GRACEKENNEDY LIMITED

Financial Statements
31 December 2011

GraceKennedy Limited

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Independent Auditors' Report

To the Members of
GraceKennedy Limited

Report on the Consolidated Financial Statements
We have audited the accompanying financial statements of GraceKennedy Limited and its subsidiaries and its associates ("the Group"), set out on pages 1 to 96, which comprise the consolidated statement of financial position as of 31 December 2011 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the accompanying statement of financial position of GraceKennedy Limited standing alone as of 31 December 2011 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group and the company as of 31 December 2011, and of financial performance, changes in equity and cash flows of the Group and the company for the year then ended, so far as concerns the members of the company, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

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 financial statements are in agreement therewith and give the information required by the Act, in the manner so required.

PricewaterhouseCoopers
Chartered Accountants
29 February 2012
Kingston, Jamaica

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G.A. Reece P.A. Williams R.S. Nathan

GraceKennedy Limited

Consolidated Statement of Financial Position
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
Assets			
Cash and deposits	5	12,326,328	13,609,782
Investment securities	6	41,018,930	41,049,236
Receivables	7	8,492,584	7,580,739
Inventories	8	6,524,177	5,727,961
Loans receivable	9	11,911,040	10,401,441
Taxation recoverable		916,802	1,339,110
Investments in associates	10	824,160	725,826
Intangible assets	11	1,893,029	2,042,293
Fixed assets	12	6,893,248	6,692,471
Deferred tax assets	13	1,066,226	923,572
Pension plan asset	14	8,307,244	7,973,705
Total Assets		**100,173,768**	**98,066,136**
Liabilities			
Deposits		13,693,757	13,033,915
Securities sold under agreements to repurchase		26,451,721	26,521,041
Bank and other loans	15	11,808,923	13,764,164
Payables	16	12,252,825	11,785,359
Taxation		268,278	361,824
Provisions	17	7,243	8,037
Deferred tax liabilities	13	2,911,390	2,541,777
Other post-employment obligations	14	2,165,226	2,206,862
Total Liabilities		**69,559,363**	**70,222,979**
Equity			
Capital and reserves attributable to the company's owners			
Share capital	18	593,968	574,216
Capital and fair value reserves	19	4,794,309	4,443,059
Retained earnings		19,911,616	17,459,342
Banking reserves	20	1,942,967	2,222,315
Other reserves		2,095,036	1,998,873
		29,337,896	26,697,805
Non - Controlling interests	21	1,276,509	1,145,352
Total Equity		**30,614,405**	**27,843,157**
Total Equity and Liabilities		**100,173,768**	**98,066,136**

Approved for issue by the Board of Directors on 29 February 2012 and signed on its behalf by:

Douglas Orane — Executive Chairman

Don Wehby — Group Chief Executive Officer

GraceKennedy Limited

Consolidated Income Statement
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
Revenues	23	58,216,732	55,318,408
Expenses	24	55,030,823	52,716,657
		3,185,909	2,601,751
Other income	25	1,034,008	1,056,456
Profit from Operations		4,219,917	3,658,207
Interest income – non-financial services		332,817	396,794
Interest expense – non-financial services		(677,863)	(902,092)
Share of results of associated companies	10	157,572	106,739
Profit before Taxation		4,032,443	3,259,648
Taxation	27	(1,039,970)	(863,392)
NET PROFIT		2,992,473	2,396,256
Attributable to:			
Owners of GraceKennedy Limited	28	2,748,813	2,250,176
Non-Controlling interests	21	243,660	146,080
		2,992,473	2,396,256
Earnings per Stock Unit for profit attributable to the owners of the company during the year:	30		
Basic		$8.33	$6.83
Diluted		$8.30	$6.79

GraceKennedy Limited

Consolidated Statement of Comprehensive Income
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
Profit for the year		2,992,473	2,396,256
Other comprehensive income:			
Foreign currency translation adjustments		93,008	(186,920)
Revaluation (deficit)/surplus		(193)	73,688
Fair value gains		237,707	1,288,256
Share of other comprehensive income of associated companies		-	21,962
Other comprehensive income for the year, net of tax		330,522	1,196,986
Total comprehensive income for the year		3,322,995	3,593,242
Attributable to:			
Owners of GraceKennedy Limited		3,078,394	3,442,829
Non - Controlling interests	21	244,601	150,413
		3,322,995	3,593,242

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

Consolidated Statement of Changes in Equity
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

		Attributable to owners of the parent						Non-Controlling Interest	Total Equity
	Note	Number of Stock Units '000	Share Capital $'000	Capital and Fair Value Reserves $'000	Retained Earnings $'000	Banking Reserves $'000	Other Reserves $'000	$'000	$'000
Balance at 1 January 2010		329,633	573,976	2,781,614	17,305,066	627,685	2,409,301	1,147,370	24,845,012
Total comprehensive income for 2010		-	-	1,371,998	2,250,176	-	(179,345)	150,413	3,593,242
Transactions with owners									
Issue of shares	18 (a)	5	319	-	-	-	-	-	319
Purchase of treasury shares	18 (b)	(2)	(79)	1,088	-	-	-	-	1,009
Employee share option scheme:									
Value of services received	18 (h)	-	-	-	-	-	1,013	-	1,013
Dividends paid by subsidiary to non-controlling interests	21	-	-	-	-	-	-	(152,431)	(152,431)
Dividends paid	29	-	-	-	(445,007)	-	-	-	(445,007)
Total transactions with owners		3	240	1,088	(445,007)	-	1,013	(152,431)	(595,097)
Transfers between reserves:									
To capital reserves		-	-	288,359	(288,359)	-	-	-	-
To retained earnings		-	-	-	232,096	-	(232,096)	-	-
To banking reserves		-	-	-	(1,594,630)	1,594,630	-	-	-
Balance at 31 December 2010		**329,636**	**574,216**	**4,443,059**	**17,459,342**	**2,222,315**	**1,998,873**	**1,145,352**	**27,843,157**
Balance at 1 January 2011		329,636	574,216	4,443,059	17,459,342	2,222,315	1,998,873	1,145,352	27,843,157
Total comprehensive income for 2011		-	-	237,514	2,748,813	-	92,067	244,601	3,322,995
Transactions with owners									
Issue of shares	18 (a)	619	19,752	-	-	-	-	-	19,752
Employee share option scheme:									
Value of services received	18 (h)	-	-	-	70,127	-	-	3,560	73,687
Transfer of non-controlling interests		-	-	-	(37,404)	-	4,096	33,308	-
Dividends paid by subsidiary to non-controlling interests	21	-	-	-	-	-	-	(150,312)	(150,312)
Dividends paid	29	-	-	-	(494,874)	-	-	-	(494,874)
Total transactions with owners		619	19,752	-	(462,151)	-	4,096	(113,444)	(551,747)
Transfers between reserves:									
To capital reserves		-	-	113,736	(113,736)	-	-	-	-
From banking reserves		-	-	-	279,348	(279,348)	-	-	-
Balance at 31 December 2011		330,255	593,968	4,794,309	19,911,616	1,942,967	2,095,036	1,276,509	30,614,405

GraceKennedy Limited

Consolidated Statement of Cash Flows
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
SOURCES/(USES) OF CASH:			
Operating Activities	31	2,129,572	6,247,147
Financing Activities			
Loans received		9,284,857	6,993,153
Loans repaid		(10,838,214)	(9,962,340)
Dividends paid by subsidiary to non-controlling interests	21	(150,312)	(152,431)
Purchase of treasury shares	18	-	(79)
Issue of shares	18	19,752	319
Interest paid – non financial services		(798,388)	(891,456)
Dividends	29	(494,874)	(445,007)
		(2,977,179)	(4,457,841)
Investing Activities			
Additions to fixed assets [a]	12	(810,686)	(1,055,993)
Proceeds from disposal of fixed assets		32,228	18,943
Additions to investments [b]		(3,657,992)	(2,721,329)
Proceeds from sale of investments [b]		4,149,060	4,879,752
Additions to intangibles	11	(178,613)	(166,833)
Interest received – non financial services		332,817	533,329
		(133,186)	1,487,869
(Decrease)/Increase in cash and cash equivalents		(980,793)	3,277,175
Cash and cash equivalents at beginning of year		11,918,047	8,798,668
Exchange and translation gains/(losses) on net foreign cash balances		20,763	(157,796)
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	10,958,017	11,918,047

The principal non-cash transactions include:

[a] Acquisition of fixed assets under finance lease of $22,152,000 (2010: $Nil), (Note 12).

[b] Investments exchanged under the Jamaica Debt Exchange transaction of $Nil (2010: $21,373,789,000).

GraceKennedy Limited

Company Statement of Financial Position
31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
Assets			
Cash and deposits	5	2,084,739	1,738,389
Investment securities	6	3,208,013	3,370,379
Receivables	7	935,756	925,135
Inventories	8	1,417,852	1,180,251
Loans receivable	9	749,094	775,006
Subsidiaries	34	1,149,813	1,706,813
Taxation recoverable		182,855	115,137
Investments in associates	10	185,173	185,173
Investments in subsidiaries		10,597,705	10,498,561
Intangible assets	11	84,250	38,402
Fixed assets	12	245,851	186,874
Pension plan asset	14	8,148,310	7,515,978
Total Assets		**28,989,411**	**28,236,098**
Liabilities			
Bank and other loans	15	4,038,856	4,134,471
Payables	16	1,446,052	1,522,609
Provisions	17	6,221	6,221
Deferred tax liabilities	13	2,591,547	2,291,979
Other post-employment obligations	14	751,169	902,526
Total Liabilities		**8,833,845**	**8,857,806**
Equity			
Share capital	18	593,968	574,216
Capital and fair value reserves	19	373,242	331,588
Retained earnings		19,188,356	18,472,488
Total Equity		**20,155,566**	**19,378,292**
Total Equity and Liabilities		**28,989,411**	**28,236,098**

Approved for issue by the Board of Directors on 29 February 2012 and signed on its behalf by:

Douglas Orane — Executive Chairman

Don Wehby — Group Chief Executive Officer

GraceKennedy Limited

Company Income Statement
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
Turnover	23	12,805,047	11,322,627
Cost of goods sold	24	(9,969,794)	(8,768,749)
Gross Profit		2,835,253	2,553,878
Other income	25	2,511,194	3,370,160
Administration expenses		(3,931,354)	(3,538,644)
Profit from Operations		1,415,093	2,385,394
Interest income		362,119	408,636
Interest expense		(327,150)	(395,471)
Profit before Taxation		1,450,062	2,398,559
Taxation	27	(277,298)	(181,398)
NET PROFIT	28	**1,172,764**	**2,217,161**

GraceKennedy Limited

Company Statement of Comprehensive Income
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	2011 $'000	2010 $'000
Profit for the year	1,172,764	2,217,161
Other comprehensive income:		
Revaluation gain/(loss)	1,171	(2,370)
Fair value gains	40,483	233,199
Other comprehensive income for the year, net of tax	41,654	230,829
Total comprehensive income for the year	1,214,418	2,447,990

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 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	Number of Stock Units '000	Share Capital $'000	Capital and Fair Value Reserves $'000	Other Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2010		329,633	573,976	57,868	133,413	16,607,711	17,372,968
Total comprehensive income for 2010		-	-	230,829	-	2,217,161	2,447,990
Transactions with owners							
Issue of shares	18 (a)	5	319	-	-	-	319
Purchase of treasury shares	18 (b)	(2)	(79)	1,088	-	-	1,009
Employee share option scheme:							
Value of services received	18 (h)	-	-	-	1,013	-	1,013
Dividends paid	29	-	-	-	-	(445,007)	(445,007)
Total transactions with owners		3	240	1,088	1,013	(445,007)	(442,666)
Transfers between reserves:							
To capital reserves		-	-	41,803		(41,803)	-
To retained earnings		-	-	-	(134,426)	134,426	-
Balance at 31 December 2010		**329,636**	**574,216**	**331,588**	**-**	**18,472,488**	**19,378,292**
Balance at 1 January 2011		329,636	574,216	331,588	-	18,472,488	19,378,292
Total comprehensive income for 2011		-	-	41,654	-	1,172,764	1,214,418
Transactions with owners							
Issue of shares	18 (a)	619	19,752	-	-	-	19,752
Employee share option scheme:							
Value of services received	18 (h)	-	-	-	-	37,978	37,978
Dividends paid	29	-	-	-	-	(494,874)	(494,874)
Total transactions with owners		619	19,752	-	-	(456,896)	(437,144)
Balance at 31 December 2011		330,255	593,968	373,242	-	19,188,356	20,155,566

GraceKennedy Limited

Company Statement of Cash Flows
Year ended 31 December 2011
(expressed in Jamaican dollars unless otherwise indicated)

	Note	2011 $'000	2010 $'000
SOURCES/(USES) OF CASH:			
Operating Activities	31	976,199	3,142,363
Financing Activities			
Loans received		2,965,411	3,498,619
Loans repaid		(2,751,007)	(5,766,856)
Purchase of treasury shares	18	-	(79)
Issue of shares	18	19,752	319
Interest paid		(325,661)	(411,982)
Dividends	29	(494,874)	(445,007)
		(586,379)	(3,124,986)
Investing Activities			
Additions to fixed assets [(a)]	12	(110,634)	(123,816)
Proceeds from disposal of fixed assets		4,190	5,978
Additions to investments		-	(428,975)
Loans receivable, net		25,912	25,514
Proceeds from sale of investments [(b)]		137,508	117,815
Investment in subsidiary		(105,500)	-
Proceeds from disposal of subsidiary		16,401	-
Additions to intangibles	11	(113,281)	(25,849)
Interest received		459,742	492,052
		314,338	62,719
Increase in cash and cash equivalents		704,158	80,096
Cash and cash equivalents at beginning of year		988,972	911,250
Exchange and translation gains/(losses) on net foreign cash balances		6,164	(2,374)
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	1,699,294	988,972

The principal non-cash transactions include:

[(a)] Acquisition of fixed assets under finance lease of $23,572,000 (2010: $7,013,000), (Note 12).

[(b)] Investments exchanged under the Jamaica Debt Exchange transaction of $Nil (2010: $2,026,476,000).

[(c)] Gain on sale of subsidiary within the Group of $1,280,000 (2010: $320,789,000), (Note 31).

GraceKennedy Limited

Notes to the Financial Statements
31 December 2011
(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 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. In 2010 the company delisted from the Barbados and Eastern Caribbean Stock Exchanges.

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 GK Financial Group comprises all the financial services companies in the Group. For the purpose of segment reporting the Group reports its results under the five segments described below.

