



GRACEKENNEDY LIMITED

Financial Statements
31 December 2012

GraceKennedy Limited

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Independent Auditors' Report

To the Members of
GraceKennedy Limited

Report on the Consolidated and Company Stand Alone Financial Statements

We have audited the accompanying consolidated financial statements of GraceKennedy Limited and its subsidiaries, set out on pages 1 to 97, which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the accompanying financial statements of GraceKennedy Limited standing alone, which comprise the statement of financial position as at 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated and Company Stand Alone Financial Statements

Management is responsible for the preparation of consolidated and company stand alone financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of consolidated and company stand alone financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated and company stand alone 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 about whether the consolidated and company stand alone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and company stand alone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and company stand alone financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated and company stand alone financial statements that give a true and fair view 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 consolidated and company stand alone financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica
T: (876) 922 6230, F: (876) 922 7581, www.pwc.com/jm



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Opinion

In our opinion, the consolidated financial statements of GraceKennedy Limited and its subsidiaries, and the financial statements of GraceKennedy Limited standing alone give a true and fair view of the financial position of GraceKennedy Limited and its subsidiaries and the GraceKennedy Limited standing alone as at 31 December 2012, and of their financial performance and cash flows for the year then ended, so far as concerns the members of GraceKennedy Limited, 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 consolidated and company stand alone financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

FreewaterhouseCoopers

Chartered Accountants
28 February 2013
Kingston, Jamaica

GraceKennedy Limited

Consolidated Statement of Financial Position

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
Assets			
Cash and deposits	5	10,989,655	12,326,328
Investment securities	6	45,740,403	41,018,930
Receivables	7	8,507,124	8,492,584
Inventories	8	6,569,375	6,524,177
Loans receivable	9	13,881,176	11,911,040
Taxation recoverable		911,888	916,802
Investments in associates	10	905,593	824,160
Intangible assets	11	2,106,404	1,893,029
Fixed assets	12	7,250,809	6,893,248
Deferred tax assets	13	1,044,050	1,066,226
Pension plan asset	14	8,470,413	8,307,244
Total Assets		106,376,890	100,173,768
Liabilities			
Deposits		15,768,039	13,693,757
Securities sold under agreements to repurchase		27,711,820	26,451,721
Bank and other loans	15	10,338,328	11,808,923
Payables	16	13,510,563	12,252,825
Taxation		300,557	268,278
Provisions	17	6,839	7,243
Deferred tax liabilities	13	2,182,574	2,911,390
Other post-employment obligations	14	2,448,079	2,165,226
Total Liabilities		72,266,799	69,559,363
Equity			
Capital and reserves attributable to the company's owners			
Share capital	18	808,079	593,968
Capital and fair value reserves	19	4,695,304	4,794,309
Retained earnings		22,789,883	19,911,616
Banking reserves	20	2,000,704	1,942,967
Other reserves		2,483,781	2,095,036
		32,777,751	29,337,896
Non - Controlling interests	21	1,332,340	1,276,509
Total Equity		34,110,091	30,614,405
Total Equity and Liabilities		106,376,890	100,173,768

Approved for issue by the Board of Directors on 28 February 2013 and signed on its behalf by:

Douglas Orane

Chairman

Don Wehby

Group Chief Executive Officer

GraceKennedy Limited

Consolidated Income Statement

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
Revenues	23	61,340,268	58,216,732
Expenses	24	58,205,777	55,030,823
		3,134,491	3,185,909
Other income	25	1,035,734	1,034,008
Profit from Operations		4,170,225	4,219,917
Interest income – non-financial services		349,613	332,817
Interest expense – non-financial services		(618,439)	(677,863)
Share of results of associated companies	10	176,210	157,572
Profit before Taxation		4,077,609	4,032,443
Taxation	27	(248,468)	(1,039,970)
NET PROFIT		3,829,141	2,992,473
Attributable to:			
Owners of GraceKennedy Limited	28	3,512,590	2,748,813
Non-Controlling interests	21	316,551	243,660
		3,829,141	2,992,473
Earnings per Stock Unit for profit attributable to the owners of the company during the year:	30		
Basic		\$10.52	\$8.33
Diluted		\$10.51	\$8.30

