INTERIM REPORT

(THREE MONTHS)
31 MARCH 2018

GraceKennedy Limited

INTERIM REPORT TO OUR STOCKHOLDERS

The Directors are pleased to present the unaudited results of the Group for the three months ended March 31, 2018. The Group achieved revenues of J$24.9 billion, representing an increase of 5.1% or J$1.2 billion over the corresponding period of 2017. Net profit for the period was J$1.3 billion, an increase of J$170.4 million or 14.9% compared with 2017. Net profit attributable to the stockholders of the Company was 18.5% or J$186.1 million higher than that of the corresponding period of 2017.

Earnings per stock unit for the period ended was J$1.20 (Q1 2017: J$ 1.02). Shareholders' equity increased by J$168.7 million to J$45.4 billion over the three-month period, which resulted in a book value per share of J$45.72. The Group adopted new accounting standards, IFRS 9 and IFRS 15, effective January 1, 2018 with respect to the recognition, classification and measurement of financial instruments and the recognition of revenue from contracts with customers. The effect of adopting these standards is a reduction in shareholders' equity at the start of the year of J$0.9 billion, however the impact on the results for the first quarter is not material. The GraceKennedy stock price closed at J$48.48 on March 29, 2018 representing a 10.6% increase since the start of the year.

The Food Trading segment grew in both revenue and pre-tax profit when compared to the corresponding period of 2017 due to improved performance in both our Jamaican and International foods businesses.

Our worldwide advertising campaign for 2018 "Flava With A Beat" was successfully launched during the quarter and is being rolled out internationally. "Flava with a Beat" will see a refreshed look and feel throughout all of Grace Foods' communication channels and activities. The campaign is targeted at our Jamaican consumers, Caribbean diaspora community and mainstream audiences in our international markets who enjoy Jamaican culture and food.

Our Domestic business experienced growth in sales influenced by Consumer Brands Limited which continues to perform well and the company's Proctor & Gamble (P&G) portfolio experienced double digit growth since our acquisition in 2017. In the quarter Consumer Brands Limited was selected "Distributor of the Year" for the Caribbean region by principal P&G.

GraceKennedy acquired a 33 1/3 % stake in Gray's Pepper Products Limited, one of Jamaica's largest processors of seasonings and sauces. Our investment in Gray's Pepper will enable the company to grow the product portfolio locally and internationally. This investment is in keeping with our continued commitment to develop and support Jamaica's agro-processing industry.

GraceKennedy Foods (USA) LLC, our United States distribution company, experienced growth in revenue over the corresponding period of 2017. The company continues to see strong growth in its markets in Florida and Atlanta with new listings in key chains such as Stop & Shop, Publix and Save-A-Lot. We are encouraged by the significant growth in sales of our Grace Patties, over prior corresponding period.

During the quarter we re-launched "Nurishment Extra" which is a nutritionally enriched milk drink with reduced sugar. This is in keeping with the Grace healthy food roadmap which will focus on providing alternatives with reduced sugar and sodium. We are exploring further innovations for the 2nd quarter which will seek to meet the changing demands of our customers.

Grace Foods Canada, Inc. experienced growth in revenue over the corresponding period of 2017. Our products in Walmart performed well showing substantial growth over the prior corresponding period due to additional product listings and increased in-store marketing. The company remained #1 in the Coconut Category in Canada.

Grace Foods UK Limited experienced reduced sales in the UK market due primarily to the loss of a third party principal and reduced sales of our Nurishment product. The company experienced strong growth in revenue in its key European markets - Germany, Spain, Holland and France, primarily driven by our Aloe and Coconut water products.

The GraceKennedy Financial Group reported growth in revenue and pre-tax profit when compared to the prior corresponding period.

The Banking and Investments segment reported a moderate decline in revenue with strong growth in pre-tax profit over the corresponding period of 2017. First Global Bank (FGB) reported growth in pre-tax profit mainly driven by lower cost of funds and lower expenses. In keeping with our financial inclusion strategy FGB opened its third satellite location in Linstead, St. Catherine, Jamaica through the First Global MoneyLink brand. This brings the total number of FGB locations in Jamaica to eleven.