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

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

Retail and Trading -
Merchandising of agricultural supplies, and hardware and lumber.

Banking and Investments -
Commercial banking; investment management; lease and trade financing; stock brokerage; pension management; property rental; and mutual fund management.

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 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 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, interpretations and amendments 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, interpretations and amendments and has put into effect the following IFRS, which are immediately relevant to its operations.

- IAS 24, Related Party Disclosures (Revised) (effective for annual periods beginning on or after 1 January 2011). The definition of a related party has been clarified to simplify the identification of related party relationships, particularly in relation to significant influence and joint control. A partial exemption from the disclosures has been included for government-related entities. For these entities, the general disclosure requirements of IAS 24 will not apply. Instead, alternative disclosures have been included, requiring, the name of the government and the nature of its relationship with the reporting entity, the nature and amount of individually significant transactions in the year; a qualitative or quantitative indication of the extent of other transactions that are collectively significant. The adoption of this standard did not have a significant impact on the Group and company related party disclosures.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

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

- IFRS 3, 'Business combinations' (a) Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS (effective for annual periods beginning on or after 1 July 2010). Clarifies that the amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 32, 'Financial instruments: Presentation', and IAS 39, 'Financial instruments: Recognition and measurement', that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008). (b) Measurement of non-controlling interests. The choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by IFRS. (c) Un-replaced and voluntarily replaced share-based payment awards. The application guidance in IFRS 3 applies to all share-based payment transactions that are part of a business combination, including unreplaced and voluntarily replaced share-based payment awards. The Group adopted the standard from 1 January 2011. There was no significant impact on the Group.

- IFRS 7, 'Financial instruments' (effective for annual periods beginning on or after 1 January 2011). Retrospective application required. Emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. It clarifies that only those financial assets whose carrying amount does not reflect the maximum exposure to credit risk need to provide further disclosure of the amount that represents the maximum exposure to such risk. It also requires, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk). It removes the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired. Further clarification is provided that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date. The requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired has been removed.

- IAS 1, 'Presentation of financial statements' (effective for annual periods beginning on or after 1 January 2011). Retrospective application required. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The Group applied this amendment from 1 January 2011. There was no significant impact on the Group.

- 'Classification of rights issues' (amendment to IAS 32), issued in October 2010. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The Group applied the amended standard from 1 January 2011. There was no significant impact on the Group.

- IFRIC 14, Prepayments of a Minimum Funding Requirement *(*effective for annual periods beginning on or after 1 January 2011). The amendment is applied retrospectively.The amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group applied the interpretation from 1 January 2011. There was no significant impact on the Group or the parent entity's financial statements.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The amendment is applied retrospectively. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Group applied the interpretation from 1 January 2011. There was no significant impact on the Group or the parent entity's financial statements.

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

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

- IAS 27, 'Consolidated and separate financial statements' (effective for annual periods beginning on or after 1 July 2010). Retrospective application required. Clarifies that the consequential amendments from IAS 27 made to IAS 21, 'The effect of changes in foreign exchange rates', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', apply prospectively for annual periods beginning on or after 1 July 2010, or earlier when IAS 27 is applied earlier. This was early adopted 1 January 2010.

- IAS 34, 'Interim financial reporting' (effective for annual periods beginning on or after 1 January 2011). Retrospective application required. Provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around: the circumstances likely to affect fair values of financial instruments and their classification; transfers of financial instruments between different levels of the fair value hierarchy; changes in classification of financial assets; and changes in contingent liabilities and assets. There was no significant impact on the Group.

- IFRIC 13, 'Customer loyalty programmes (effective 1 January 2011). The meaning of 'fair value' is clarified in the context of measuring award credits under customer loyalty programmes. There was no significant impact on the Group.

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 January 2011 or later periods, but the Group has not early adopted them:

- IFRS 9, 'Financial Instruments' (effective for annual periods beginning on or after 1 January 2013). This standard specifies how an entity should classify and measure financial instruments, including some hybrid contracts. It requires all financial assets to be classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset; initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs; and subsequently measured at amortised cost or fair value. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of IAS 39. They apply a consistent approach to classifying financial assets and replace the four categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the two impairment methods in IAS 39 that arise from the different classification categories. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. There has been no significant change in the recognition and measurement of financial liabilities carried at amortised cost from what obtained under IAS 39.

  While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

- IFRS 10, 'Consolidated financial statements' (effective for annual periods beginning on or after 1 January 2013) builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 is not expected to have any impact on the Group's financial statements as there would be no change in the entities that are consolidated under the new standard. The Group intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 11, 'Joint arrangements' (effective for annual periods beginning on or after 1 January 2013). This standard replaces IAS 31, 'Interests in Joint Ventures' and SIC-13, 'Jointly Controlled Entities-Non- Monetary Contributions by Venturers'. The standard requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations arising from the arrangement. The standard is concerned principally with addressing two aspects of IAS 31: first, that the structure of the arrangement was the only determinant of the accounting and, second, that an entity had a choice of accounting treatment for interests in jointly controlled entities, and improves on IAS 31 by establishing principles that are applicable to the accounting for all joint arrangements. The standard requires a joint venturer to recognise an investment and to account for that investment using the equity method in accordance with IAS 28, 'Investments in Associates and Joint Ventures', unless the entity is exempted from applying the equity method as specified in that standard. The Group currently has no joint arrangements that fall within the recognition criteria of this standard and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2013.

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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 12, 'Disclosures of interests in other entities' (effective for annual periods beginning on or after 1 January 2013) includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off statement of financial position vehicles. The standard will likely result in expanded disclosure in the financial statements and the Group intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 13, 'Fair value measurement', (effective for annual periods beginning on or after 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The standard will likely result in extended disclosure in the financial statements and the Group intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- IAS 1, 'Presentation of financial statements' (effective for annual periods beginning on or after 1 July 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

- IAS 12, 'Income taxes', (effective for annual periods beginning on or after 1 January 2012) currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

- IAS 19 (amendment), 'Employee benefits' (effective for annual periods beginning on or after 1 January 2013). The impact on the group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group intends to adopt the amendments to IAS 19 no later than the accounting period beginning on or after 1 January 2013.

- IAS 27 (revised 2011) (effective for annual periods beginning on or after 1 January 2013) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

- IAS 28 (revised 2011) (effective for annual periods beginning on or after 1 January 2013) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

2. Significant Accounting Policies (Continued)

(b) Basis of consolidation

Subsidiaries are all entities (including special purpose 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 fair 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 and the fair value of non-controlling interest over 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.

All subsidiaries are wholly-owned unless otherwise indicated. The subsidiaries consolidated are as follows:

Incorporated and Resident in Jamaica:

First Global Insurance Consultants Limited
First Global Leasing Limited
GraceKennedy Financial Group Limited and its subsidiaries -
- Allied Insurance Brokers Limited
- Jamaica International Insurance Company Limited
- First Global Holdings Limited and its subsidiaries -
  - First Global Bank Limited
  - First Global Financial Services Limited

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2. Significant Accounting Policies (Continued)

(b) Basis of consolidation (continued)

Incorporated and Resident in Jamaica (continued):
Grace Foods International Limited
GK Foods & Services Limited
GraceKennedy Logistics Services Limited
GraceKennedy Remittance Services Limited and its subsidiaries –
  Grace Kennedy Currency Trading Services Limited
  GraceKennedy Payment Services Limited
Horizon Shipping Limited
Hardware and Lumber Limited (58.1%)
International Communications Limited
Port Services Limited (97.2%)

Incorporated and Resident outside of Jamaica:
FG Funds Management (Cayman) Limited, Cayman Islands
First Global Insurance Brokers Limited, Turks and Caicos Islands
First Global Trinidad & Tobago Limited, Trinidad and Tobago
Grace Foods Limited, St. Lucia
GraceKennedy (Belize) Limited, Belize (66.6%)
GraceKennedy (Ontario) Inc., Canada and its subsidiary –
  Grace, Kennedy (Caribbean) Limited, Turks and Caicos Islands
Grace, Kennedy (Guyana) Inc., Guyana
GraceKennedy (U.K.) Limited, United Kingdom and its subsidiary –
  W T Foods 100 Limited, United Kingdom
Grace, Kennedy (U.S.A.) Inc., U.S.A. and its subsidiary –
  Grace Foods (USA) Inc., U.S.A.
GraceKennedy Trade Finance Limited, Belize
GraceKennedy (St. Lucia) Limited, St. Lucia and its subsidiary –
  GK Foods (UK) Limited, United Kingdom and its subsidiaries –
    Grace Foods UK Limited
    Enco Products Limited
    Funnybones Foodservice Limited
    Chadha Oriental Foods Limited
GraceKennedy Money Services Caribbean SRL, Barbados (75.0%)
GraceKennedy Money Services (Anguilla) Limited, Anguilla
GraceKennedy Money Services (Antigua & Barbuda) Limited, Antigua & Barbuda
GraceKennedy Money Services (Montserrat) Limited, Montserrat
GraceKennedy Money Services (St. Kitts) Limited, St. Kitts
GraceKennedy Money Services (St. Vincent and the Grenadines) Limited, St Vincent and the Grenadines
Grace, Kennedy Remittance Services (Guyana) Limited, Guyana
GraceKennedy Remittance Services (Turks and Caicos) Limited, Turks and Caicos Islands
GraceKennedy Remittance Services (USA) Inc., U.S.A.
GraceKennedy Money Services (UK) Limited, United Kingdom
GraceKennedy (Trinidad & Tobago) Limited, Trinidad and Tobago
Grace, Kennedy Remittance Services (Trinidad & Tobago) Limited, Trinidad and Tobago
Graken Holdings Limited, Turks and Caicos Islands
Knutsford Re, Turks and Caicos Islands

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

The Group liquidated WT (Holdings) Limited, WT Tiger 2 Limited, WT Tiger 3 Limited and WTF Services Limited during 2011.

2. Significant Accounting Policies (Continued)

(c) Associates

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

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

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

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

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

The Group's associated companies are as follows:

	Financial Reporting Year-end	Country of Incorporation	Group's percentage interest	
			2011	2010
CSGK Finance Holdings Limited	31 December	Barbados	40.0	40.0
Dairy Industries (Jamaica) Limited	31 December	Jamaica	50.0	50.0
EC Global Insurance Company Limited	31 December	St. Lucia	30.0	30.0
Trident Insurance Company Limited	30 June	Barbados	30.0	30.0
Telecommunications Alliance Limited	31 December	Jamaica	49.0	49.0

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

The Group disposed of its business interest in Acra Financial Services Inc. during 2010.

(d) Segment reporting

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

(e) Foreign currency translation

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

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

GraceKennedy Limited

2. Significant Accounting Policies (Continued)

(e) Foreign currency translation (continued)

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

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

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

Group companies

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

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

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(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. All other fixed assets are carried at cost less accumulated depreciation.

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.

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 fair value of the net assets acquired. 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 is 3 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 10 to 15 years.

Exclusive agency agreements

Exclusive agency agreements are recorded at cost and represent the value of the consideration paid to acquire the exclusive rights to distribute products under several agency agreements. These costs are amortised over the estimated useful life of the agreements, which is 3 years.

2. Significant Accounting Policies (Continued)

(h) Financial assets

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges.

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 all 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.

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.

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.

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 long-lived 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.

2. Significant Accounting Policies (Continued)

(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 at statement of financial position date.

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 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.

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, together with adjustments for actuarial gains/losses and past service costs. 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 income over the average remaining service lives of the related employees.

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. These obligations are valued annually by independent qualified actuaries.

Equity compensation benefits

The Group operates an equity-settled, share-based compensation plan. Share options are granted to management and key employees. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of non-market vesting conditions. Options are granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning one year from the date of grant and have a contractual option term of six years. When options are exercised, the proceeds received net of any transaction costs are credited to share capital.

Termination benefits

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

2. Significant Accounting Policies (Continued)

(m) Employee benefits (continued)

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

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

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

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

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

(r) Insurance business provisions

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

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

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

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

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) 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.

(x) 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)

(y) 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, returns, rebates and discounts and after eliminating sales within the Group.

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

(a) 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.

(b) Sales of goods – retail

The Group operates a chain of retail outlets for selling general and food items, hardware and agro products. 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 does not operate any loyalty programmes.

(c) 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.

(d) 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.

(e) Dividend income

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

(z) Dividends

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

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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. The Group Risk Management Committee 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 (ALCO) are management committees responsible for monitoring and formulating investment portfolios and investment strategies within the Insurance, Banking and Investment, and Corporate divisions. The ALCO is 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 ALCO establishes asset and liability pricing policies to protect the liquidity structure as well as assesses the probability of various liquidity shocks and interest rate scenarios. It also establishes and monitors relevant liquidity ratios and statement of financial position targets. Overall, the Committee ensures 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, credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

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 subsidiary, is borne by that subsidiary. 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 subsidiary. The policy limit and maximum net retention of any one risk for each class of insurance per customer for the year are as follows:

	2011		2010	
	Policy Limit $'000	**Maximum Net Retention $'000**	**Policy Limit $'000**	**Maximum Net Retention $'000**
Commercial property:				
Fire and consequential loss	425,156	2,577	423,225	2,565
Boiler and machinery	193,253	3,623	192,375	3,607
Engineering	257,670	4,831	256,500	4,809
Burglary, money and goods in transit	10,736	5,368	10,688	5,344
Glass and other	4,295	2,147	4,275	2,138
Liability	244,787	12,884	243,675	12,825
Marine, aviation and transport	22,500	2,625	22,500	2,813
Motor	5,000	5,000	5,000	5,000
Pecuniary loss:				
Fidelity	10,736	5,368	10,688	5,344
Surety/Bonds	50,000	10,000	50,000	10,000
Personal accident	19,325	9,663	19,238	9,619
Personal property	425,156	2,577	423,225	2,565

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 Act, 2001.

(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.

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3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk (continued)

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 2007 - 2010 has changed at successive year-ends, up to 2011. 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.