GraceKennedy Limited

Consolidated Statement of Comprehensive Income Year ended 31 December 2012 (expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
Profit for the year		3,829,141	2,992,473
Other comprehensive income:			
Foreign currency translation adjustments		399,775	93,008
Revaluation surplus/(deficit)		351,914	(193)
Fair value (losses)/gains		(346,111)	237,707
Share of other comprehensive income of associated companies		22,464	-
Other comprehensive income for the year, net of tax		428,042	330,522
Total comprehensive income for the year		4,257,183	3,322,995
Attributable to:			
Owners of GraceKennedy Limited		3,923,433	3,078,394
Non - Controlling interests	21	333,750	244,601
		4,257,183	3,322,995

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 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Attributable to owners of the parent					Non-Controlling Interest	Total Equity
		Number of Stock Units '000	Share Capital \$'000	Capital and Fair Value Reserves \$'000	Retained Earnings \$'000	Banking Reserves \$'000	Other Reserves \$'000	\$'000
Balance at 1 January 2011		329,636	574,216	4,443,059	17,459,342	2,222,315	1,998,873	27,843,157
Total comprehensive income for 2011		-	-	237,514	2,748,813	-	92,067	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	-	-	73,687
Transfer of non-controlling interests		-	-	-	(37,404)	-	4,096	-
Dividends paid by subsidiary to non-controlling interests	21	-	-	-	-	-	-	(150,312)
Dividends paid	29	-	-	-	(494,874)	-	-	(494,874)
Total transactions with owners		619	19,752	-	(462,151)	-	4,096	(551,747)
Transfers between reserves:								
To capital reserves		-	-	113,736	(113,736)	-	-	-
To 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	30,614,405
Balance at 1 January 2012		330,255	593,968	4,794,309	19,911,616	1,942,967	2,095,036	30,614,405
Total comprehensive income for 2012		-	-	22,098	3,512,590	-	388,745	4,257,183
Transactions with owners								
Issue of shares	18 (a)	2,989	86,173	-	-	-	-	86,173
Issue of treasury shares	18 (b)	1,677	133,910	(53,505)	-	-	-	80,405
Purchase of treasury shares	18 (b)	(120)	(5,972)	-	-	-	-	(5,972)
Employee share option scheme:								
Value of services received	18 (h)	-	-	-	22,217	-	-	22,828
Transfer of non-controlling interests		-	-	-	(464)	-	-	(49,575)
Dividends paid by subsidiary to non-controlling interests	21	-	-	-	-	-	-	(229,419)
Dividends paid	29	-	-	-	(665,937)	-	-	(665,937)
Total transactions with owners		4,546	214,111	(53,505)	(644,184)	-	-	(761,497)
Transfers between reserves:								
From capital reserves		-	-	(67,598)	67,598	-	-	-
To banking reserves		-	-	-	(57,737)	57,737	-	-
Balance at 31 December 2012		334,801	808,079	4,695,304	22,789,883	2,000,704	2,483,781	34,110,091

GraceKennedy Limited

Consolidated Statement of Cash Flows

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
SOURCES/(USES) OF CASH:			
Operating Activities	31	6,595,689	2,129,572
Financing Activities			
Loans received		4,018,156	9,284,857
Loans repaid		(5,871,887)	(10,838,214)
Dividends paid by subsidiary to non-controlling interests	21	(229,419)	(150,312)
Purchase of treasury shares	18	(5,972)	-
Sale of treasury shares	18	80,405	-
Issue of shares	18	86,173	19,752
Interest paid – non financial services		(572,602)	(798,388)
Dividends	29	(665,937)	(494,874)
		(3,161,083)	(2,977,179)
Investing Activities			
Additions to fixed assets ^(a)	12	(792,664)	(810,686)
Proceeds from disposal of fixed assets		65,771	32,228
Additions to investments		(7,336,141)	(3,657,992)
Cash outflow on purchase of non-controlling interest in subsidiary		(49,575)	-
Proceeds from sale of investments		3,028,203	4,149,060
Additions to intangibles	11	(228,701)	(178,613)
Interest received – non financial services		349,613	332,817
		(4,963,494)	(133,186)
Decrease in cash and cash equivalents		(1,528,888)	(980,793)
Cash and cash equivalents at beginning of year		10,958,017	11,918,047
Exchange and translation gains/(losses) on net foreign cash balances		145,919	20,763
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	9,575,048	10,958,017

The principal non-cash transactions include:

^(a) Acquisition of fixed assets under finance lease of \$2,321,000 (2011: \$22,152,000), (Note 12).