The Insurance segment experienced strong growth in both revenue and pre-tax profits over the prior corresponding period, primarily driven by GK Insurance. The results were mainly due to growth in the Commercial Lines portfolio. GK Insurance Eastern Caribbean continued its expansion initiatives and in the quarter commenced operations in Antigua adding to locations already established in St. Lucia and St. Vincent.

The Money Services segment reported a decline in both revenue and pre-tax profit over the prior corresponding period. This was due mainly to a reduction in transaction volumes in our remittance business for Jamaica. The implementation of enhanced compliance measures has led to increased oversight for the protection of our customers throughout our network of agencies. While these strengthened compliance measures had some impact on revenues in the period they are expected to lead to long term benefits for the company. GraceKennedy Limited, and its strategic partner Western Union, introduced an expansion of the company's digital money transfer service. We are excited to partner in the expansion of Western Union's digital footprint and it was an honour to have had Western Union's President and CEO, Hikmet Ersek with us in Jamaica to celebrate this launch. This product will allow Jamaicans to send funds through an online platform to 200 countries globally. GraceKennedy Remittance Services Limited in Jamaica is the first in Latin America and the Caribbean to offer the digital service at WU.com.

GraceKennedy Limited was pleased to expand its sponsorship commitment to the ISSA/GraceKennedy Boys and Girls Championships, popularly known as "Champs" for a further seven years with a commitment of over US$4 million for the life of the sponsorship. We are proud of the continued success of this event and what it means for Jamaica and our youth.

GraceKennedy Limited announced the retirement of Hon. Douglas Orane CD, JP, (Hon.) LLD from GraceKennedy's Board of Directors effective May 30, 2018 having served as a member of the Board in various capacities since May 30, 1985. This decision is in keeping with Mr. Orane's intention to gradually reduce his participation on corporate Boards in order to spend more time with his family, and on philanthropic work, particularly in education and developing entrepreneurship in young people. Mr. Orane has made an invaluable contribution to the shaping and strengthening the company's governance practices as a strategic advantage. He is an outstanding leader and we will miss having him as a member of the Board, but we are equally happy that he will be devoting more time to developing the next generation of entrepreneurs and leaders.

As we journey through 2018 we are guided by our theme "Delivering consumer and shareholder value through innovative solutions". We remain focused on ensuring an agile, efficient and high-performing corporate structure in order to deliver on our vision of being a Global Consumer Group. We thank you, our shareholders and employees for your continued commitment, support and trust and you our customers for allowing us to serve you.

Gordon V. Shirley, O.J.
Chairman

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

May 10, 2018

GraceKennedy Limited

CONSOLIDATED INCOME STATEMENT
THREE MONTHS ENDED 31 MARCH 2018
(Unaudited)

	3 months to 3/31/2018 $'000	3 months to 3/31/2017 $'000
Revenue from products and services	23,886,054	22,629,130
Interest revenue	1,024,010	1,064,210
Revenues (Note 2)	24,910,064	23,693,340
Direct and operating expenses	(24,121,439)	(22,716,850)
Net impairment losses on financial assets	(76,612)	(57,210)
	712,013	919,280
Other income	733,805	456,520
Profit from Operations	1,445,818	1,375,800
Interest income – non-financial services	100,635	94,439
Interest expense – non-financial services	(143,829)	(163,669)
Share of results of associated companies	259,924	259,197
Profit before Taxation	1,662,548	1,565,767
Taxation	(349,135)	(422,757)
Net Profit for the period	1,313,413	1,143,010
Profit attributable to:		
Owners of GraceKennedy Limited	1,194,389	1,008,315
Non-controlling interests	119,024	134,695
	1,313,413	1,143,010

Earnings per Stock Unit for profit attributable to the owners of the company during the period:
(expressed in $ per stock unit):