		2007 $'000	2007 and prior $'000	2008 $'000	2008 and prior $'000	2009 $'000	2009 and prior $'000	2010 $'000	2010 and prior $'000	2011 $'000	2011 and prior $'000
2007	Paid during year	582,914	809,923								
	UCAE, end of year	438,716	994,003								
	IBNR, end of year	37,746	67,335								
	Ratio: excess (deficiency)										
2008	Paid during year	248,085	400,380	624,150	1,024,530						
	UCAE, end of year	279,103	675,090	450,997	1,126,087						
	IBNR, end of year	11,195	21,884	35,203	57,087						
	Ratio: excess (deficiency)		(3.39%)								
2009	Paid during year	77,807	216,417	282,651	499,068	584,808	1,083,876				
	UCAE, end of year	189,307	447,434	298,876	746,310	519,811	1,266,121				
	IBNR, end of year	-	500	4,367	4,867	50,684	55,551				
	Ratio: excess (deficiency)	(8.13%)	(0.32%)	(20.50%)	(5.67%)						
2010	Paid during year	65,732	158,108	73,157	231,265	236,570	467,835	559,018	1,026,853		
	UCAE, end of year	146,245	327,184	238,919	566,103	307,036	873,139	509,260	1,382,399		
	IBNR, end of year	-	-	-	-	-	-	63,254	63,254		
	Ratio: excess (deficiency)	(12.89%)	(3.84%)	(22.32%)	(9.57%)	(4.71%)	(1.46%)				
2011	Paid during year	39,071	89,008	47,864	136,872	100,905	237,777	265,315	503,092	558,955	1,062,047
	UCAE, end of year	62,091	152,392	142,955	295,347	214,227	509,574	300,526	810,100	640,404	1,450,504
	IBNR, end of year	-	-	-	-	-	-	2,365	2,365	67,945	70,310
	Ratio: excess (deficiency)	(3.43%)	4.24%	(12.43%)	1.74%	3.29%	8.06%	0.75%	9.00%		

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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 $2,147,000 and $12,884,000.

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	
	2011	**2010**
	$'000	**$'000**
Property	357,261	247,695
Motor	3,967	3,939
Marine	5,811	3,285
Liability	(5,326)	1,037
Pecuniary loss	13,559	3,442
Accident	3,658	206
	378,930	259,604

(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 market risk (interest rate risk and currency risk), cash flow risk and credit 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 market 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, agents, the amounts due from reinsurers, amounts due from insurance contract holders and insurance brokers, lending and investment activities. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments.

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

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

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk

(i) Credit risk (continued)

Credit review process

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

(a) Trade and other receivables

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

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

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

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

(b) Loans and leases

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

Group's internal rating scale:

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

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

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

(c) Reinsurance

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the Group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered on an annual basis by reviewing their financial strength prior to finalisation of any contract. The insurance subsidiary's 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 subsidiary's Risk and Reinsurance Department.

(e) Investments

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

Collateral and other credit enhancements

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

The main types of collateral obtained are as follows:

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

Securities lending and reverse repurchase transactions – cash or securities.

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

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

Impairment

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

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

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

***Impairment (*continued)**

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

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

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

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

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

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

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

Group's rating

	2011		2010	
	Loans, Leases, Premium and Trade Receivables $'000	Impairment Provision $'000	Loans, Leases, Premium and Trade Receivables $'000	Impairment Provision $'000
Low risk	938,095	-	478,161	-
Standard risk	18,456,611	-	16,378,544	-
Sub-Standard	984,741	554,276	1,150,003	546,359
	20,379,447	554,276	18,006,708	546,359

Company's rating

	2011		2010	
	Loans and Trade Receivables $'000	Impairment Provision $'000	Loans and Trade Receivables $'000	Impairment Provision $'000
Low risk	-	-	-	-
Standard risk	1,552,694	-	1,599,191	-
Sub-Standard	150,494	108,383	159,182	101,767
	1,703,188	108,383	1,758,373	101,767

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

	Maximum Exposure			
	Group		Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Credit risk exposures relating to on-statement of financial position assets are as follows:				
Cash at bank	4,485,790	4,499,111	321,677	398,143
Deposits	7,840,538	9,110,671	1,763,062	1,340,246
Investment securities	40,778,821	40,839,553	3,142,923	3,305,267
Trade and other receivables	7,914,131	7,058,908	845,711	881,600
Loans, net of provision for credit losses	11,630,147	10,057,549	-	399
Lease receivables	280,893	343,892	-	-
	72,930,320	71,909,684	6,073,373	5,925,655

The above table represents a worst case scenario of credit risk exposure to the Group and company at 31 December 2011 and 2010, without taking account of any collateral held or other credit enhancements. For on-statement of financial position assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

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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

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

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Neither past due nor impaired -				
Low risk	938,095	478,161	-	-
Standard risk	16,280,949	14,307,102	1,438,295	1,477,676
	17,219,044	14,785,263	1,438,295	1,477,676
Past due but not impaired	2,175,662	2,071,442	114,399	121,515
Impaired	984,741	1,150,003	150,494	159,182
Gross	20,379,447	18,006,708	1,703,188	1,758,373
Less: provision for credit losses	(554,276)	(546,359)	(108,383)	(101,767)
Net	19,825,171	17,460,349	1,594,805	1,656,606

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

Loans and leases, premium and trade receivables that are less than 3 months past due are not considered impaired. As of 31 December 2011, loans and leases, premium and trade receivables of $2,175,662,000 (2010: $2,071,442,000) and $114,399,000 (2010: $121,515,000) for the Group and company respectively were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these loans and leases, premium and trade receivables is as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Less than 1 month	1,379,537	898,929	-	-
Within 1 to 3 months	472,976	714,021	98,896	95,869
Over 3 months	323,149	458,492	15,503	25,646
	2,175,662	2,071,442	114,399	121,515

As of 31 December 2011, loans and leases, premium and trade receivables of $984,741,000 (2010: $1,150,003,000) and $150,494,000 (2010: $159,182,000) for the Group and company respectively were impaired. The amount of the provision was $554,276,000 (2010: $546,359,000) and $108,383,000 (2010: $101,767,000) for the Group and company respectively. There are no financial assets other than loans, leases, premium and trade receivables that are past due.

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

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

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

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
3 to 6 months	122,612	298,844	-	-
Over 6 months	458,443	449,183	-	-
	581,055	748,027	-	-

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

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
At 1 January	115,346	361,105	-	-
Provision for receivables impairment	61,722	960	-	-
Receivables written off during the year as uncollectible	(28,771)	395	-	-
Unused amounts reversed	(2,575)	(247,114)	-	-
At 31 December	145,722	115,346	-	-

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

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
3 to 6 months	52,493	65,993	38,727	57,416
Over 6 months	351,193	335,983	111,767	101,766
	403,686	401,976	150,494	159,182

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

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
At 1 January	431,013	305,493	101,767	81,880
Provision for receivables impairment	271,743	172,857	26,781	45,168
Receivables written off during the year as uncollectible	(226,476)	(36,082)	(10,422)	(21,073)
Unused amounts reversed	(67,726)	(11,255)	(9,743)	(4,208)
At 31 December	408,554	431,013	108,383	101,767

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

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

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
3 to 6 months	175,105	364,837	38,727	57,416
Over 6 months	809,636	785,166	111,767	101,766
	984,741	1,150,003	150,494	159,182

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

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
At 1 January	546,359	666,598	101,767	81,880
Provision for receivables impairment	333,465	173,817	26,781	45,168
Receivables written off during the year as uncollectible	(255,247)	(35,687)	(10,422)	(21,073)
Unused amounts reversed	(70,301)	(258,369)	(9,743)	(4,208)
At 31 December	554,276	546,359	108,383	101,767

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

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

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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	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Public sector	358,511	665,935	-	-
Professional and other services	1,592,939	1,518,849	-	-
Personal	4,527,860	3,703,628	-	-
Agriculture, fishing and mining	125,662	122,414	-	-
Construction and real estate	645,729	541,159	-	-
Distribution	1,816,444	1,239,960	749,094	774,127
Manufacturing	877,965	943,928	1,150	1,908
Transportation	1,789,453	1,333,694	-	-
Tourism and entertainment	1,649,394	1,574,369	218,492	177,362
Financial and other money services	963,426	609,757	-	-
Brokers and agents	929,590	803,180	-	-
Reinsurers and coinsurers	1,197,905	1,403,738	-	-
Supermarket chains	804,511	663,218	257,207	254,224
Wholesalers	550,904	782,983	131,533	173,221
Retail and direct customers	1,269,493	1,040,046	231,511	236,449
Other	1,214,938	985,230	114,201	141,082
	20,314,724	17,932,088	1,703,188	1,758,373
Less: Provision for credit losses	(554,276)	(546,359)	(108,383)	(101,767)
	19,760,448	17,385,729	1,594,805	1,656,606
Interest receivable	64,723	74,620	-	-
	19,825,171	17,460,349	1,594,805	1,656,606

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Financial assets – individually impaired

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

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Loans and leases	581,055	748,027	-	-
Trade and other receivables	403,686	401,976	150,494	159,182

The fair value of collateral that the Group held as security for individually impaired loans was $426,496,000 (2010: $633,952,000).

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

Repossessed collateral

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

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

Debt securities

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

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Government of Jamaica:				
Available-for-sale securities	38,644,552	36,907,650	2,967,675	3,284,668
Corporate:				
Available-for-sale securities	1,910,338	3,351,501	-	-
Other (Note 6)	30,535	385,556	175,248	20,599
	40,585,425	40,644,707	3,142,923	3,305,267

GraceKennedy Limited

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 2011:					
Deposits	11,018,026	2,808,481	-	-	13,826,507
Securities sold under agreements to repurchase	20,832,257	5,821,018	-	-	26,653,275
Bank and other loans	2,630,584	6,095,214	3,066,420	1,246,360	13,038,578
Trade and other payables	12,252,825	-	-	-	12,252,825
Total financial liabilities (contractual dates)	46,733,692	14,724,713	3,066,420	1,246,360	65,771,185

	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 2010:					
Deposits	10,646,945	2,643,597	-	-	13,290,542
Securities sold under agreements to repurchase	22,840,025	3,858,631	-	-	26,698,656
Bank and other loans	4,606,710	6,134,462	3,110,023	1,574,279	15,425,474
Trade and other payables	11,785,359	-	-	-	11,785,359
Total financial liabilities (contractual dates)	49,879,039	12,636,690	3,110,023	1,574,279	67,200,031

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**	**Total $'000**
As at 31 December 2011:				
Bank and other loans	1,014,720	2,405,886	763,106	4,183,712
Trade and other payables	1,446,052	-	-	1,446,052
Total financial liabilities (contractual dates)	2,460,772	2,405,886	763,106	5,629,764

	Company			
	1 to 3 Months $'000	**3 to 12 Months $'000**	**1 to 5 Years $'000**	**Total $'000**
As at 31 December 2010:				
Bank and other loans	1,642,443	1,941,872	668,864	4,253,179
Trade and other payables	1,522,609	-	-	1,522,609
Total financial liabilities (contractual dates)	3,165,052	1,941,872	668,864	5,775,788

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**	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Floating rate –				
Expiring within one year	5,015,597	5,927,855	2,916,186	3,343,902
Expiring beyond one year	863,680	713,978	863,680	701,929

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			
At 31 December 2011	**No later than 1 year $'000**	**1 to 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Loan commitments	213,415	-	-	213,415
Operating lease commitments	794,929	2,788,445	293,085	3,876,459
Capital commitments	24,157	-	-	24,157
	1,032,501	2,788,445	293,085	4,114,031
At 31 December 2010				
Loan commitments	137,740	-	-	137,740
Operating lease commitments	754,986	2,449,212	121,737	3,325,935
	892,726	2,449,212	121,737	3,463,675

(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**
At 31 December 2011:							
Financial Assets							
Cash and deposits	8,416,929	3,087,543	508,049	72,675	10,938	230,194	12,326,328
Investment securities	19,161,459	20,564,030	116,505	-	864,503	312,433	41,018,930
Trade and other receivables	3,910,851	2,364,524	1,195,087	232,579	2,112	208,978	7,914,131
Loans receivable	5,845,864	6,065,176	-	-	-	-	11,911,040
Total financial assets	37,335,103	32,081,273	1,819,641	305,254	877,553	751,605	73,170,429
Financial Liabilities							
Deposits payable	5,253,659	8,124,533	235,032	58,610	21,923	-	13,693,757
Securities sold under agreements to repurchase	10,935,649	14,626,398	-	-	638,751	250,923	26,451,721
Bank and other loans	5,322,483	5,167,135	1,095,272	207,309	-	16,724	11,808,923
Trade and other payables	7,972,034	2,371,875	1,235,703	286,689	98,952	287,572	12,252,825
Total financial liabilities	29,483,825	30,289,941	2,566,007	552,608	759,626	555,219	64,207,226
Net financial position	7,851,278	1,791,332	(746,366)	(247,354)	117,927	196,386	8,963,203

	Group						
	Jamaican$ J$'000	**US$ J$'000**	**GBP J$'000**	**CAN$ J$'000**	**EURO J$'000**	**Other J$'000**	**Total J$'000**
At 31 December 2010:							
Financial Assets							
Cash and deposits	10,057,643	2,713,234	510,945	75,044	80,499	172,417	13,609,782
Investment securities	18,081,469	21,259,460	115,769	-	1,126,322	466,216	41,049,236
Trade and other receivables	3,693,041	2,004,984	1,010,988	175,419	200	174,276	7,058,908
Loans receivable	4,333,121	6,068,320	-	-	-	-	10,401,441
Total financial assets	36,165,274	32,045,998	1,637,702	250,463	1,207,021	812,909	72,119,367
Financial Liabilities							
Deposits payable	4,627,716	8,067,895	251,358	45,479	41,467	-	13,033,915
Securities sold under agreements to repurchase	12,372,117	13,107,688	2,469	-	664,466	374,301	26,521,041
Bank and other loans	5,106,733	6,959,706	1,379,473	89,085	210,554	18,613	13,764,164
Trade and other payables	7,765,923	2,800,594	755,433	257,052	29,018	177,339	11,785,359
Total financial liabilities	29,872,489	30,935,883	2,388,733	391,616	945,505	570,253	65,104,479
Net financial position	6,292,785	1,110,115	(751,031)	(141,153)	261,516	242,656	7,014,888

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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**	**Other J$'000**	**Total J$'000**
At 31 December 2011:					
Financial Assets					
Cash and deposits	1,540,752	542,530	-	1,457	2,084,739
Investment securities	1,870,689	1,278,685	-	58,639	3,208,013
Trade and other receivables	845,711	-	-	-	845,711
Loans receivable	749,094	-	-	-	749,094
Subsidiaries	95,903	1,381,150	-	-	1,477,053
Total financial assets	5,102,149	3,202,365	-	60,096	8,364,610
Financial Liabilities					
Bank and other loans	1,370,905	2,667,951	-	-	4,038,856
Trade and other payables	1,033,050	413,002	-	-	1,446,052
Subsidiaries	-	-	327,240	-	327,240
Total financial liabilities	2,403,955	3,080,953	327,240	-	5,812,148
Net financial position	2,698,194	121,412	(327,240)	60,096	2,552,462

	Company				
	Jamaican$ J$'000	**US$ J$'000**	**GBP J$'000**	**Other J$'000**	**Total J$'000**
At 31 December 2010:					
Financial Assets					
Cash and deposits	677,810	1,060,037	-	542	1,738,389
Investment securities	2,175,551	1,135,033	-	59,795	3,370,379
Trade and other receivables	881,600	-	-	-	881,600
Loans receivable	775,006	-	-	-	775,006
Subsidiaries	331,221	1,632,889	-	-	1,964,110
Total financial assets	4,841,188	3,827,959	-	60,337	8,729,484
Financial Liabilities					
Bank and other loans	1,543,097	2,591,374	-	-	4,134,471
Trade and other payables	1,076,479	446,130	-	-	1,522,609
Subsidiaries	-	-	257,297	-	257,297
Total financial liabilities	2,619,576	3,037,504	257,297	-	5,914,377
Net financial position	2,221,612	790,455	(257,297)	60,337	2,815,107

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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 sensitivity analysis represents outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 1% increase (2010: 5%) and a 1% decrease (2010: 5%) in foreign currency rates . The sensitivity of the profit was as a result of foreign exchange gains/losses on translation of foreign currency denominated loans and lease receivables, cash and deposits, debt securities classified as available for sale and foreign exchange losses/gains on translation of foreign currency denominated borrowings. Profit for the Group is more sensitive to movement in currency/US dollar exchange rates in 2011 than 2010 because the net foreign currency exposure has increased, while for the company it is less sensitive because the net exposure has declined. 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 on an individual basis.