GraceKennedy Limited


Company Statement of Financial Position

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
Assets			
Cash and deposits	5	1,885,346	2,084,739
Investment securities	6	4,346,337	3,208,013
Receivables	7	1,055,558	935,756
Inventories	8	1,430,444	1,417,852
Loans receivable	9	1,177,452	749,094
Subsidiaries	34	-	1,149,813
Taxation recoverable		200,602	182,855
Investments in associates	10	185,173	185,173
Investments in subsidiaries		10,681,089	10,597,705
Intangible assets	11	99,236	84,250
Fixed assets	12	238,539	245,851
Pension plan asset	14	8,377,640	8,148,310
Total Assets		29,677,416	28,989,411
Liabilities			
Bank and other loans	15	2,786,394	4,038,856
Payables	16	1,365,023	1,446,052
Subsidiaries	34	527,416	-
Provisions	17	6,221	6,221
Deferred tax liabilities	13	1,958,046	2,591,547
Other post-employment obligations	14	854,747	751,169
Total Liabilities		7,497,847	8,833,845
Equity			
Share capital	18	808,079	593,968
Capital and fair value reserves	19	306,292	373,242
Retained earnings		21,065,198	19,188,356
Total Equity		22,179,569	20,155,566
Total Equity and Liabilities		29,677,416	28,989,411

Approved for issue by the Board of Directors on 28 February 2013 and signed on its behalf by:



 Douglas Orane Chairman



 Don Wehby Group Chief Executive Officer

GraceKennedy Limited

Company Income Statement

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
Turnover	23	13,249,138	12,805,047
Cost of goods sold	24	(10,234,700)	(9,969,794)
Gross Profit		3,014,438	2,835,253
Other income	25	3,450,279	2,511,194
Administration expenses	24	(4,599,941)	(3,931,354)
Profit from Operations		1,864,776	1,415,093
Interest income		412,061	362,119
Interest expense		(292,044)	(327,150)
Profit before Taxation		1,984,793	1,450,062
Taxation	27	541,312	(277,298)
NET PROFIT	28	2,526,105	1,172,764

GraceKennedy Limited

Company Statement of Comprehensive Income

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	2012 \$'000	2011 \$'000
Profit for the year	2,526,105	1,172,764
Other comprehensive income:		
Revaluation gain	8,600	1,171
Fair value (losses)/gains	(22,045)	40,483
Other comprehensive income for the year, net of tax	(13,445)	41,654
Total comprehensive income for the year	2,512,660	1,214,418

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 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Number of Stock Units '000	Share Capital \$'000	Capital and Fair Value Reserves \$'000	Retained Earnings \$'000	Total \$'000
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		-	-	-	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
Balance at 1 January 2012		330,255	593,968	373,242	19,188,356	20,155,566
Total comprehensive income for 2012		-	-	(13,445)	2,526,105	2,512,660
Transactions with owners						
Issue of shares	18 (a)	2,989	86,173	-	-	86,173
Issue of treasury shares	18 (b)	1,677	133,910	(53,505)	-	80,405
Purchase of treasury shares	18 (b)	(120)	(5,972)	-	-	(5,972)
Employee share option scheme:						
Value of services received		-	-	-	16,674	16,674
Dividends paid	29	-	-	-	(665,937)	(665,937)
Total transactions with owners		4,546	214,111	(53,505)	(649,263)	(488,657)
Balance at 31 December 2012		334,801	808,079	306,292	21,065,198	22,179,569