Basic	$1.20	$1.02
Diluted	$1.20	$1.01

GraceKennedy Limited
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
THREE MONTHS ENDED 31 MARCH 2018
(Unaudited)

	3 months to 3/31/2018 $'000	3 months to 3/31/2017 $'000
Profit for the period	1,313,413	1,143,010
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Losses on revaluation of land and buildings	-	(170)
Changes in fair value of equity instruments at fair value through other comprehensive income	(16,638)	-
Remeasurements of post-employment benefit obligations	(172,451)	657,746
Share of other comprehensive income of associated companies	-	1,050
	(189,089)	658,626
Items that may be subsequently reclassified to profit or loss:		
Foreign currency translation adjustments	154,254	29,609
Changes in fair value of debt instruments at fair value through other comprehensive income	(113,924)	-
Changes in fair value of available-for-sale financial assets	-	76,734
Share of other comprehensive income of associated companies	7,255	1,074
	47,585	107,417
Other comprehensive income for the period, net of tax	(141,504)	766,043
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	1,171,909	1,909,053
Total comprehensive income attributable to:		
Owners of GraceKennedy Limited	1,049,634	1,777,560
Non-controlling interests	122,275	131,493
	1,171,909	1,909,053

GraceKennedy Limited

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 MARCH 2018
(Unaudited)

	March 31 2018 $'000	December 31 2017 $'000	March 31 2017 $'000
ASSETS			
Cash and deposits	12,860,573	12,084,245	10,035,861
Investment securities	30,313,379	31,853,036	25,198,332
Pledged assets	6,017,582	4,927,305	15,208,923
Receivables	17,003,080	15,848,567	14,196,510
Inventories	10,537,575	11,253,140	10,635,617
Loans receivable	25,587,100	27,548,329	26,214,098
Taxation recoverable	613,684	798,690	487,749
Investments in associates	2,108,291	1,798,220	2,005,305
Investment properties	618,000	618,000	584,000
Intangible assets	4,293,373	4,398,127	3,987,730
Fixed assets	12,008,168	11,715,661	10,513,083
Deferred tax assets	1,099,510	836,477	766,330
Pension plan asset	6,076,297	6,308,843	6,961,265
Total Assets	129,136,612	129,988,640	126,794,803
LIABILITIES			
Deposits	34,173,105	33,530,523	30,146,619
Securities sold under agreements to repurchase	5,022,614	3,792,720	12,586,598
Bank and other loans	14,073,985	16,515,615	12,827,368
Payables	21,688,618	22,210,899	19,348,763
Taxation	331,554	427,486	303,115
Deferred tax liabilities	1,207,949	1,369,294	1,597,022
Other post-employment obligations	5,339,148	5,129,990	4,520,804
Total Liabilities	81,836,973	82,976,527	81,330,289
EQUITY			
Capital & reserves attributable to the company's owners			
Share capital	546,068	540,951	545,018
Capital and fair value reserves	5,390,938	6,089,245	5,852,084
Retained earnings	32,803,589	32,120,056	30,831,209
Banking reserves	3,044,111	3,044,111	2,972,208
Other reserves	3,606,845	3,428,449	3,657,819
	45,391,551	45,222,812	43,858,338
Non-Controlling Interests	1,908,088	1,789,301	1,606,176
Total Equity	47,299,639	47,012,113	45,464,514
Total Equity and Liabilities	129,136,612	129,988,640	126,794,803

Approved for issue by the Board of Directors on 10 May 2018 and signed on its behalf by:

Gordon Shirley Chairman

Donald Wehby Group Chief Executive Officer

GraceKennedy Limited

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
THREE MONTHS ENDED 31 MARCH 2018
(Unaudited)