	Group			
	% Change in Currency Rate 2011	Effect on Profit before taxation 2011 $'000	% Change in Currency Rate 2010	Effect on Profit before taxation 2010 $'000
Currency:				
USD	+1%	15,321	+5%	28,644
GBP	+1%	91	+5%	392
CAN	+1%	31	+5%	147
EURO	+1%	1,006	+5%	13,928
USD	-1%	(15,321)	-5%	(28,644)
GBP	-1%	(91)	-5%	(392)
CAN	-1%	(31)	-5%	(147)
EURO	-1%	(1,006)	-5%	(13,928)

	Company			
	% Change in Currency Rate 2011	Effect on Profit before taxation 2011 $'000	% Change in Currency Rate 2010	Effect on Profit before taxation 2010 $'000
Currency:				
USD	+1%	1,323	+5%	34,659
GBP	+1%	(3,302)	+5%	(12,479)
USD	-1%	(1,323)	-5%	(34,659)
GBP	-1%	3,302	-5%	12,479

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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.

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	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non-Interest Bearing**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At 31 December 2011:							
Assets							
Cash and deposits	7,205,526	2,864,598	-	-	-	2,256,204	12,326,328
Investment securities	741,581	4,486,786	4,063,467	17,122,257	14,189,323	415,516	41,018,930
Loans receivable	762,266	1,150,815	417,039	4,440,705	5,139,860	355	11,911,040
Trade and other receivables	-	-	-	-	-	7,914,131	7,914,131
Total financial assets	8,709,373	8,502,199	4,480,506	21,562,962	19,329,183	10,586,206	73,170,429
Liabilities							
Deposits	8,982,714	1,902,562	2,808,481	-	-	-	13,693,757
Securities sold under agreements to repurchase	11,250,258	9,694,394	5,507,069	-	-	-	26,451,721
Bank loans	1,244,855	2,300,183	4,065,245	2,832,523	1,366,117	-	11,808,923
Trade payables	-	-	-	-	-	12,252,825	12,252,825
Total financial liabilities	21,477,827	13,897,139	12,380,795	2,832,523	1,366,117	12,252,825	64,207,226
Total interest repricing gap	(12,768,454)	(5,394,940)	(7,900,289)	18,730,439	17,963,066	(1,666,619)	8,963,203

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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	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non-Interest Bearing**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At 31 December 2010:							
Assets							
Cash and deposits	5,735,610	6,401,714	-	-	-	1,472,458	13,609,782
Investment securities	7,256,761	3,581,760	1,520,907	14,012,190	14,292,175	385,443	41,049,236
Loans receivable	1,811,072	263,271	171,227	3,937,842	4,217,222	807	10,401,441
Trade and other receivables	-	-	-	-	-	7,058,908	7,058,908
Total financial assets	14,803,443	10,246,745	1,692,134	17,950,032	18,509,397	8,917,616	72,119,367
Liabilities							
Deposits	7,960,520	2,643,501	2,429,894	-	-	-	13,033,915
Securities sold under agreements to repurchase	11,168,474	11,710,083	3,642,484	-	-	-	26,521,041
Bank loans	1,945,787	2,608,235	3,478,255	4,521,034	1,210,853	-	13,764,164
Trade payables	-	-	-	-	-	11,785,359	11,785,359
Total financial liabilities	21,074,781	16,961,819	9,550,633	4,521,034	1,210,853	11,785,359	65,104,479
Total interest repricing gap	(6,271,338)	(6,715,074)	(7,858,499)	13,428,998	17,298,544	(2,867,743)	7,014,888

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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	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non-Interest Bearing**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At 31 December 2011:							
Assets							
Cash and deposits	454,794	1,309,209	-	-	-	320,736	2,084,739
Investment securities	-	-	568,000	1,304,326	1,270,597	65,090	3,208,013
Loans receivable	-	-	-	-	-	749,094	749,094
Trade and other receivables	-	-	-	-	-	845,711	845,711
Subsidiaries	-	-	-	-	-	1,149,813	1,149,813
Total financial assets	454,794	1,309,209	568,000	1,304,326	1,270,597	3,130,444	8,037,370
Liabilities							
Bank loans	1,030,851	1,502,064	1,458,441	47,500	-	-	4,038,856
Trade payables	-	-	-	-	-	1,446,052	1,446,052
Total financial liabilities	1,030,851	1,502,064	1,458,441	47,500	-	1,446,052	5,484,908
Total interest repricing gap	(576,057)	(192,855)	(890,441)	1,256,826	1,270,597	1,684,392	2,552,462

	Company						
	Within 1 Month	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Over 5 Years**	**Non-Interest Bearing**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
At 31 December 2010:							
Assets							
Cash and deposits	420,937	994,727	-	-	-	322,725	1,738,389
Investment securities	-	-	967,284	1,032,761	1,305,222	65,112	3,370,379
Loans receivable	-	-	-	25,513	-	749,493	775,006
Trade and other receivables	-	-	-	-	-	881,600	881,600
Subsidiaries	-	-	-	-	-	1,706,813	1,706,813
Total financial assets	420,937	994,727	967,284	1,058,274	1,305,222	3,725,743	8,472,187
Liabilities							
Bank loans	1,186,809	386,376	2,157,767	403,519	-	-	4,134,471
Trade payables	-	-	-	-	-	1,522,609	1,522,609
Total financial liabilities	1,186,809	386,376	2,157,767	403,519	-	1,522,609	5,657,080
Total interest repricing gap	(765,872)	608,351	(1,190,483)	654,755	1,305,222	2,203,134	2,815,107

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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: 2011 JMD / USD	Effect on Profit before taxation 2011 $'000	Effect on Other Components of Equity 2011 $'000	Change in basis points: 2010 JMD / USD	Effect on Profit before taxation 2010 $'000	Effect on Other Components of Equity 2010 $'000
-100 / -50	97,716	426,162	-100 / -50	115,658	346,801
+100 / +50	(97,716)	(412,533)	+200 / +50	(133,140)	(505,277)

Company

Change in basis points: 2011 JMD / USD	Effect on Profit before taxation 2011 $'000	Effect on Other Components of Equity 2011 $'000	Change in basis points: 2010 JMD / USD	Effect on Profit before taxation 2010 $'000	Effect on Other Components of Equity 2010 $'000
-100 / -50	6,763	44,169	-100 / -50	(368)	48,679
+100 / +50	(6,763)	(42,269)	+200 / +50	6,048	(62,791)

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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 statement of financial position, are:

(i) To comply with the capital requirements set by the Financial Services Commission (FSC) for insurance companies;

(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 at the operating company level. For the insurance companies, it is calculated by the Compliance Officer and reviewed by executive management, the Audit Committee and the Board of Directors. In addition, the company seeks to maintain internal capital adequacy at levels higher than the regulatory requirements.

The primary measure used to assess capital adequacy is the Minimum Capital Test (MCT) commencing in 2011. This information is required to be filed with the Financial Services Commission on an annual basis. The minimum standard recommended by the regulators for companies is a MCT of 200%. The MCT for the company as of December 31, 2011 is set out below.

	Insurance			
	Actual 2011	**Required 2011**	**Actual 2010**	**Required 2010**
MCT	**258%**	**200%**	**211%**	**200%**

In 2010 the primary measure used to assess capital adequacy was the Minimum Asset Test (MAT), however as the original intention of the FSC was to have the MCT implemented for 2011, they decided to allow the general insurance companies to file both the MAT and MCT. They also indicated that no action would be taken against companies that fail to meet the MAT capital requirement of 150% but satisfy the MCT capital requirement of 200%.

	Insurance	
	Actual 2010	**Required 2010**
MAT	**136%**	**150%**

The FSC requires each general insurance company to hold the minimum level of regulatory capital of $90,000,000. For the insurance brokerage, the company seeks to maintain internal capital adequacy at levels higher than the regulatory requirements of $10,000,000.

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3. Insurance and Financial Risk Management (Continued)

(d) Capital management (continued)

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 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 Financial Services Commission (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 entities 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 14%.

One of the investment services entities based overseas is required by the Trinidad and Tobago Securities and Exchange Commission to hold a minimum regulatory capital of $66,950,000 (TT$5,000,000).

The regulatory capital as managed by the subsidiaries' Risk and Compliance Unit 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 is deducted in arriving at Tier 1 capital; and

(ii) Tier 2 capital: collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available for sale.

Risk-weighted assets are measured by means of a hierarchy of five 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.

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3. Insurance and Financial Risk Management (Continued)

(d) Capital management (continued)

The banking and investment subsidiaries (continued)

The tables below summarise the composition of regulatory capital and the ratios of the Group for the years ended 31 December.

	Banking			
	Actual 2011 $'000	**Required 2011 $'000**	**Actual 2010 $'000**	**Required 2010 $'000**
Tier 1 capital	4,203,023	2,275,539	4,352,560	1,709,141
Tier 2 capital	112,109	-	341,324	-
Total regulatory capital	4,315,132	2,275,539	4,693,884	1,709,141
Risk-weighted assets:				
On-statement of financial position	19,299,537	-	15,295,196	-
Off-statement of financial position	3,455,854	-	1,796,217	-
Total risk-weighted assets	22,755,391	-	17,091,413	-
Tier one capital ratio	18%		25%	-
Total capital ratio	19%	10%	27%	10%

	Investment			
	Actual 2011 $'000	**Required 2011 $'000**	**Actual 2010 $'000**	**Required 2010 $'000**
Tier 1 capital	3,238,874	1,899,986	3,105,962	992,857
Tier 2 capital	-	-	-	-
Total regulatory capital	3,238,874	1,899,986	3,105,962	992,857
Risk-weighted assets	13,571,329	-	7,091,837	-
Tier one capital ratio	100.00%	100.00%	100.00%	100.00%
Total capital ratio	23.87%	14.00%	43.80%	14.00%
Actual capital to total assets	12.16%	6.00%	11.60%	6.00%

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 2011, the Group's strategy, which was unchanged from 2010, was to maintain a debt to equity ratio not exceeding 100%. The debt to equity ratios at 31 December 2011 and 2010 were as follows:

	The Group	
	2011 $000	**2010 $000**
Total borrowings (Note 15)	11,808,923	13,764,164
Owners equity	29,337,896	26,697,805
Gearing ratio	40.3%	51.6%

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.

One of its investment subsidiaries was in breach of the capital adequacy benchmark established by the Trinidad and Tobago Securities and Exchange Commission. In order to address the breach, the subsidiary will be merged with a fellow subsidiary which has adequate capital.

In 2010, one of its insurance subsidiaries was in technical breach of Section 17 (4) of the Insurance (Actuaries) (General Insurance Companies) Regulation 2002 of Jamaica. Having satisfied the MCT capital requirement as previously noted, the regulator has indicated that no action is required by the insurance subsidiary.

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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 change in the discount rate from 11.1% to 12.1% would result in a reduction in the value in use by $355,971,000, 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.

(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 company 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 company's 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 company's 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 company 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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5. Cash and Deposits

	Group		Company	
	2011 **$'000**	**2010** **$'000**	**2011** **$'000**	**2010** **$'000**
Cash at bank and in hand	4,485,790	4,499,111	321,677	398,143
Deposits	7,840,538	9,110,671	1,763,062	1,340,246
	12,326,328	13,609,782	2,084,739	1,738,389

Included in deposits is interest receivable of $97,275,000 (2010: $7,584,000) and $109,206,000 (2010: $6,775,000) for the Group and company, respectively. The weighted average effective interest rate on deposits was 6.95% (2010: 7.19%) and 5.33% (2010: 7.5%) 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	
	2011 **$'000**	**2010** **$'000**	**2011** **$'000**	**2010** **$'000**
Cash at bank and in hand	4,485,790	4,499,111	321,677	398,143
Deposits	7,840,538	9,110,671	1,763,062	1,340,246
	12,326,328	13,609,782	2,084,739	1,738,389
Bank overdrafts (Note 15)	(1,368,311)	(1,691,735)	(385,445)	(749,417)
	10,958,017	11,918,047	1,699,294	988,972

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6. Investment Securities

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Available-for-sale:				
Quoted equities	214,565	191,021	64,755	64,777
Government of Jamaica securities	38,644,552	36,907,650	2,967,675	3,284,668
Corporate bonds	1,910,338	3,351,501	-	-
Other debt securities	30,535	385,556	175,248	20,599
Other	175,407	194,846	335	335
	40,975,397	41,030,574	3,208,013	3,370,379
Financial assets at fair value through profit or loss:				
Derivative financial instruments (Note 36)	17,989	-	-	-
Quoted equities	25,544	18,662	-	-
	43,533	18,662	-	-
Total	41,018,930	41,049,236	3,208,013	3,370,379

Included in the Government of Jamaica securities is interest receivable of $757,503,000 (2010: $867,351,000) and $1,787,000 (2010: $95,786,000) 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 7.50% (2010: 10.12%) and 7.67% (2010: 10.73%) for the Group and the company respectively.