GraceKennedy Limited

Company Statement of Cash Flows

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
SOURCES/(USES) OF CASH:			
Operating Activities	31	3,200,273	976,199
Financing Activities			
Loans received		478,935	2,965,411
Loans repaid		(1,814,248)	(2,751,007)
Purchase of treasury shares	18	(5,972)	-
Sale of treasury shares	18	80,405	-
Issue of shares	18	86,173	19,752
Interest paid		(293,537)	(325,661)
Dividends	29	(665,937)	(494,874)
		(2,134,181)	(586,379)
Investing Activities			
Additions to fixed assets ^(a)	12	(49,535)	(110,634)
Proceeds from disposal of fixed assets		5,352	4,190
Additions to investments		(1,194,181)	-
Loans receivable, net		(428,358)	25,912
Proceeds from sale of investments		228,088	137,508
Investment in subsidiary		(83,574)	(105,500)
Proceeds from disposal of subsidiary		8,872	16,401
Additions to intangibles	11	(77,919)	(113,281)
Interest received		318,314	459,742
		(1,272,941)	314,338
(Decrease)/Increase in cash and cash equivalents		(206,849)	704,158
Cash and cash equivalents at beginning of year		1,699,294	988,972
Exchange and translation gains on net foreign cash balances		58,718	6,164
CASH AND CASH EQUIVALENTS AT END OF YEAR	5	1,551,163	1,699,294

The principal non-cash transactions include:

^(a) Acquisition of fixed assets under finance lease of \$11,496,000 (2011: \$23,572,000), (Note 12).

GraceKennedy Limited

Notes to the Financial Statements

31 December 2012

(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 2011 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, home improvement 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), and have been prepared under the historical cost convention as modified by the revaluation of certain fixed and financial assets 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 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.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning after 1 January 2012 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 2015). 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 2015, 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) The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes control as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. 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.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (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 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 2012) (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 2012) (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.

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

GraceKennedy Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

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 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

GraceKennedy Limited

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(expressed in Jamaican dollars unless otherwise indicated)

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:

First Global Insurance Brokers Limited, Turks and Caicos Islands
 Grace Foods Limited, St. Lucia
 GraceKennedy (Belize) Limited, Belize
 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
 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 subsidiaries –
 Graken Holdings Limited, Turks and Caicos Islands
 GraceKennedy Remittance Services (Turks and Caicos) Limited, Turks and Caicos Islands
 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 (Trinidad & Tobago) Limited, Trinidad and Tobago
 Grace, Kennedy Remittance Services (Trinidad & Tobago) Limited, Trinidad and Tobago
 Knutsford Re, Turks and Caicos Islands

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

The Group liquidated First Global Insurance Consultants Limited, FG Funds Management (Cayman) Limited, GraceKennedy Remittance Services (USA) Inc., GraceKennedy Money Services (UK) Limited and WT Foods 100 Limited as well as merged First Global Trinidad & Tobago Limited into GraceKennedy (Trinidad & Tobago) Limited during 2012.

GraceKennedy Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

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.

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

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	
			2012	2011
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.

(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

Notes to the Financial Statements

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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.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2012

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2. Significant Accounting Policies (Continued)

(f) Fixed assets (continued)

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

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

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

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

(g) Intangible assets

Goodwill

Goodwill is recorded at cost and represents the excess of the value of consideration paid over the 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.

GraceKennedy Limited

Notes to the Financial Statements

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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.

GraceKennedy Limited

Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

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 non-financial assets

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

(l) Income taxes

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

Current tax charges are based on taxable profit for the year, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The Group's liability for current tax is calculated at tax rates that have been enacted or substantively enacted at statement of financial position date.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

2. Significant Accounting Policies (Continued)

(l) Income taxes (continued)

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

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

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.

GraceKennedy Limited

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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) Payable

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.

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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.

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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 or applicable sales 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.

(i) Sales of goods – wholesale

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

(ii) 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.

(iii) Sales of services

The Group sells insurance and financial services to the general public. These services are provided on a time and fixed-price contract, with contract terms generally ranging from less than one year to three years. Revenue is generally recognised at the contractual rates. Revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed. If circumstances arise that may change the original estimates of revenues, costs or extent of progress toward completion, estimates are revised. These revisions may result in increases or decreases in estimated revenues or costs and are reflected in income in the period in which the circumstances that give rise to the revision become known by management. Fees and commission income are generally recognised on an accrual basis when the service has been provided. Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective interest on the loan.

Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled.

(iv) Interest income

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

(v) Dividend income

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

(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.

The disclosures provided in this note are based on the Group's investment portfolio as at 31 December 2012. As described in Note 39, the Group participated in the National Debt Exchange (NDX) which resulted in significant changes to the Group's investment portfolio in February 2013.

