Equity and Liabilities	39,704,843	(362,156)	39,342,687

40. Adoption of New Accounting Standards (Continued)

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

	Group		
	Capital and Fair Value Reserves $'000	Retained Earnings $'000	Non-Controlling Interests $'000
Closing equity components 31 December 2017 – IAS 39/IAS 18	6,089,245	32,120,056	1,789,301
IFRS 9 Impact			
Increase in provision for loans receivable	-	(441,683)	-
Increase in provision for trade receivables and other receivables	-	(72,466)	(2,794)
Increase in provision for debt investments at amortised cost	-	(181,883)	(380)
Increase in provision for debt investments at FVOCI	90,545	(90,545)	-
Increase in deferred tax assets relating to impairment provisions	-	220,787	-
Share of associates increase in impairment provision	-	(47,732)	-
Reclassify investments from AFS to FVPL	(20,194)	20,194	-
Reclassify investments from AFS to amortised cost	(371,344)	-	(314)
Decrease in deferred tax liabilities relating to reclassification of investments from AFS to amortised cost	83,003	-	-
Transfer from loan loss reserve	(387,459)	387,459	-
	(605,449)	(205,869)	(3,488)
IFRS 15 Impact			
Recognition of liability for customer loyalty programme	-	(98,289)	-
Recognition of contract liability for commission and fee income earned over time	-	(45,033)	-
	-	(143,322)	-
Adjustment to equity from adoption of IFRS 9 and IFRS 15 on 1 January 2018	(605,449)	(349,191)	(3,488)
Opening equity components 1 January 2018 – IFRS 9 and IFRS 15	5,483,796	31,770,865	1,785,813

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

	Company	
	Capital and Fair Value Reserves $'000	Retained Earnings $'000
Closing equity components 31 December 2017 – IAS 39/IAS 18	404,977	25,365,279
IFRS 9 Impact		
Increase in provision for trade receivables and other receivables	-	(9,243)
Increase in provision for debt investments at amortised cost	-	(48,421)
Increase in deferred tax assets relating to impairment provisions	-	14,416
Reclassify investments from AFS to amortised cost	(304,492)	-
Decrease in deferred tax liabilities relating to reclassification of investments from AFS to amortised cost	76,123	-
Adjustment to equity from adoption of IFRS 9 on 1 January 2018	(228,369)	(43,248)
Opening equity components 1 January 2018 – IFRS 9 and IFRS 15	176,608	25,322,031

40. Adoption of New Accounting Standards (Continued)

(i) IFRS 9 'Financial Instruments' – impact of adoption

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

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

		Company				
		AFS	Amortised Cost	FVOCI	FVPL	Total
Financial assets – 1 January 2018	Note	$'000	$'000	$'000	$'000	$'000
Closing balance 31 December 2017 – IAS 39		6,513,598	-	-	-	6,513,598
Reclassify debt instruments from AFS to amortised cost	(a)	(6,464,761)	6,111,848	-	-	(352,913)
Reclassify equity instruments from AFS to FVOCI	(c)	(48,837)	-	48,837	-	-
Opening balance 1 January 2018 – IFRS 9		-	6,111,848	48,837	-	6,160,685

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

(a) Certain debt instruments were reclassified from AFS to amortised cost as the Group's business model is to hold these investments for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest. Fair value gains or losses previously recognised in OCI have been reversed. Impairment losses were recognised directly against the asset.

(b) Certain debt instruments were reclassified from AFS to FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets. The contractual cash flows of these investments are solely principal and interest.

(c) The Group elected to present in OCI changes in the fair value of some of its equity investments previously classified as AFS because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term.

(d) For other equity investments, where the Group has the intention to periodically sell, these investments were reclassified from AFS to FVPL. The associated fair value gains and losses previously recognised in OCI have been reclassified to opening retained earnings.

(e) Equity instruments that are held for trading are required to be held as FVPL under IFRS 9. The classification for investments already held by the Group under this business model is unchanged.