Included in Government of Jamaica securities is $1,773,027,000 (2010: $1,607,667,000) held at the Bank of Jamaica under Section 14(1) of the Banking Act, 1992, representing the required ratio of 12% (2010: 12%) for Jamaican dollar cash reserves and 9% (2010: 9%) 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.

Investment securities of $28,368,098,000 (2010: $27,160,065,000) have been pledged by the Group as collateral for securities sold under repurchase agreements.

Included in investment securities for the company is $270,248,000 (2010: $399,284,000) which matures in the next 12 months.

7. Receivables

	Group		Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Trade receivables, less provision for impairment	4,680,424	3,629,918	795,242	798,286
Insurance receivables, less provision for impairment	2,323,749	2,524,868	-	-
Receivable from associates (Note 34(e))	10,783	11,056	8,369	9,470
Prepayments	578,453	521,831	90,045	43,535
Other receivables	899,175	893,066	42,100	73,844
	8,492,584	7,580,739	935,756	925,135

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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Raw materials and spares	504,304	470,749	-	-
Work in process	5,372	6,494	-	-
Finished goods	1,258,114	922,713	-	-
Merchandise	4,038,168	3,481,543	1,193,092	814,654
Goods in transit	718,219	846,462	224,760	365,597
	6,524,177	5,727,961	1,417,852	1,180,251

9. Loans Receivable

(a) Loans receivable comprise:

	Group		Company	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Finance leases, less deferred profit	280,893	343,892	-	-
Loans and receivables:				
Loans to subsidiaries (Note 34 (e))	-	-	749,094	774,607
Loans to associated companies (Note 34 (e))	10,357	-	-	-
Loans to others	11,619,435	10,056,743	-	-
Other receivables	355	806	-	399
	11,911,040	10,401,441	749,094	775,006

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

Included in loans receivable is interest receivable of $64,723,000 (2010: $74,620,000) for the Group.

Included in loans receivable for the company is $Nil (2010: $25,513,000) which matures in the next 12 months.

9. Loans Receivable (Continued)

	Group 2011 $'000	Group 2010 $'000
Gross receivables from finance leases:		
Not later than 1 year	170,853	211,547
Later than 1 year and not later than 5 years	167,836	205,228
	338,689	416,775
Unearned future finance income on finance leases	(57,796)	(72,883)
Net investment in finance leases	280,893	343,892
The net investment in finance leases is analysed as follows:		
Not later than 1 year	140,901	174,858
Later than 1 year and not later than 5 years	139,992	169,034
Total	280,893	343,892

10. Investments in Associates

	Group 2011 $'000	Group 2010 $'000	Company 2011 $'000	Company 2010 $'000
At beginning of year	725,826	699,257	185,173	185,173
Share of results before tax	217,220	185,354	-	-
Share of tax	(59,648)	(78,615)	-	-
Share of results after tax	157,572	106,739	-	-
Additions	25,762	-	-	-
Movement in other reserves	(85,000)	(80,170)	-	-
At end of year	824,160	725,826	185,173	185,173

The assets, liabilities, revenue and net profit of associates are as follows:

	2011 $'000	2010 $'000
Assets	11,032,563	11,054,986
Liabilities	8,920,355	9,207,620
Revenue	4,792,957	4,625,953
Net Profit	331,601	144,768

11. Intangible Assets

	Brands and Customer Relationships $'000	Distribution Channel and Exclusive Agency Agreements $'000	Goodwill $'000	Computer Software $'000	Policy Contracts $'000	Total $'000
				Group		
Cost						
At 1 January 2010	1,439,163	157,545	1,064,690	1,205,023	589,088	4,455,509
Additions	-	-	-	166,833	-	166,833
Retirement of assets	-	(157,545)	(306,836)	24,753	-	(439,628)
Exchange differences	(73,771)	-	(39,036)	(258)	-	(113,065)
At 31 December 2010	1,365,392	-	718,818	1,396,351	589,088	4,069,649
Additions	-	-	-	178,613	-	178,613
Exchange differences	12,942	-	4,365	39	-	17,346
At 31 December 2011	1,378,334	-	723,183	1,575,003	589,088	4,265,608
Accumulated Amortisation						
At 1 January 2010	237,793	157,545	484,821	927,205	157,090	1,964,454
Amortisation charge for the year	94,243	-	-	211,860	39,272	345,375
Retirement of assets	-	(157,545)	(306,836)	24,753	-	(439,628)
Impairment charge	-	-	157,155	-	-	157,155
At 31 December 2010	332,036	-	335,140	1,163,818	196,362	2,027,356
Amortisation charge for the year	96,251	-	-	209,699	39,273	345,223
At 31 December 2011	428,287	-	335,140	1,373,517	235,635	2,372,579
Net Book Amount						
31 December 2011	950,047	-	388,043	201,486	353,453	1,893,029
31 December 2010	1,033,356	-	383,678	232,533	392,726	2,042,293

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.

The Group recognised an impairment charge of $Nil (2010: $157,155,000) for goodwill in subsidiaries within the Food Trading Division.

11. Intangible Assets (Continued)

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

	2011 $000	2010 $000
Food Trading	388,043	383,678

For the year ended 31 December 2011, management tested for impairment the goodwill allocated to all the CGUs.

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 six-year period. Cash flows beyond the six-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 business 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	4.16%	2.97%	0.60%	11.10%

	Computer Software $'000
	Company
Cost	
At 1 January 2010	269,029
Additions	25,849
At 31 December 2010	294,878
Additions	113,281
At 31 December 2011	408,159
Accumulated Amortisation	
At 1 January 2010	212,120
Amortisation charge for the year	44,356
At 31 December 2010	256,476
Amortisation charge for the year	67,433
At 31 December 2011	323,909
Net Book Amount	
31 December 2011	84,250
31 December 2010	38,402

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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 or Valuation					
At 1 January 2010	1,647,756	803,339	4,426,579	2,790,960	9,668,634
Additions	49,871	211,927	467,770	326,425	1,055,993
Revaluation surplus	71,427	-	-	-	71,427
Transfers	2,555,913	20,577	345,648	(2,922,138)	-
Disposals	-	(33,356)	(386,228)	-	(419,584)
Exchange differences	(171)	(14,009)	(22,807)	-	(36,987)
At 31 December 2010	4,324,796	988,478	4,830,962	195,247	10,339,483
Additions	76,722	56,811	486,600	212,705	832,838
Revaluation surplus	34,900	-	-	-	34,900
Transfers	10,454	8,317	53,167	(71,938)	-
Disposals	-	(13,127)	(143,374)	(852)	(157,353)
Exchange differences	32	2,025	3,260	(692)	4,625
At 31 December 2011	4,446,904	1,042,504	5,230,615	334,470	11,054,493
Accumulated Depreciation					
At 1 January 2010	30,414	466,190	2,940,286	-	3,436,890
Charge for the year	49,741	80,520	497,990	-	628,251
Revaluation adjustment	(29,722)	-	-	-	(29,722)
On disposals	-	(25,428)	(362,979)	-	(388,407)
At 31 December 2010	50,433	521,282	3,075,297	-	3,647,012
Charge for the year	68,860	67,970	512,663	-	649,493
On disposals	-	(12,945)	(122,315)	-	(135,260)
At 31 December 2011	119,293	576,307	3,465,645	-	4,161,245
Net Book Value					
31 December 2011	4,327,611	466,197	1,764,970	334,470	6,893,248
31 December 2010	4,274,363	467,196	1,755,665	195,247	6,692,471

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 or Valuation					
At 1 January 2010	24,000	86,884	507,895	-	618,779
Additions	31,532	12,042	87,255	-	130,829
Revaluation surplus	(3,532)	-	-	-	(3,532)
Disposals	-	(20,177)	(89,843)	-	(110,020)
At 31 December 2010	52,000	78,749	505,307	-	636,056
Additions	712	-	132,945	549	134,206
Disposals	-	-	(11,434)	-	(11,434)
At 31 December 2011	52,712	78,749	626,818	549	758,828
Accumulated Depreciation					
At 1 January 2010	375	69,740	418,321	-	488,436
Charge for the year	-	3,295	60,134	-	63,429
Revaluation adjustment	(375)	-	-	-	(375)
On disposals	-	(15,183)	(87,125)	-	(102,308)
At 31 December 2010	-	57,852	391,330	-	449,182
Charge for the year	1,093	3,275	68,790	-	73,158
On disposals	-	-	(9,363)	-	(9,363)
At 31 December 2011	1,093	61,127	450,757	-	512,977
Net Book Value					
31 December 2011	51,619	17,622	176,061	549	245,851
31 December 2010	52,000	20,897	113,977	-	186,874

(a) The tables above include carrying values of $20,671,000 (2010: $Nil) and $20,384,000 (2010: $13,026,000) 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	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Cost	3,251,494	3,164,318	41,122	40,411
Accumulated depreciation	208,667	145,344	5,748	4,720
Net Book Value	3,042,827	3,018,974	35,374	35,691

(c) The Group's land and buildings were last revalued during 2010 by independent valuers. The valuations were done on the basis of open market value. The revaluation surpluses, net of applicable deferred income taxes, were credited to the capital and fair value reserves in equity (Note 19).

13. Deferred Income Taxes

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 33 ⅓ %.

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

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
At beginning of year	(1,618,205)	(1,165,424)	(2,291,979)	(2,060,751)
Income statement (charge)/credit (Note 27)	(78,859)	57,891	(280,497)	(115,417)
Tax charge relating to components of other comprehensive income (Note 27)	(151,465)	(486,353)	(19,071)	(115,811)
Exchange differences	3,365	(24,319)	-	-
At end of year	(1,845,164)	(1,618,205)	(2,591,547)	(2,291,979)

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 Taxpayer Audit and Assessment Department, the Group has recognised tax losses of $2,069,004,000 (2010: $2,485,911,000) and recognised tax credits of $259,364,000 (2010: $Nil) to carry forward indefinitely against future taxable income.

Deferred income tax liabilities of $136,054,000 (2010: $185,971,000) 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 $408,163,000 (2010: $557,912,000).

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13. Deferred Income Taxes (Continued)

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 2010	403,060	26,308	136,440	2,479,528	629,486	3,674,822
Charged/(credited) to the income statement	38,705	(42,933)	(76,572)	178,372	(473,966)	(376,394)
Charged to other comprehensive income	27,461	113,104	-	-	-	140,565
Exchange differences	-	-	-	-	(58)	(58)
At 31 December 2010	469,226	96,479	59,868	2,657,900	155,462	3,438,935
(Credited)/charged to the income statement	(279,857)	141,015	1,439	111,180	253,854	227,631
Charged to other comprehensive income	35,093	116,372	-	-	-	151,465
At 31 December 2011	224,462	353,866	61,307	2,769,080	409,316	3,818,031

Deferred tax assets	**Fixed Assets $'000**	**Fair Value Losses $'000**	**Unutilised Tax Losses $'000**	**Employee Benefit Obligations $'000**	**Other $'000**	**Total $'000**
At 1 January 2010	136,396	382,589	931,086	648,377	410,950	2,509,398
(Charged)/credited to the income statement	(66,227)	(36,801)	(82,521)	87,242	(220,196)	(318,503)
Charged to other comprehensive income	-	(345,788)	-	-	-	(345,788)
Exchange differences	(4,219)	-	(19,928)	-	(230)	(24,377)
At 31 December 2010	65,950	-	828,637	735,619	190,524	1,820,730
(Charged)/credited to the income statement	(37,152)	-	117,049	(13,876)	82,751	148,772
Exchange differences	3	-	3,346	-	16	3,365
At 31 December 2011	28,801	-	949,032	721,743	273,291	1,972,867

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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 Asset $'000**	**Other $'000**	**Total $'000**
At 1 January 2010	19,445	-	68,496	2,270,763	45,732	2,404,436
(Credited)/charged to the income statement	(8,413)	-	(63,107)	234,563	(25,139)	137,904
(Credited)/charged to other comprehensive income	(788)	75,557	-	-	-	74,769
At 31 December 2010	10,244	75,557	5,389	2,505,326	20,593	2,617,109
Charged to the income statement	12,132	-	5,784	210,777	1,123	229,816
(Credited)/charged to other comprehensive income	(1,171)	20,242	-	-	-	19,071
At 31 December 2011	21,205	95,799	11,173	2,716,103	21,716	2,865,996

Deferred tax assets	**Fixed Assets $'000**	**Fair Value Losses $'000**	**Employee Benefit Obligations $'000**	**Other $'000**	**Total $'000**
At 1 January 2010	13,221	41,042	269,824	19,598	343,685
Credited/(charged) to the income statement	438	-	31,018	(8,969)	22,487
Charged to other comprehensive income	-	(41,042)	-	-	(41,042)
At 31 December 2010	13,659	-	300,842	10,629	325,130
Credited/(charged) to the income statement	230	-	(50,452)	(459)	(50,681)
At 31 December 2011	13,889	-	250,390	10,170	274,449

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	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Deferred tax assets	1,066,226	923,572	-	-
Deferred tax liabilities	(2,911,390)	(2,541,777)	(2,591,547)	(2,291,979)
	(1,845,164)	(1,618,205)	(2,591,547)	(2,291,979)
The gross amounts shown in the above tables include the following:				
Deferred tax assets to be recovered after more than 12 months	1,670,775	1,564,256	250,390	300,842
Deferred tax liabilities to be settled after more than 12 months	(2,993,542)	(3,127,126)	(2,737,308)	(2,515,570)

14. Pensions and Other Post-Employment Obligations

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

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's contribution for the year was $31,323,000 (2010: $6,420,000).

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. 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.

Pension benefits

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

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Present value of funded obligations	10,966,907	8,988,665	4,848,849	4,081,547
Fair value of plan assets	(18,490,828)	(16,394,884)	(13,106,540)	(11,817,994)
	(7,523,921)	(7,406,219)	(8,257,691)	(7,736,447)
Unrecognised actuarial (losses)/gains	(836,647)	(873,526)	56,057	(85,571)
Limitation on asset due to uncertainty of obtaining economic benefit	53,324	306,040	53,324	306,040
Asset in the statement of financial position	(8,307,244)	(7,973,705)	(8,148,310)	(7,515,978)

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

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Beginning of year	8,988,665	6,348,877	4,081,547	2,997,034
Current service cost	749,039	575,564	255,326	206,465
Interest cost	1,049,983	1,049,613	466,742	503,937
Actuarial losses	563,995	1,262,034	232,768	481,894
Benefits paid	(384,775)	(247,423)	(187,534)	(107,783)
End of year	10,966,907	8,988,665	4,848,849	4,081,547

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

Pension benefits (continued)

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

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Beginning of year	16,394,884	14,158,424	11,817,994	10,654,922
Expected return on plan assets	1,633,179	1,663,422	1,175,956	1,251,082
Actuarial gains	602,046	596,318	413,192	216,829
Contributions	258,548	244,143	70,630	92,944
Benefits paid	(384,775)	(247,423)	(187,534)	(107,783)
Adjustment to plan assets	(13,054)	(20,000)	(183,698)	(290,000)
End of year	18,490,828	16,394,884	13,106,540	11,817,994

Adjustments to plan assets for the Group relate to associated companies.