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3. Insurance and Financial Risk Management (Continued)

(a) Insurance risk

The Group issues contracts that transfer insurance risk. This section summarises the risk and the way it is managed by the Group.

Insurance risk for the Group attributable to policies sold by its general insurance underwriting 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:

	2012		2011	
	Policy Limit \$'000	Maximum Net Retention \$'000	Policy Limit \$'000	Maximum Net Retention \$'000
Commercial property:				
Fire and consequential loss	440,451	2,669	425,156	2,577
Boiler and machinery	200,205	3,754	193,253	3,623
Engineering	266,940	5,005	257,670	4,831
Burglary, money and goods in transit	11,123	5,561	10,736	5,368
Glass and other	4,295	2,147	4,295	2,147
Liability	266,940	17,796	244,787	12,884
Marine, aviation and transport	22,500	1,125	22,500	2,625
Motor	7,500	7,500	5,000	5,000
Pecuniary loss:				
Fidelity	11,123	5,368	10,736	5,368
Surety/Bonds	50,000	10,000	50,000	10,000
Personal accident	20,000	10,000	19,325	9,663
Personal property	440,451	2,669	425,156	2,577

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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 2008 - 2012 has changed at successive year-ends, up to 2012. 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.

		2008		2009		2010		2011		2012
		and		and		and		and		and
		2008	2009	2009	2010	2010	2011	2011	2012	2012
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2008	Paid during year	624,150	1,024,530							
	UCAE, end of year	450,997	1,126,087							
	IBNR, end of year	35,203	57,087							
	Ratio: excess (deficiency)									
2009	Paid during year	282,651	499,068	584,808	1,083,876					
	UCAE, end of year	298,876	746,310	519,811	1,266,121					
	IBNR, end of year	4,367	4,867	50,684	55,551					
	Ratio: excess (deficiency)	(20.50%)	(5.67%)							
2010	Paid during year	73,157	231,265	236,570	467,835	559,018	1,026,853			
	UCAE, end of year	238,919	566,103	307,036	873,139	509,260	1,382,399			
	IBNR, end of year	-	-	-	-	63,254	63,254			
	Ratio: excess (deficiency)	(22.32%)	(9.57%)	(4.71%)	(1.46%)					
2011	Paid during year	47,864	136,872	100,905	237,777	265,315	503,092	558,955	1,062,047	
	UCAE, end of year	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)	(12.43%)	1.74%	3.29%	8.06%	0.75%	9.00%			
2012	Paid during year	32,560	83,820	50,693	134,513	77,639	212,152	302,781	514,933	523,567
	UCAE, end of year	127,451	247,207	161,614	408,821	257,595	666,416	428,924	1,095,340	650,431
	IBNR, end of year	-	-	-	-	-	-	4,023	4,023	78,759
	Ratio: excess (deficiency)	(15.94%)	(1.27%)	3.63%	5.50%	(4.90%)	4.43%	(3.87%)	(6.15%)	

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3. Insurance and Financial Risk Management (Continued)

(b) Reinsurance risk

To limit its exposure to potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. The Group selects reinsurers which have established capability to meet their contractual obligations and which generally have high credit ratings. The credit ratings of reinsurers are monitored.

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programmes used by the Group are summarised below:

- The retention limit or maximum exposure on insurance policies under the reinsurance treaties range between \$1,125,000 and \$17,796,000.
- The Group utilises reinsurance treaties to reduce its net retained risk. The risk is spread over several reinsurers all of whom are AM Best or S&P rated at A or better.
- Excess of Loss reinsurance is also purchased to cover the retained risk in the event of a catastrophe as well as for large motor losses.
- The amount of reinsurance recoveries recognised during the period is as follows:

	Group	
	2012	2011
	\$'000	\$'000
Property	211,972	357,261
Motor	6,089	3,967
Marine	36,973	5,811
Liability	11,192	(5,326)
Pecuniary loss	2,407	13,559
Accident	(261)	3,658
	268,372	378,930

(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 currency risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Credit risk

The Group takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the Group by failing to discharge their contractual obligations. Credit exposures arise principally from the Group's receivables from customers, principals, agents, the amounts due from reinsurers, amounts due from insurance contract holders and insurance brokers, 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.

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Credit review process

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

(a) Trade and other receivables

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

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

The Group 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.