	Attributable to owners of the company							Non-controlling interests	Total Equity
	No. of Shares '000	Share Capital $'000	Capital and Fair Value Reserve $'000	Retained Earnings $'000	Banking Reserves $'000	Other Reserves $'000	Total $'000	$'000	$'000
Balance at 1 January 2017	992,379	534,249	5,805,054	29,333,152	2,772,209	3,619,261	42,063,925	1,474,683	43,538,608
Profit for the period	-	-	-	1,008,315	-	-	1,008,315	134,695	1,143,010
Other comprehensive income for the period	-	-	77,521	657,746	-	33,978	769,245	(3,202)	766,043
Total comprehensive income for the period	-	-	77,521	1,666,061	-	33,978	1,777,560	131,493	1,909,053
Transactions with owners:									
Sale of treasury shares	67	2,693	-	-	-	-	2,693	-	2,693
Share-based payments	-	-	-	-	-	14,160	14,160	-	14,160
Transfer of treasury shares to employees	236	8,076	1,504	-	-	(9,580)	-	-	-
Total transactions with owners	303	10,769	1,504	-	-	4,580	16,853	-	16,853
Transfers between reserves:									
From capital reserves	-	-	(31,995)	31,995	-	-	-	-	-
To banking reserves	-	-	-	(199,999)	199,999	-	-	-	-
Balance at 31 March 2017	992,682	545,018	5,852,084	30,831,209	2,972,208	3,657,819	43,858,338	1,606,176	45,464,514
Balance at 31 December 2017 as originally presented	992,654	540,951	6,089,245	32,120,056	3,044,111	3,428,449	45,222,812	1,789,301	47,012,113
Effect of adopting new standards	-	-	(605,449)	(301,567)	-	-	(907,016)	(3,488)	(910,504)
Restated balance at 1 January 2018	992,654	540,951	5,483,796	31,818,489	3,044,111	3,428,449	44,315,796	1,785,813	46,101,609
Profit for the period	-	-	-	1,194,389	-	-	1,194,389	119,024	1,313,413
Other comprehensive income for the period	-	-	(130,562)	(172,451)	-	158,258	(144,755)	3,251	(141,504)
Total comprehensive income for the period	-	-	(130,562)	1,021,938	-	158,258	1,049,634	122,275	1,171,909
Transactions with owners:									
Share-based payments	-	-	-	-	-	26,121	26,121	-	26,121
Transfer of treasury shares to employees	139	5,117	866	-	-	(5,983)	-	-	-
Total transactions with owners	139	5,117	866	-	-	20,138	26,121	-	26,121
Transfers between reserves:									
To capital reserves	-	-	36,838	(36,838)	-	-	-	-	-
Balance at 31 March 2018	992,793	546,068	5,390,938	32,803,589	3,044,111	3,606,845	45,391,551	1,908,088	47,299,639

GraceKennedy Limited

CONSOLIDATED STATEMENT OF CASH FLOWS
THREE MONTHS ENDED 31 MARCH 2018
(Unaudited)

	3/31/2018 $'000	3/31/2017 $'000
SOURCES/(USES) OF CASH:		
Operating Activities (Note 3)	4,024,353	(17,543)
Financing Activities		
Loans received	910,761	736,040
Loans repaid	(1,447,574)	(918,633)
Sale of treasury shares	-	2,693
Interest paid – non financial services	(141,694)	(157,585)
	(678,507)	(337,485)
Investing Activities		
Additions to fixed assets	(526,621)	(637,240)
Proceeds from disposal of fixed assets	10,458	10,588
Additions to investments	(1,707,135)	(2,082,831)
Cash outflow on purchase of interest in associated company	(43,000)	-
Proceeds from sale of investments	1,498,334	1,032,165
Additions to intangibles	(12,067)	(88,522)
Interest received – non financial services	122,327	98,592
	(657,704)	(1,667,248)
Increase/(decrease) in cash and cash equivalents	2,688,142	(2,022,276)
Cash and cash equivalents at beginning of year	9,402,295	10,310,801
Exchange and translation gains on net foreign cash balances	64,225	20,003
CASH AND CASH EQUIVALENTS AT END OF PERIOD	12,154,662	8,308,528

GraceKennedy Limited

FINANCIAL INFORMATION BY OPERATING SEGMENT
THREE MONTHS ENDED 31 MARCH 2018
(Unaudited)