The amounts recognised in the income statement are as follows:

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Current service cost	501,973	349,350	187,521	121,384
Interest cost	1,049,983	1,049,613	466,742	503,937
Expected return on plan assets	(1,633,179)	(1,663,422)	(1,175,956)	(1,251,082)
Net actuarial losses recognised in year	11,883	19,275	144,903	201,944
	(69,340)	(245,184)	(376,790)	(423,817)
Increase in income due to limitation on asset	(252,716)	(272,008)	(252,716)	(272,008)
Total, included in staff costs (Note 26)	(322,056)	(517,192)	(629,506)	(695,825)

The total credit of $322,056,000 (2010: $517,192,000) and $629,506,000 (2010: $695,825,000) for the Group and company respectively was included in administration expenses for both years.

The expected contributions to the plan by the Group for the year ending 31 December 2012 amount to $216,111,000.

The actual return on plan assets was $2,235,222,000 (2010: $2,259,740,000) for the Group.

The plan assets are comprised of :

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Equity	3,238,420	2,583,534	2,295,433	1,862,300
Debt	470,016	469,184	333,154	338,205
Government securities	11,649,720	10,322,886	8,257,474	7,441,089
Other	3,132,672	3,019,280	2,220,479	2,176,400
	18,490,828	16,394,884	13,106,540	11,817,994

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

Pension benefits (continued)

The pension plan assets include the company's ordinary stock units with a fair value of $948,891,000 (2010: $759,234,000), buildings occupied by Group companies with fair values of $781,017,000 (2010: $697,823,000), and repurchase agreement investments of $2,502,172,000 (2010: $2,767,810,000). There were no finance lease receivables or loan receivables from Group companies at the end of 2011 and 2010.

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the statement of financial position date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

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.

The five-year trend for the fair value of plan assets, the defined benefit obligation, the surplus in the plan, and experience adjustments for plan assets and liabilities is as follows:

	Group				
	2011 $'000	**2010 $'000**	**2009 $'000**	**2008 $'000**	**2007 $'000**
Fair value of plan assets	(18,490,828)	(16,394,884)	(14,158,424)	(12,640,788)	(13,227,574)
Defined benefit obligation	10,966,907	8,988,665	6,348,877	5,924,104	3,275,165
Surplus	(7,523,921)	(7,406,219)	(7,809,547)	(6,716,684)	(9,952,409)
Experience adjustments –					
Fair value of plan assets	602,046	596,319	1,033,172	(2,028,243)	791,320
Defined benefit obligation	37,502	(1,042,535)	(380,117)	(29,655)	166,624

	Company				
	2011 $'000	**2010 $'000**	**2009 $'000**	**2008 $'000**	**2007 $'000**
Fair value of plan assets	(13,106,540)	(11,817,994)	(10,654,922)	(8,833,874)	(9,253,431)
Defined benefit obligation	4,848,849	4,081,547	2,997,034	2,857,737	1,144,593
Surplus	(8,257,691)	(7,736,447)	(7,657,888)	(5,976,137)	(8,108,838)
Experience adjustments –					
Fair value of plan assets	413,192	216,830	826,200	(1,430,040)	768,377
Defined benefit obligation	43,295	(487,381)	(207,117)	642,908	(117,236)

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 7.5% per year (2010: 10% 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	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Present value of unfunded obligations	2,702,493	2,620,878	1,141,825	1,118,185
Unrecognised actuarial losses	(537,267)	(414,016)	(390,656)	(215,659)
Liability in the statement of financial position	2,165,226	2,206,862	751,169	902,526

Movement in the defined benefit obligation is as follows:

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Beginning of year	2,620,878	1,818,887	1,118,185	823,956
Current service cost	163,583	113,394	42,165	30,922
Interest cost	288,251	298,704	113,043	131,623
Actuarial losses	191,479	503,845	209,340	196,152
Past service cost - vested benefits	(233,690)	(16,812)	(75,555)	-
Benefits paid	(328,008)	(97,140)	(265,353)	(64,468)
End of year	2,702,493	2,620,878	1,141,825	1,118,185

The amounts recognised in the income statement were as follows:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Current service cost	163,583	113,394	42,165	30,922
Interest cost	288,251	298,704	113,043	131,623
Net actuarial losses/(gains) recognised in year	68,228	(36,416)	34,343	(5,024)
Past service cost – vested benefits	(233,690)	(16,812)	(75,555)	-
Total, included in staff costs (Note 26)	286,372	358,870	113,996	157,521

The total charge was included in administration expenses.

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	
	2011	**2010**	**2011**	**2010**
	$'000	**$'000**	**$'000**	**$'000**
Gratuity Plan	814,881	1,067,701	181,285	385,959
Group Life Plan	91,737	81,124	32,552	30,198
Insured Group Health	326,282	235,617	92,000	70,982
Self Insured Health Plan	581,524	519,187	188,372	182,624
Supplementary Pension Plan	350,802	303,233	256,960	232,763
Liability in the statement of financial position	2,165,226	2,206,862	751,169	902,526

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

Other post-employment obligations (continued)

The effects of a 1% movement in the assumed medical cost trend rate were as follows:

	Group		Company	
	Increase $'000	**Decrease $'000**	**Increase $'000**	**Decrease $'000**
Effect on the aggregate of the current service cost and interest cost	229,598	149,211	63,527	44,695
Effect on the defined benefit obligation	1,374,396	1,001,576	481,155	368,770

The five-year trend for the defined benefit obligation and experience adjustments is as follows:

	Group				
	2011 $'000	**2010 $'000**	**2009 $'000**	**2008 $'000**	**2007 $'000**
Defined benefit obligation	2,702,493	2,637,690	1,818,887	1,504,127	1,368,518
Experience adjustments	119,858	(88,145)	(30,187)	47,980	(180,399)

	Company				
	2011 $'000	**2010 $'000**	**2009 $'000**	**2008 $'000**	**2007 $'000**
Defined benefit obligation	1,141,825	1,118,185	823,956	755,673	629,833
Experience adjustments	147,638	(11,373)	(55,991)	81,881	(33,270)

Principal actuarial assumptions used in valuing post-employment benefits

The principal actuarial assumptions used were as follows:

	2011	**2010**
Discount rate	10.0%	11.0%
Long term inflation rate	6.0%	7.0%
Expected return on plan assets	10.0%	10.0%
Future salary increases	7.5%	8.5%
Future pension increases	6.0%	7.0%

Mortality rate

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:

	2011	**2010**
Male	21.33	21.33
Female	25.09	25.09

The average expected remaining service life of the employees in the post-employment plans are as follows:

Plans	**2011 Years**	**2010 Years**
Gratuity Plan	17.6	17.8
Group Life Plan	17.9	18.1
Insured Group Health	18.4	18.6
Pension Plan	17.5	17.9
Self Insured Health Plan	11.3	12.0

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15. Bank and Other Loans

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Secured on assets	4,243,324	5,769,665	-	-
Unsecured	7,565,599	7,994,499	4,038,856	4,134,471
	11,808,923	13,764,164	4,038,856	4,134,471

(a) Unsecured loans of subsidiaries are supported by letters of comfort from the parent company. Interest rates on these loans range between 2.51% - 13.26% (2010: 2.51% - 17.75%).

(b) Bank and other loans comprise:

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Bank overdrafts (Note 5)	1,368,311	1,691,735	385,445	749,417
Bank borrowings	7,316,684	10,692,629	2,504,421	2,225,388
Finance leases	25,032	-	34,045	35,747
Customer deposits	77,041	59,937	-	-
Derivative financial instruments (Note 36)	35,538	11,280	-	-
Other loans	2,986,317	1,308,583	1,114,945	1,123,919
Total borrowings	11,808,923	13,764,164	4,038,856	4,134,471

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 is interest payable of $55,818,000 (2010: $174,019,000) and $11,166,000 (2010: $9,987,000) for the Group and the company, respectively.

Included in bank borrowings and other loans is $6,487,726,000 (2010: $8,644,686,000) and $2,923,830,000 (2010: $2,746,359,000) for the Group and the company respectively, which matures in the next 12 months.

Included in customer deposits is interest payable of $681,000 (2010: $490,000) for the Group.

The fair value of current borrowings approximates their carrying amount, as the impact of discounting is not significant.

(c) Finance lease liabilities – minimum lease payments:

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Not later than 1 year	4,412	-	17,233	20,125
Later than 1 year and not later than 5 years	24,039	-	26,508	26,226
	28,451		43,741	46,351
Future finance charges on finance leases	(3,419)	-	(9,696)	(10,604)
Present value of finance lease liabilities	25,032	-	34,045	35,747

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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	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Between 1 and 2 years	6,961	-	21,864	24,492
Between 2 and 5 years	18,071	-	12,181	11,255
	25,032	-	34,045	35,747

16. Payables

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Trade payables	5,155,789	4,435,645	599,756	639,784
Payable to associates (Note 34(e))	171,548	193,294	66,315	156,479
Accruals	1,745,935	1,335,121	563,271	447,149
Claims outstanding	1,909,269	1,846,316	-	-
Insurance reserves	1,926,989	1,993,948	-	-
Other payables	1,343,295	1,981,035	216,710	279,197
	12,252,825	11,785,359	1,446,052	1,522,609

All payables balances are due within the next 12 months.

17. Provisions

Provisions comprise warranties as follows:

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
At beginning of year	8,037	6,986	6,221	6,221
Additional provisions	404	1,051	-	-
Utilised during year	(1,198)	-	-	-
At end of year	7,243	8,037	6,221	6,221

This relates to warranties given on roofing, which was undertaken by one of the subsidiary companies. The Group is no longer in this line of business and the warranties expire fully in 2036.

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18. Share Capital

	2011	2010	2011	2010
Authorised -	**'000**	**'000**	**'000**	**'000**
Ordinary shares	400,000	400,000	400,000	400,000
Issued and fully paid -	**'000**	**'000**	**$'000**	**$'000**
Ordinary stock units	332,330	331,711	762,076	742,324
Treasury shares	(2,075)	(2,075)	(168,108)	(168,108)
Issued and outstanding	330,255	329,636	593,968	574,216

(a) During the year, the company issued 619,000 (2010: 5,000) shares to its employees for cash of $19,752,000 (2010: $319,000). The shares were issued under the Directors, Senior Managers and Permanent Employees Stock Option Plans.

(b) In 2010, the company through its employee investment trust purchased 2,000 of its own shares at a fair value of $79,000. The total number of treasury shares held by the company at the end of the year was 2,075,000 (2010: 2,075,000) at a cost of $168,108,000 (2010: $168,108,000).

(c) At the Annual General Meeting held on 25 June 2002, the stockholders passed a resolution for 7,000,000 of the authorised but unissued shares to be set aside for allocation and sale to the directors of the company. The allocation and sale of these shares are governed by the provisions of the 2002 Stock Option Plan for the Directors of GraceKennedy Limited.

On 1 July 2002, under the rules of the Stock Option Plan, the following allocation was made:

	No. of Shares
Executive directors	5,973,160
Non-executive directors	600,000

The options were granted at a subscription price of $32.81, being the mid-market price of the company's shares on the Jamaica Stock Exchange at the grant date, and are exercisable over a period of ten years, at the end of which time unexercised options will expire. One-fifth of the total of the grant to each director 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.

As a result of the issue of bonus shares on 18 December 2002, the amount of shares allocated was increased and the option price per share reduced. The new option price has been set at $27.34, with adjusted allocations as follows:

	No. of Shares
Executive directors	7,167,792
Non-executive directors	720,000

At a Board Meeting held on 27 January 2006, the directors passed a resolution for 120,000 of the authorised but unissued shares of $1.00 each to be set aside for allocation and sale to the directors of the company. The allocation and sale of these shares are governed by the provisions of the 2002 Stock Option Plan for the Directors of GraceKennedy Limited.

The options were granted at a subscription price of $85.59, being the mid-market price of the company's shares on the Jamaica Stock Exchange at the grant date, and are exercisable over a period of six years, at the end of which time unexercised options will expire. One-fifth of the total of the grant to each director 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.

Movement on directors' stock options:

	2011		2010	
	Executive '000	**Non-Executive '000**	**Executive '000**	**Non-Executive '000**
At 1 January	2,812	432	2,812	432
Exercised	(266)	(120)	-	-
Forfeited	-	(40)	-	-
At 31 December	2,546	272	2,812	432

18. Share Capital (Continued)

(d) At the Annual General Meeting held on 29 May 2003, the stockholders passed a resolution for 10,000,000 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 25 November 2004, under the rules of the Stock Option Plan, the following allocation was made:

	No. of Shares
Senior managers	1,967,291

The options were granted at a subscription price of $115.97, 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.

Movement on this option:

	2011 '000	2010 '000
At 1 January	-	806
Forfeited	-	(806)
At 31 December	-	-

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

	No. of Shares
Senior managers	2,932,008

The options were granted at a subscription price of $50.83, 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.

Movement on this option:

	2011 '000	2010 '000
At 1 January	-	-
Granted	2,932	-
Forfeited	(179)	-
At 31 December	2,753	-

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18. Share Capital (Continued)

(e) At the Annual General Meeting held on 28 May 2008, the stockholders passed a resolution for 10,000,000 of the authorised but unissued shares of no par value to be set aside for allocation and sale to the permanent employees of the company. The allocation and sale of these shares will be governed by the provisions of the 2008 Stock Offer Plan for the permanent employees of GraceKennedy Limited.

On 1 October 2008, under the rules of the Stock Offer Plan, the following allocation was made:

	No. of Shares
Permanent employees	1,524,400

The options were granted at a subscription price of $66.43, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous ten trading days prior to the date on which the grant was approved less a 25% discount, and are exercisable over a period of two years, at the end of which time unexercised options will expire. The total of the grant to each permanent employee was fully vested at the date 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.