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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

	2012		2011	
	Loans, Leases, Premium and Trade Receivables \$'000	Impairment Provision \$'000	Loans, Leases, Premium and Trade Receivables \$'000	Impairment Provision \$'000
Low risk	44,957	-	938,095	-
Standard risk	21,218,056	-	18,456,611	-
Sub-Standard	1,057,547	549,361	984,741	554,276
	22,320,560	549,361	20,379,447	554,276

Company's rating

	2012		2011	
	Loans and Trade Receivables \$'000	Impairment Provision \$'000	Loans and Trade Receivables \$'000	Impairment Provision \$'000
Low risk	-	-	-	-
Standard risk	2,091,114	-	1,552,694	-
Sub-Standard	156,394	115,756	150,494	108,383
	2,247,508	115,756	1,703,188	108,383

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

	Maximum Exposure			
	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Credit risk exposures relating to on-statement of financial position assets are as follows:				
Cash at bank	6,018,899	4,485,790	343,833	321,677
Deposits	4,970,756	7,840,538	1,541,513	1,763,062
Investment securities	45,578,265	40,778,821	4,302,124	3,142,923
Trade and other receivables	7,890,023	7,914,131	954,300	845,711
Loans, net of provision for credit losses	13,615,367	11,630,147	73,515	-
Lease receivables	265,809	280,893	-	-
	78,339,119	72,930,320	7,215,285	6,073,373

The above table represents a worst case scenario of credit risk exposure to the Group and company at 31 December 2012 and 2011, 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.

GraceKennedy Limited

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(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Loans and leases, premium and trade receivables

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

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Neither past due nor impaired -				
Low risk	44,957	938,095	-	-
Standard risk	18,485,104	16,280,949	1,977,353	1,438,295
	18,530,061	17,219,044	1,977,353	1,438,295
Past due but not impaired	2,732,952	2,175,662	113,761	114,399
Impaired	1,057,547	984,741	156,394	150,494
Gross	22,320,560	20,379,447	2,247,508	1,703,188
Less: provision for credit losses	(549,361)	(554,276)	(115,756)	(108,383)
Net	21,771,199	19,825,171	2,131,752	1,594,805

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 2012, loans and leases, premium and trade receivables of \$2,732,952,000 (2011: \$2,175,662,000) and \$113,761,000 (2011: \$114,399,000) 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Less than 1 month	1,792,737	1,379,537	-	-
Within 1 to 3 months	598,699	472,976	106,052	98,896
Over 3 months	341,516	323,149	7,709	15,503
	2,732,952	2,175,662	113,761	114,399

As of 31 December 2012, loans and leases, premium and trade receivables of \$1,057,547,000 (2011: \$984,741,000) and \$156,394,000 (2011: \$150,494,000) for the Group and company respectively were impaired. The amount of the provision was \$549,361,000 (2011: \$554,276,000) and \$115,756,000 (2011: \$108,383,000) 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	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
3 to 6 months	196,576	122,612	-	-
Over 6 months	419,089	458,443	-	-
	615,665	581,055	-	-

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

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
At 1 January	145,722	115,346	-	-
Provision for receivables impairment	40,358	61,722	-	-
Receivables written off during the year as uncollectible	(18,148)	(28,771)	-	-
Unused amounts reversed	(16,517)	(2,575)	-	-
At 31 December	151,415	145,722	-	-

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

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
3 to 6 months	54,228	52,493	33,960	38,727
Over 6 months	387,654	351,193	122,434	111,767
	441,882	403,686	156,394	150,494

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

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
At 1 January	408,554	431,013	108,383	101,767
Provision for receivables impairment	137,675	271,743	29,303	26,781
Receivables written off during the year as uncollectible	(123,613)	(226,476)	(13,262)	(10,422)
Unused amounts reversed	(24,670)	(67,726)	(8,668)	(9,743)
At 31 December	397,946	408,554	115,756	108,383

GraceKennedy Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

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	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
3 to 6 months	250,804	175,105	33,960	38,727
Over 6 months	806,743	809,636	122,434	111,767
	1,057,547	984,741	156,394	150,494

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

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
At 1 January	554,276	546,359	108,383	101,767
Provision for receivables impairment	178,033	333,465	29,303	26,781
Receivables written off during the year as uncollectible	(141,761)	(255,247)	(13,262)	(10,422)
Unused amounts reversed	(41,187)	(70,301)	(8,668)	(9,743)
At 31 December	549,361	554,276	115,756	108,383

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.