3 months to 31 March 2018	Food Trading $'000	Banking & Investments $'000	Insurance $'000	Money Services $'000	Consolidation Adjustments $'000	Group $'000
REVENUE						
External sales	19,978,104	1,511,696	1,611,475	1,808,789	-	24,910,064
Inter-segment sales	44,107	11,971	1,570	-	(57,648)	-
Total Revenue	20,022,211	1,523,667	1,613,045	1,808,789	(57,648)	24,910,064
RESULT						
Operating results	698,572	118,901	204,898	663,505	7,438	1,693,314
Unallocated expense	-	-	-	-	(247,496)	(247,496)
Profit from operations	-	-	-	-	-	1,445,818
Finance income	4,551	10,617	4,466	6,264	74,737	100,635
Finance expense	(95,374)	(15,068)	-	(696)	(32,691)	(143,829)
Share of associates	233,784	26,140	-	-	-	259,924
Profit before Taxation	841,533	140,590	209,364	669,073	(198,012)	1,662,548
Taxation						(349,135)
Net Profit for the period						1,313,413
Attributable to:						
Owners of GraceKennedy Limited						1,194,389
Non-controlling interests						119,024
						1,313,413

3 months to 31 March 2017	Food Trading $'000	Banking & Investments $'000	Insurance $'000	Money Services $'000	Consolidation Adjustments $'000	Group $'000
REVENUE						
External sales	18,819,405	1,536,571	1,363,811	1,973,553	-	23,693,340
Inter-segment sales	44,050	9,377	10,899	-	(64,326)	-
Total Revenue	18,863,455	1,545,948	1,374,710	1,973,553	(64,326)	23,693,340
RESULT						
Operating results	624,492	91,013	82,245	746,918	8,311	1,552,979
Unallocated expense	-	-	-	-	(177,179)	(177,179)
Profit from operations	-	-	-	-	-	1,375,800
Finance income	3,168	13,156	4,995	4,763	68,357	94,439
Finance expense	(136,586)	(21,047)	(505)	(316)	(5,215)	(163,669)
Share of associates	234,501	23,982	714	-	-	259,197
Profit before Taxation	725,575	107,104	87,449	751,365	(105,726)	1,565,767
Taxation						(422,757)
Net Profit for the period						1,143,010
Attributable to:						
Owners of GraceKennedy Limited						1,008,315
Non-controlling interests						134,695
						1,143,010

Notes

1. Accounting Policies

(a) Basis of preparation
This condensed consolidated interim financial report for the reporting period ended 31 March 2018 has been prepared in accordance with Accounting Standard IAS 34 'Interim Financial Reporting'.

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

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

New standards effective in the current year

(i) IFRS 9, 'Financial instruments',

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

<u>Classification</u>

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:
- those to be measured subsequently at fair value (either through other comprehensive income (OCI), or through profit or loss)
- those to be measured at amortised cost.

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

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

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

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

Measurement

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

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

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

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

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

Impairment

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

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

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

The impairment model uses a three-stage approach based on the extent of credit deterioration since origination:

Stage 1 – 12-month ECL applies to all financial assets that have not experienced a significant increase in credit risk since origination and are not credit impaired. The ECL will be computed using a 12-month PD that represents the probability of default occurring over the next 12 months.

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

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

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

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

Macroeconomic Factors, Forward Looking Information and Multiple Scenarios
The Group applies an unbiased and probability weighted estimate of credit losses by evaluating a range of possible outcomes that incorporates forecasts of future economic conditions.

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

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

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

Application of the Simplified Approach
For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires that the impairment provision is measured at initial recognition and throughout the life of the receivables using a lifetime ECL. As a practical expedient, a provision matrix is utilised in determining the lifetime ECLs for trade receivables.

The lifetime ECLs are determined by taking into consideration historical rates of default for each segment of aged receivables as well as the estimated impact of forward looking information.

(ii) IFRS 15 "Revenue from contracts with customers',

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

<u>Sales of goods and services</u>

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.