Movement on this option:	**2011 '000**	**2010 '000**
At 1 January	-	1,020
Exercised	-	(5)
Forfeited	-	(1,015)
At 31 December	-	-

On 1 March 2011, under the rules of the Stock Offer Plan, the following allocation was made:

	No. of Shares
Permanent employees	2,739,440

The options were granted quarterly at subscription prices ranging between $39.30 to $46.81, being the weighted average price of the company's shares on the Jamaica Stock Exchange for the previous ten trading days prior to the dates on which the grants were made less a 25% discount, and are exercisable over a period of three months, at the end of which time unexercised options will expire. The total of the grant to each permanent employee was fully vested at the date 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.

Movement on this option:	**2011 '000**	**2010 '000**
At 1 January	-	-
Granted	2,739	-
Exercised	(233)	-
Forfeited	(1,227)	-
At 31 December	1,279	-

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18. Share Capital (Continued)

(f) 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

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

	No. of Shares
Directors	361,728

The options were granted at a subscription price of $50.26, 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. 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.

Movement on this option:	**2011 '000**	**2010 '000**
At 1 January	-	-
Granted	362	-
Forfeited	(45)	-
At 31 December	317	-

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

	No. of Shares
Directors and senior executives	1,136,160

The options were granted at a subscription price of $60.20, 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. 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.

Movement on this option:	**2011 '000**	**2010 '000**
At 1 January	-	-
Granted	1,136	-
Forfeited	-	-
At 31 December	1,136	-

18. Share Capital (Continued)

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

	2011		2010	
	Average exercise price in $ per share	**Options '000**	**Average exercise price in $ per share**	**Options '000**
At 1 January	29.49	3,244	50.67	5,070
Granted	48.95	7,169	-	-
Forfeited	42.70	(1,491)	88.36	(1,821)
Exercised	31.91	(619)	66.43	(5)
At 31 December	43.74	8,303	29.49	3,244

Shares totalling 4,098,000 (2010: 3,220,000) 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:

		2011	2010
	Exercise price in $ per share	**Options '000**	**Options '000**
2012	33.63	4,097	3,244
2016	50.77	3,070	-
2017	61.20	1,136	-
		8,303	3,244

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18. Share Capital (Continued)

(h) The fair value of options granted determined using the Black-Scholes valuation model was $130,945,000. The significant inputs into the model were the weighted average share prices of $51.00, $55.65 and $61.20 at the grant dates, exercise prices of $50.83, $41.67 and $61.20, standard deviation of expected share price returns of 33.2%, option life of six years and three months and risk-free interest rates of 7.48%, 6.51% and 6.28% 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 breakdown of the fair value of options granted is as follows:

	$'000
Fair value of options granted	130,945
Expensed in 2011	(73,687)
Amount to be expensed in future periods	57,258

19. Capital and Fair Value Reserves

	Group							
	Capital Reserve	Loan Loss Reserve	Fair Value Reserves	Total	Capital Reserve	Loan Loss Reserve	Fair Value Reserves	Total
	2011				2010			
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Realised gains on disposal of assets	93,262	-	-	93,262	93,262	-	-	93,262
Capital distributions received	46,750	-	-	46,750	46,750	-	-	46,750
Realised gain on sale of shares	143,070	-	-	143,070	143,070	-	-	143,070
Profits capitalised by Group companies	2,302,248	-	-	2,302,248	2,302,248	-	-	2,302,248
Unrealised surplus on the revaluation of fixed assets, net of deferred taxes	-	-	911,198	911,198	-	-	911,391	911,391
Fair value gains, net of deferred taxes	-	-	745,945	745,945	-	-	508,238	508,238
Loan loss reserve		454,186	-	454,186	-	341,324	-	341,324
Catastrophe reserve	12,270	-	-	12,270	11,396	-	-	11,396
Other	85,380	-	-	85,380	85,380	-	-	85,380
	2,682,980	454,186	1,657,143	4,794,309	2,682,106	341,324	1,419,629	4,443,059

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19. Capital and Fair Value Reserves (Continued)

	Company					
	Capital Reserve	Fair Value Reserves	Total	Capital Reserve	Fair Value Reserves	Total
	2011			2010		
	$'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	-	14,659	14,659	-	13,488	13,488
Fair value gains, net of deferred taxes	-	334,076	334,076	-	293,593	293,593
	24,507	348,735	373,242	24,507	307,081	331,588

20. Banking Reserves

Banking reserves represent those reserves required to be maintained by the banking subsidiary, First Global Bank Limited, in compliance with the Jamaica Banking Act.

21. Non - Controlling Interests

	2011 $'000	2010 $'000
Beginning of year	1,145,352	1,147,370
Share of total comprehensive income:		
Share of net profit of subsidiaries	243,660	146,080
Revaluation surplus	-	11,905
Fair value gain	-	3
Other	941	(7,575)
	244,601	150,413
Disposal of non-controlling interest	33,308	-
Employee share option scheme: value of services received	3,560	-
Dividends paid	(150,312)	(152,431)
End of year	1,276,509	1,145,352

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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 five 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 as well as retail trading. 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.

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

Operating segments

	2011						
	Food Trading	**Retail & Trading**	**Banking & Investments**	**Insurance**	**Money Services**	**Unallocated/ Elimination**	**Group**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
REVENUE							
External sales	38,126,983	6,052,496	5,270,785	4,267,527	4,498,941	-	58,216,732
Inter-segment sales	219,285	4,497	16,988	399,462	-	(640,232)	-
Total Revenue	38,346,268	6,056,993	5,287,773	4,666,989	4,498,941	(640,232)	58,216,732
Operating results	914,217	193,598	881,656	391,474	1,411,272	17,227	3,809,444
Unallocated income						410,473	410,473
Profit from operations							4,219,917
Finance income	15,623	3,205	57,169	16,524	52,446	187,850	332,817
Finance expense	(426,870)	(70,033)	(74,961)	(7,089)	(1,524)	(97,386)	(677,863)
Share of results of associates	114,145	-	49,733	(6,306)	-	-	157,572
Profit before taxation	617,115	126,770	913,597	394,603	1,462,194	518,164	4,032,443
Taxation							(1,039,970)
Net Profit							2,992,473
Operating assets	22,477,412	2,526,619	55,471,914	8,331,289	4,945,098	(4,692,996)	89,059,336
Investment in associates	457,031	-	315,255	41,741	10,133	-	824,160
Unallocated assets						10,290,272	10,290,272
Total assets	22,934,443	2,526,619	55,787,169	8,373,030	4,955,231	5,597,276	100,173,768
Operating liabilities	13,419,608	1,524,172	47,771,465	4,906,139	1,432,467	(4,839,382)	64,214,469
Unallocated liabilities						5,344,894	5,344,894
Total liabilities	13,419,608	1,524,172	47,771,465	4,906,139	1,432,467	505,512	69,559,363
Other segment items							
Additions to non-current assets [(b)]	598,647	60,114	212,070	48,888	91,732	-	1,011,451
Depreciation	(445,875)	(47,608)	(61,293)	(29,680)	(65,037)	-	(649,493)
Amortisation	(156,976)	(33,055)	(63,528)	(77,958)	(13,706)	-	(345,223)
Impairment	-	-	(72,150)	-	-	-	(72,150)

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22. Segment Information (Continued)

Operating segments (continued)

	2010						
	Food Trading	**Retail & Trading**	**Banking & Investments**	**Insurance**	**Money Services**	**Unallocated/ Elimination**	**Group**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
REVENUE							
External sales	34,466,003	5,721,065	5,984,487	4,790,922	4,355,931	-	55,318,408
Inter-segment sales	169,316	7,922	37,697	317,517	-	(532,452)	-
Total Revenue	34,635,319	5,728,987	6,022,184	5,108,439	4,355,931	(532,452)	55,318,408
Operating results	770,726	197,451	515,023	288,343	1,135,708	86,073	2,993,324
Unallocated income						664,883	664,883
Profit from operations							3,658,207
Finance income	26,277	1,234	68,949	27,702	63,264	209,368	396,794
Finance expense	(434,227)	(95,041)	(92,684)	(7,448)	(3,506)	(269,186)	(902,092)
Share of results of associates	124,983	-	54,022	(71,776)	(490)	-	106,739
Profit before taxation	487,759	103,644	545,310	236,821	1,194,976	691,138	3,259,648
Taxation							(863,392)
Net Profit							2,396,256
Operating assets	21,449,418	2,669,271	54,465,107	8,421,906	4,424,015	(4,325,794)	87,103,923
Investment in associates	427,885	-	265,522	22,286	10,133	-	725,826
Unallocated assets						10,236,387	10,236,387
Total assets	21,877,303	2,669,271	54,730,629	8,444,192	4,434,148	5,910,593	98,066,136
Operating liabilities	13,104,615	1,792,881	48,498,885	4,942,570	1,332,049	(4,558,484)	65,112,516
Unallocated liabilities						5,110,463	5,110,463
Total liabilities	13,104,615	1,792,881	48,498,885	4,942,570	1,332,049	551,979	70,222,979
Other segment items							
Additions to non-current assets [(b)]	756,894	50,812	248,155	68,684	98,281	-	1,222,826
Depreciation	(428,233)	(51,428)	(60,426)	(33,903)	(54,261)	-	(628,251)
Amortisation	(136,826)	(32,618)	(77,360)	(76,544)	(22,027)	-	(345,375)
Impairment	(157,155)	-	(494,169)	-	-	-	(651,324)

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	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**	**2011 $'000**	**2010 $'000**
Total for reportable segments	3,514,279	2,568,510	94,576,492	92,155,543	69,053,851	69,671,000
Inter-segment eliminations	-	-	(4,692,996)	(4,325,794)	(4,839,382)	(4,558,484)
Unallocated amounts:						
Corporate central office results	216,676	418,760	-	-	-	-
Post-employment benefits	375,175	273,391	-	-	-	-
Share-based payments	(73,687)	(1,013)	-	-	-	-
Taxation recoverable	-	-	916,802	1,339,110	-	-
Deferred tax assets	-	-	1,066,226	923,572	-	-
Pension plan asset	-	-	8,307,244	7,973,705	-	-
Taxation	-	-	-	-	268,278	361,824
Deferred tax liabilities	-	-	-	-	2,911,390	2,541,777
Other post-employment obligations	-	-	-	-	2,165,226	2,206,862
Total unallocated	518,164	691,138	10,290,272	10,236,387	5,344,894	5,110,463
Total per financial statements	4,032,443	3,259,648	100,173,768	98,066,136	69,559,363	70,222,979

Geographical information

	Revenue [a]		Non-current assets [b]	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Jamaica	38,879,849	37,396,067	7,517,571	7,347,556
United Kingdom	8,367,655	7,531,002	1,304,765	1,389,640
United States of America	4,048,842	3,678,132	438	539
Canada	3,047,605	2,730,718	26,371	4,811
Other Caribbean countries	3,241,712	3,499,055	761,292	718,044
Other countries	631,069	483,434	-	-
Total	58,216,732	55,318,408	9,610,437	9,460,590

[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.

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23. Revenues

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Sales of products	44,179,479	40,187,068	12,805,047	11,322,627
Sales of services	4,498,941	4,355,931	-	-
Financial services income	5,162,794	5,650,882	-	-
Interest income on investments classified as –				
Available-for-sale securities	2,962,255	2,994,947	-	-
Loans and receivables	-	622,522	-	-
Interest income on loans receivable	1,406,382	1,503,518	-	-
Income on investments at fair value through profit or loss	6,881	3,540	-	-
	58,216,732	55,318,408	12,805,047	11,322,627

24. Expense by Nature

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Auditors' remuneration	117,957	118,133	14,636	14,097
Advertising and marketing	1,572,187	1,573,156	533,343	560,302
Amortisation of intangibles	345,223	345,375	67,433	44,356
Cost of inventory recognised as expense	33,096,564	30,161,097	9,969,794	8,768,749
Depreciation	649,493	628,251	73,158	63,429
Impairment	72,150	651,324	-	-
Insurance	471,270	431,399	74,189	75,611
Interest expense and other financial services expenses	5,048,031	6,542,580	-	-
Legal, professional and other fees	558,669	651,617	417,811	461,568
Occupancy costs - Lease rental charges, utilities, etc.	1,812,259	1,638,371	748,803	749,974
Repairs and maintenance expenditure	420,514	364,378	27,647	21,223
Staff costs (Note 26)	7,048,115	5,817,688	1,077,115	766,770
Transportation	932,203	885,938	194,770	163,384
Other expenses	2,886,188	2,907,350	702,449	617,930
	55,030,823	52,716,657	13,901,148	12,307,393

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25. Other Income

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Dividend income	5,923	6,255	857,402	1,121,935
Net foreign exchange gains	215,650	208,058	68,375	91,222
Gain on disposal of investments	50,238	171,252	10,045	438,604
Gain/(loss) on disposal of fixed assets	10,136	(12,234)	2,119	(1,734)
Fees and commissions	66,388	95,763	1,201,490	1,298,929
Interest income – available-for-sale securities	289,870	348,522	-	-
Rebates, reimbursements and recoveries	312,473	147,384	367,386	416,701
Miscellaneous	83,330	91,456	4,377	4,503
	1,034,008	1,056,456	2,511,194	3,370,160

26. Staff Costs

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Wages and salaries	5,611,955	4,876,194	1,293,029	1,079,998
Pension (Note 14)	(322,056)	(517,192)	(629,506)	(695,825)
Pension contributions to defined contribution scheme (Note 14)	31,323	6,420	4,666	874
Other post-employment benefits (Note 14)	286,372	358,870	113,996	157,521
Share options granted to employees	73,687	1,013	37,978	1,013
Other costs	1,366,834	1,092,383	256,952	223,189
	7,048,115	5,817,688	1,077,115	766,770

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27. Taxation

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

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Current tax	965,100	926,288	-	67,794
Adjustment to prior year provision	(3,989)	(5,005)	(3,199)	(1,813)
Deferred tax (Note 13)	78,859	(57,891)	280,497	115,417
	1,039,970	863,392	277,298	181,398

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	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Profit before tax	4,032,443	3,259,648	1,450,062	2,398,559
Tax calculated at a tax rate of 33⅓%	1,344,148	1,086,549	483,354	799,520
Adjusted for the effects of:				
Different tax rates in other countries	(116,801)	(84,822)	-	-
Income not subject to tax	(179,188)	(328,114)	(321,273)	(615,662)
Expenses not deductible for tax purposes	312,868	343,364	121,314	915
Adjustment to prior year provision	(3,989)	(5,005)	(3,199)	(1,813)
Share of profits of associates included net of tax	(52,524)	(35,580)	-	-
Recognition/utilisation of previously unrecognised tax losses	-	(105,514)	-	-
Recognition of previously unrecognised tax credits	(259,364)	-	-	-
Other	(5,180)	(7,486)	(2,898)	(1,562)
Tax expense	1,039,970	863,392	277,298	181,398