GraceKennedy Limited

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31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(i) Credit risk (continued)

Loans and Leases, Premium and Trade receivables

The following table summarises the Group's and company's credit exposure for loans and leases, premium and trade receivables at their carrying amounts, as categorised by the customer sector:

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Public sector	138,144	358,511	-	-
Professional and other services	1,741,135	1,592,939	-	-
Personal	3,822,138	4,527,860	73,515	-
Agriculture, fishing and mining	368,870	125,662	-	-
Construction and real estate	2,037,348	645,729	-	-
Distribution	2,804,513	1,816,444	749,094	749,094
Manufacturing	925,000	877,965	276	1,150
Transportation	2,008,454	1,789,453	-	-
Tourism and entertainment	677,959	1,649,394	192,836	218,492
Financial and other money services	1,316,351	963,426	354,843	-
Brokers and agents	1,127,161	929,590	-	-
Reinsurers and coinsurers	1,216,100	1,197,905	-	-
Supermarket chains	853,377	804,511	310,793	257,207
Wholesalers	837,525	550,904	165,200	131,533
Retail and direct customers	1,366,992	1,269,493	285,948	231,511
Other	987,979	1,214,938	115,003	114,201
	22,229,046	20,314,724	2,247,508	1,703,188
Less: Provision for credit losses	(549,361)	(554,276)	(115,756)	(108,383)
	21,679,685	19,760,448	2,131,752	1,594,805
Interest receivable	91,514	64,723	-	-
	21,771,199	19,825,171	2,131,752	1,594,805

GraceKennedy Limited

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(expressed in Jamaican dollars unless otherwise indicated)

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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Loans and leases	615,665	581,055	-	-
Trade and other receivables	441,882	403,686	156,394	150,494

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

Reposessed 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Government of Jamaica:				
Available-for-sale securities	39,358,537	38,644,552	3,150,907	2,967,675
Corporate:				
Available-for-sale securities	5,358,433	1,910,338	552,899	-
Other (Note 6)	837,095	30,535	598,318	175,248
	45,554,065	40,585,425	4,302,124	3,142,923

GraceKennedy Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

Liquidity risk management process

The Group's liquidity management process, as carried out within the Group through the ALCOs and treasury departments, includes:

- (i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required.
- (ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- (iii) Maintaining committed lines of credit;
- (iv) Optimising cash returns on investment;
- (v) Monitoring statement of financial position liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities;
- (vi) Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities are fundamental to the management of the Group. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

GraceKennedy Limited

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31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial liabilities cash flows

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

	Group				
	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
As at 31 December 2012:					
Deposits	13,056,727	2,820,155	-	-	15,876,882
Securities sold under agreements to repurchase	23,030,280	4,933,005	-	-	27,963,285
Bank and other loans	3,333,218	3,320,263	3,297,389	1,077,009	11,027,879
Trade and other payables	13,510,563	-	-	-	13,510,563
Total financial liabilities (contractual dates)	52,930,788	11,073,423	3,297,389	1,077,009	68,378,609

	Group				
	1 to 3 Months	3 to 12 Months	1 to 5 Years	Over 5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'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

GraceKennedy Limited

Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Financial liabilities cash flows (continued)

	Company			
	1 to 3 Months	3 to 12 Months	1 to 5 Years	Total
	\$'000	\$'000	\$'000	\$'000
As at 31 December 2012:				
Bank and other loans	1,240,769	1,391,609	224,477	2,856,855
Trade and other payables	1,365,023	-	-	1,365,023
Subsidiaries	527,416	-	-	527,416
Total financial liabilities (contractual dates)	3,133,208	1,391,609	224,477	4,749,294

	Company			
	1 to 3 Months	3 to 12 Months	1 to 5 Years	Total
	\$'000	\$'000	\$'000	\$'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

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	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Floating rate –				
Expiring within one year	6,570,541	5,015,597	4,313,796	2,916,186
Expiring beyond one year	743,356	863,680	740,510	863,680

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.