(f) There was no impact on the amounts recognised in relation to the financial assets described in items (b) to (e) from the adoption of IFRS 9.

40. Adoption of New Accounting Standards (Continued)

Reclassifications of financial instruments on adoption of IFRS 9

On 1 January 2018 (the date of initial application of IFRS 9), the financial instruments of the Group were as follows, with any reclassifications noted:

	Group				
	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original $'000	New $'000	Change $'000
Cash and deposits	Amortised Cost	Amortised Cost	12,084,245	12,084,245	-
Investment securities - debt	AFS	Amortised Cost	29,369,416	28,815,495	(553,921)
Investment securities - debt	AFS	FVOCI	6,832,951	6,832,951	-
Investment securities - equity	AFS	FVOCI	426,580	426,580	-
Investment securities - equity	AFS	FVPL	126,050	126,050	-
Investment securities - equity	FVPL	FVPL	25,344	25,344	-
Trade and other receivables	Amortised Cost	Amortised Cost	13,789,630	13,714,370	(75,260)
Loans receivable	Amortised Cost	Amortised Cost	27,548,329	27,106,646	(441,683)

	Company				
	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original $'000	New $'000	Change $'000
Cash and deposits	Amortised Cost	Amortised Cost	1,944,451	1,944,451	-
Investment securities - debt	AFS	Amortised Cost	6,464,761	6,111,848	(352,913)
Investment securities - equity	AFS	FVOCI	48,837	48,837	-
Trade and other receivables	Amortised Cost	Amortised Cost	1,360,633	1,351,390	(9,243)
Subsidiaries	Amortised Cost	Amortised Cost	1,063,372	1,063,372	-
Loans receivable	Amortised Cost	Amortised Cost	3,359,306	3,359,306	-

Impairment of financial assets

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

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

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

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

40. Adoption of New Accounting Standards (Continued)

(ii) IFRS 15 – impact of adoption

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

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

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

Customer loyalty programme

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

Income earned over time

The Group recognised contract liabilities in respect of contracts with customers in the insurance brokerage and banking industries, for which consideration was received or due before the Group transferred the service to the customer. This resulted in revenue deferral of $22,326,000 and $22,707,000 in relation to Insurance Commissions and Credit Card Fees respectively.

As a result of applying IFRS 15 in the current reporting period ended 31 December 2018, line items in the income statement were affected as follows:

	Group		
	Revenue from products and services $'000	**Direct and operating expenses $'000**	**Net impact of IFRS 15 on profit or loss $'000**
Components of the income statement for the 12 months ended 31 December 2018 – IAS 18*	93,822,059	(94,185,712)	
Effects of adopting IFRS 15			
Reclassification of return of goods, discounts and loyalty reward points from expenses to revenue	(265,862)	265,862	-
Provision for discounts available to customers and expected returns	(23,929)	-	(23,929)
Net impact on contract liabilities from the recognition of commission and fee income earned over time	(9,684)	-	(9,684)
Net impact of IFRS 15 on profit or loss	(299,475)	265,862	(33,613)
Components of the income statement for the 12 months ended 31 December 2018 – IFRS 15	93,522,584	(93,919,850)	(33,613)

	Company		
	Revenue $'000	**Cost of goods sold $'000**	**Net impact of IFRS 15 on profit or loss $'000**
Components of the income statement for the 12 months ended 31 December 2018 – IAS 18*	19,056,273	(15,076,538)	
Effects of adopting IFRS 15			
Reclassification of return of goods and discounts	(88,008)	88,008	-
Provision for discounts available to customers and expected returns	(10,341)	-	(10,341)
Net impact of IFRS 15 on profit or loss	(98,349)	88,008	(10,341)
Components of the income statement for the 12 months ended 31 December 2018 – IFRS 15	18,957,924	(14,988,530)	(10,341)

* after accounting for the effects of IFRS 9