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27. Taxation (Continued)

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

	Group					
	2011			2010		
	Before tax $'000	Tax charge $'000	After tax $'000	Before tax $'000	Tax charge $'000	After tax $'000
Foreign currency translation adjustments	93,008	-	93,008	(186,920)	-	(186,920)
Revaluation surplus	34,900	(35,093)	(193)	101,149	(27,461)	73,688
Fair value gains	354,079	(116,372)	237,707	1,747,148	(458,892)	1,288,256
Share of other comprehensive income of associated companies	-	-	-	21,962	-	21,962
Other comprehensive income	481,987	(151,465)	330,522	1,683,339	(486,353)	1,196,986
Deferred tax (Note 13)		(151,465)			(486,353)	

	Company					
	2011			2010		
	Before tax $'000	Tax (charge) credit $'000	After tax $'000	Before tax $'000	Tax (charge) credit $'000	After tax $'000
Revaluation surplus	-	1,171	1,171	(3,158)	788	(2,370)
Fair value gains	60,725	(20,242)	40,483	349,798	(116,599)	233,199
Other comprehensive income	60,725	(19,071)	41,654	346,640	(115,811)	230,829
Deferred tax (Note 13)		(19,071)			(115,811)	

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28. Net Profit Attributable to the owners of GraceKennedy Limited

Dealt with as follows in the financial statements of:

	2011 $'000	2010 $'000
The company	1,172,764	2,217,161
Intra-group dividends and gain on disposal of subsidiaries within the Group eliminated on consolidation	(857,520)	(1,442,395)
Adjusted company profit	315,244	774,766
The subsidiaries	2,275,997	1,368,671
The associates	157,572	106,739
	2,748,813	2,250,176

29. Dividends

	2011 $'000	2010 $'000
Paid,		
Interim – 55 cents per stock unit (2010: 50 cents)	181,300	164,816
Interim – 45 cents per stock unit (2010: 40 cents)	148,447	131,855
Final – 50 cents per stock unit (2010: 45 cents)	165,127	148,336
	494,874	445,007

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.

	2011	2010
Net profit attributable to owners ($'000)	2,748,813	2,250,176
Weighted average number of stock units outstanding ('000)	329,814	329,633
Basic earnings per stock unit ($)	8.33	6.83

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) 4,271,000 (2010: 3,244,000) ordinary stock units for the full year in respect of the Stock Option Plan for directors (Note 18),
(b) 2,753,000 (2010: Nil) ordinary stock units for the full year in respect of the Stock Option Plan for managers (Note 18), and
(c) 1,279,000 (2010: Nil) ordinary stock units for the full year in respect of the Stock Option Plan for permanent employees (Note 18).

	2011	2010
Net profit attributable to owners ($'000)	2,748,813	2,250,176
Weighted average number of stock units outstanding ('000)	329,814	329,633
Adjustment for share options ('000)	1,565	1,577
	331,379	331,210
Diluted earnings per stock unit ($)	8.30	6.79

31. Cash Flows from Operating Activities

Reconciliation of net profit to cash generated from operating activities:

		Group		Company	
	Note	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Net profit		2,992,473	2,396,256	1,172,764	2,217,161
Items not affecting cash:					
Depreciation	12	649,493	628,251	73,158	63,429
Amortisation	11	345,223	345,375	67,433	44,356
Impairment charge		72,150	651,324	-	-
(Gain)/loss on disposal of fixed assets		(10,136)	12,234	(2,119)	1,734
Gain on disposal of investments [c]		(50,238)	(171,252)	(10,045)	(117,815)
Share options – value of employee services expensed	18	73,687	1,013	37,978	1,013
Exchange loss/(gain) on foreign balances		45,056	(246,683)	10,391	(96,497)
Interest income – non financial services		(332,817)	(396,794)	(362,119)	(408,636)
Interest income – financial services		(4,658,507)	(5,469,509)	-	-
Interest expense – non financial services		677,863	902,092	327,150	395,471
Interest expense – financial services		1,901,678	2,656,317	-	-
Taxation expense	27	1,039,970	863,392	277,298	181,398
Unremitted equity income in associates		(72,572)	(4,607)	-	-
Pension plan surplus		(333,539)	(535,121)	(632,332)	(703,688)
Other post-employment obligations		(41,636)	261,730	(151,357)	93,053
		2,298,148	1,894,018	808,200	1,670,979
Changes in working capital components:					
Inventories		(796,216)	(226,215)	(237,601)	(60,429)
Receivables		(911,845)	200,026	(10,294)	2,666
Loans receivable, net		(1,541,657)	621,108	-	-
Payables		467,466	408,275	(76,587)	119,566
Deposits		584,903	1,418,000	-	-
Securities sold under repurchase agreements		(144,125)	33,140	-	-
Subsidiaries		-	-	557,000	1,494,998
Provisions		(794)	1,051	-	-
Total (used in)/provided by operating activities		(44,120)	4,349,403	1,040,718	3,227,780

31. Cash Flows from Operating Activities (Continued)

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

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Total (used in)/provided by operating activities	(44,120)	4,349,403	1,040,718	3,227,780
Interest received – financial services	4,684,262	6,186,590	-	-
Interest paid – financial services	(1,945,785)	(3,015,629)	-	-
Translation gains	67,564	60,575	-	-
Taxation paid	(632,349)	(1,333,792)	(64,519)	(85,417)
Cash provided by operating activities	2,129,572	6,247,147	976,199	3,142,363

32. Commitments

(a) Future lease payments under operating leases at 31 December 2011 were as follows:

		$'000
In financial year	2012	794,929
	2013	790,568
	2014	744,353
	2015 and beyond	1,546,609

(b) At 31 December 2011, the Group had $24,157,000 (2010: $Nil) in authorised capital expenditure for which it had established contracts.

33. Contingent Liabilities

(a) In 2000, a suit was filed jointly against a subsidiary, GraceKennedy Remittance Services Limited ("GKRS") and a software developer by Paymaster (Jamaica) Limited (Paymaster), a bills payment company. The suit claimed damages arising out of the use by the subsidiary of certain software, to which Paymaster alleged it owned the copyright.

In the judgment handed down by the Supreme Court on 30 April 2010, the court ruled in favour of GKRS and the software developer on all claims. Accordingly, the Court ordered costs to be paid by Paymaster to GKRS and the software developer and an enquiry into any damages suffered by GKRS and the software developer as a result of an injunction obtained by Paymaster in the suit. On 10 June 2010, Paymaster filed an appeal against the decision of the Supreme Court in the Court of Appeal and applied for a stay of execution, pending the appeal. Further to an application made by Paymaster to the Court of Appeal the enquiry into damages resulting from the injunction by the Supreme Court was on 6 May 2011 stayed pending appeal. The recovery of costs was not stayed and GKRS may therefore proceed to pursue the recovery of costs against Paymaster. Management has considered the advice of the company's attorneys and is of the opinion that Paymaster's appeal is unlikely to succeed.

(b) Various companies in the Group are involved in certain legal proceedings incidental to the normal conduct of business. The management of these companies believes that none of these proceedings, individually or in aggregate, will have a material effect on the Group.

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34. Related Party Transactions and Balances

The following transactions were carried out with related parties:

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
(a) Sales of goods and services				
Sales of goods	2,446	4,864	413,346	370,383
Sales of services	37,941	176,391	1,495,071	1,742,013
(b) Purchase of goods and services				
Purchases of goods	1,986,129	1,805,583	4,660,005	4,147,538
Purchases of services	-	-	69,310	75,611
(c) Interest				
Interest income	378	293	78,274	72,818
Interest expense	4,155	11,826	73,905	48,921

(b) 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	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Salaries and other short-term employee benefits	248,874	206,415	191,441	140,813
Fees paid to directors	27,282	23,209	23,828	20,607
Post-employment benefits	56,018	(58,391)	89,283	(51,360)
Share-based payments	17,489	1,013	13,731	1,013
	349,663	172,246	318,283	111,073

The following amounts are in respect of directors' emoluments:

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Fees	27,282	23,209	23,828	20,607
Management remuneration	195,487	150,780	153,688	113,594
Post-employment benefits paid [a]	230,449	-	203,095	-
	453,218	173,989	380,611	134,201

[a] This reflects amounts paid to executive directors who retired during the year and had an average of 32 years of service with the Group. The amounts were earned and accrued as expenses over the years of service.

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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	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Sale of goods and services –				
Sale of goods	916	820	916	820
Sale of services	1,660	1,767	-	-
Interest earned and incurred –				
Interest income	1,244	886	-	-
Interest expense	13,590	13,988	-	-

Transactions with companies controlled by directors and other key management personnel

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Sale of goods and services –				
Sale of goods	458	-	-	-
Sale of services	504	452	-	-
Purchase of goods and services –				
Purchase of goods	797	-	-	-
Purchase of services	7,349	6,377	6,849	6,377

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34. Related Party Transactions and Balances (Continued)

(e) Year-end balances with related parties

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Cash and deposits with subsidiaries	-	-	1,121,047	1,215,222
Investment securities with subsidiaries	-	-	175,248	20,599
Receivable from subsidiaries	-	-	1,149,813	1,706,813
Receivable from associates (Note 7)	10,783	11,056	8,369	9,470
Loans receivable from subsidiaries (Note 9)	-	-	749,094	774,607
Loans receivable from associates (Note 9)	10,357	-	-	-
Payable to associates (Note 16)	171,548	193,294	66,315	156,479
Loans & leases payable to subsidiaries	-	-	503,791	415,519
Deposits payable to associates	35,555	214,716	-	-

Loans receivable from associated companies are repayable in 2012 and bear interest at 7.00%. Loans receivable from subsidiaries are repayable in 2016 and bear interest at Nil% (2010: 0% - 3%). No provision was required in 2011 and 2010 for loans made to associated companies and subsidiaries.

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

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

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Receivables	236	212	236	212
Loans receivable	17,648	3,966	-	-
Deposits payable	86,143	91,582	-	-
Securities sold under agreements to repurchase	486,561	216,599	-	-

The loans receivable attract interest at rates ranging between 7.50% - 17.25% (2010: 10.00% - 23.55%) and are repayable in the years 2012 - 2017. These loans are secured and are made on terms similar to those offered to other employees. No provision has been required in 2011 and 2010 for the loans made to directors and senior managers.

Balances with companies controlled by directors and other key management personnel

	Group		Company	
	2011 $'000	**2010 $'000**	**2011 $'000**	**2010 $'000**
Receivables	25	-	-	-
Payables	125	-	125	-

(g) 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 4,271,000 (2010: 3,244,000).

35. Fair Values of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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 2011			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Available-for-sale securities:				
Quoted equities	214,565	-	-	214,565
Government of Jamaica securities	-	38,644,552	-	38,644,552
Corporate bonds	2,479	1,794,541	115,797	1,912,817
Other debt securities	-	30,535	-	30,535
Other	-	172,928	-	172,928
Financial assets at fair value through profit or loss:				
Derivative financial instruments	-	17,989	-	17,989
Quoted equities	25,544	-	-	25,544
	242,588	40,660,545	115,797	41,018,930

	Group 2010			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Available-for-sale securities:				
Quoted equities	191,021	-	-	191,021
Government of Jamaica securities	-	36,907,650	-	36,907,650
Corporate bonds	-	2,473,643	877,858	3,351,501
Other debt securities	-	385,556	-	385,556
Other	-	194,846	-	194,846
Financial assets at fair value through profit or loss:				
Quoted equities	18,662	-	-	18,662
	209,683	39,961,695	877,858	41,049,236

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(expressed in Jamaican dollars unless otherwise indicated)

35. Fair Values of Financial Instruments (Continued)

	Company			
	2011			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Available-for-sale securities:				
Quoted equities	64,755	-	-	64,755
Government of Jamaica securities	-	2,967,675	-	2,967,675
Other debt securities		175,248	-	175,248
Other	-	335	-	335
	64,755	3,143,258	-	3,208,013

	Company			
	2010			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Available-for-sale securities:				
Quoted equities	64,777	-	-	64,777
Government of Jamaica securities	-	3,284,668	-	3,284,668
Other debt securities	-	20,599	-	20,599
Other	-	335	-	335
	64,777	3,305,602	-	3,370,379

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 JSE equity investments 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

35. Fair Values of 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	
	2011 $'000	2010 $'000
At beginning of year	877,858	1,114,494
Foreign exchange gains/(losses) recognised in the income statement	1,150	(38,220)
Gains and losses recognised in other comprehensive income	24,459	1,975
Disposals	(787,670)	(200,391)
At end of year	115,797	877,858

There were no transfers between the levels during the year.

36. Derivative Financial Instruments

Derivatives are carried at fair value in the statement of financial position as either assets or liabilities. Asset values represent the cost to the Group of replacing all transactions with a fair value in the Group's favour assuming that all relevant counterparties default at the same time, and that transactions can be replaced instantaneously. Liability values represent the cost to the Group's counterparties of replacing all their transactions with the Group with a fair value in their favour if the Group was to default. The fair values are set out below:

	Group			
	2011		2010	
	Assets $'000	Liabilities $'000	Assets $'000	Liabilities $'000
Forward foreign exchange contracts	17,989	-	-	11,280
Interest rate swap agreement	-	35,538	-	-
Total	17,989	35,538	-	11,280

Forward foreign exchange contracts represent commitments to buy and sell foreign currencies on a net basis at future dates at specified prices. The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2011 were $656,345,000 (2010: $814,548,000).

The interest rate swap agreement involved bank borrowings on which a LIBOR based floating rate was exchanged for a fixed rate of 5.75%. The notional principal amount of the outstanding interest rate swap at 31 December 2011 was $297,152,000 (2010: $Nil).

37. Custodial Services

One of the Group's investment subsidiaries provides custody and brokerage services to certain third parties. Assets that are held in a custodial capacity are not included in these financial statements. At the statement of financial position date, the subsidiary had investment custody accounts amounting to approximately $9,384,610,000 (2010: $7,976,484,000). Fees earned in relation to custodial services were $11,537,000 (2010: $4,682,000).

38. Fiduciary Activities

One of the Group's investment subsidiaries provides pension administration and management services. At the statement of financial position date, the subsidiary had pension assets held under management amounting to approximately $27,607,130,000 (2010: $24,282,865,000). Fees earned in relation to fiduciary activities were $150,921,000 (2010: $136,133,000).