<u>Sale of goods and services – customer loyalty programme</u>

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

1. **Accounting Policies (continued)**

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

- *Food Trading* – Merchandising of general goods and food products, both locally and internationally; processing and distribution of food products; and the operation of a chain of supermarkets.
- *Banking and Investment* – Commercial banking; stock brokerage; corporate finance; advisory services; and lease financing.
- *Insurance* – General insurance and insurance brokerage.
- *Money Services* – Operation of money transfer services; cambio operations and bill payment services.

2. Revenues

Revenues for the Group can be disaggregated as follows:

	2018 $'000	2017 $'000
Timing of revenue recognition from contracts with customers		
Goods and services transferred at a point in time	22,529,748	21,528,782
Services transferred over time	37,837	21,323
Revenue from insurance contracts	1,318,469	1,079,025
Interest revenue	1,024,010	1,064,210
	24,910,064	23,693,340

3. Cash Flows from Operating Activities

Reconciliation of net profit to cash generated from operating activities:

	3/31/2018 $'000	3/31/2017 $'000
Net profit	1,313,413	1,143,010
Items not affecting cash:		
Depreciation	270,457	234,998
Amortisation	185,907	137,146
Change in value of investments	(16,117)	111
Gain on disposal of fixed assets	(6,682)	(2,787)
Share-based payments	26,121	14,160
Exchange gain on foreign balances	(83,939)	(11,905)
Interest income – non financial services	(100,635)	(94,439)
Interest income – financial services	(1,107,122)	(1,147,603)
Interest expense – non financial services	143,829	163,669
Interest expense – financial services	215,635	278,245
Taxation expense	349,135	422,757
Unremitted equity income in associates	(259,924)	(259,197)
Pension plan surplus	82,072	54,557
Other post-employment obligations	129,696	118,040
	1,141,846	1,050,762
Changes in working capital components:		
Inventories	715,565	825,666
Receivables	(1,229,772)	(508,273)
Loans receivable, net	1,549,428	(265,752)
Payables	(665,603)	(976,418)
Deposits	510,112	(571,110)
Securities sold under repurchase agreements	1,188,705	222,987
	3,210,281	(222,138)
Interest received – financial services	1,241,566	1,224,020
Interest paid – financial services	(236,447)	(288,116)
Translation gains	79,821	31,144
Taxation paid	(270,868)	(762,453)
Net cash provided by/(used in) operating activities	4,024,353	(17,543)

Reconciliation of movements of liabilities to cash flows arising from financing activities:
Amounts represent bank and other loans, excluding bank overdrafts

	3/31/2018 $'000	3/31/2017 $'000
At January 1	13,833,665	11,276,191
Loans received	910,761	736,040
Loans repaid	(1,447,574)	(918,633)
Foreign exchange adjustments	83,265	20,330
Net interest movements	(12,043)	(13,893)
At 31 December	13,368,074	11,100,035

4. Effect of new standards

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

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

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

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

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

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

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

(i) IFRS 9 – impact of adoption

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

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

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

(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.

Impairment of financial assets

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

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

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

(ii) IFRS 15 – impact of adoption

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

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

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

Customer loyalty programme

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

Income earned over time

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

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

	Revenue from products and services $'000	Direct and operating expenses $'000	Net impact of IFRS 15 on profit or loss $'000
Components of the income statement for the 3 months ended 31 March 2018 – IAS 18*	23,939,363	(24,161,842)	
Effects of adopting IFRS 15			
Reclassification of return of goods, discounts and loyalty reward points from expenses to revenue	(40,403)	40,403	-
Provision for discounts available to customers and expected returns	(17,222)	-	(17,222)
Net impact on contract liabilities from the recognition of commission and fee income earned over time	4,316	-	4,316
Net impact of IFRS 15 on profit or loss	(53,309)	40,403	(12,906)
Components of the income statement for the 3 months ended 31 March 2018 – IFRS 15	23,886,054	(24,121,439)	(12,906)

* after accounting for the effects of IFRS 9