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3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(ii) Liquidity risk (continued)

Off-statement of financial position items

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

	Group			
	No later than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
At 31 December 2012				
Loan commitments	2,887,375	-	-	2,887,375
Operating lease commitments	922,034	2,713,977	759,813	4,395,824
	3,809,409	2,713,977	759,813	7,283,199
At 31 December 2011				
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

(iii) Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the research and treasury departments which carry out extensive research and monitor the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the Canadian dollar, UK pound and the Euro.

Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group manages its foreign exchange risk by ensuring that the net exposure in foreign assets and liabilities is kept to an acceptable level by monitoring currency positions. The Group further manages this risk by maximising foreign currency earnings and holding foreign currency balances.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

GraceKennedy Limited

Notes to the Financial Statements

31 December 2012

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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 2012:							
Financial Assets							
Cash and deposits	6,063,689	4,017,049	335,247	117,533	68,350	387,787	10,989,655
Investment securities	18,453,330	26,336,210	76,376	-	597,020	277,467	45,740,403
Trade and other receivables	4,287,296	1,876,688	1,202,049	294,600	21,524	207,866	7,890,023
Loans receivable	10,007,154	3,874,022	-	-	-	-	13,881,176
Total financial assets	38,811,469	36,103,969	1,613,672	412,133	686,894	873,120	78,501,257
Financial Liabilities							
Deposits	6,945,725	8,413,349	237,066	112,984	58,915	-	15,768,039
Securities sold under agreements to repurchase	10,566,668	16,560,509	-	-	465,758	118,885	27,711,820
Bank and other loans	5,484,090	3,683,827	823,072	202,212	134,781	10,346	10,338,328
Trade and other payables	9,243,940	2,159,549	1,526,290	270,760	58,160	251,864	13,510,563
Total financial liabilities	32,240,423	30,817,234	2,586,428	585,956	717,614	381,095	67,328,750
Net financial position	6,571,046	5,286,735	(972,756)	(173,823)	(30,720)	492,025	11,172,507
	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	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

GraceKennedy Limited

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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 2012:					
Financial Assets					
Cash and deposits	752,066	1,130,633	-	2,647	1,885,346
Investment securities	1,958,590	2,331,390	-	56,357	4,346,337
Trade and other receivables	954,300	-	-	-	954,300
Loans receivable	822,609	354,843	-	-	1,177,452
Total financial assets	4,487,565	3,816,866	-	59,004	8,363,435
Financial Liabilities					
Bank and other loans	1,438,203	1,348,191	-	-	2,786,394
Trade and other payables	944,582	420,441	-	-	1,365,023
Subsidiaries	147,700	379,716	-	-	527,416
Total financial liabilities	2,530,485	2,148,348	-	-	4,678,833
Net financial position	1,957,080	1,668,518	-	59,004	3,684,602

	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

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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 10% increase (2011: 1%) and a 1% decrease (2011: 1%) 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 and company is more sensitive to movement in currency/US dollar exchange rates in 2012 than 2011 because the net foreign currency exposure has increased. 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	Effect on Profit before taxation 2012 \$'000	% Change in Currency Rate	Effect on Profit before taxation 2011 \$'000
	2012		2011	
Currency:				
USD	+10%	464,435	+1%	15,321
GBP	+10%	2,718	+1%	91
CAN	+10%	4,675	+1%	31
EURO	+10%	(548)	+1%	1,006
USD	-1%	(46,444)	-1%	(15,321)
GBP	-1%	(272)	-1%	(91)
CAN	-1%	(467)	-1%	(31)
EURO	-1%	55	-1%	(1,006)

Company				
	% Change in Currency Rate	Effect on Profit before taxation 2012 \$'000	% Change in Currency Rate	Effect on Profit before taxation 2011 \$'000
	2012		2011	
Currency:				
USD	+10%	169,830	+1%	1,323
GBP	+10%	-	+1%	(3,302)
USD	-1%	(16,983)	-1%	(1,323)
GBP	-1%	-	-1%	3,302

GraceKennedy Limited

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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 2012:							
Assets							
Cash and deposits	3,232,289	2,928,008	-	-	-	4,829,358	10,989,655
Investment securities	1,054,223	12,876,500	3,501,516	14,912,374	13,209,452	186,338	45,740,403
Loans receivable	747,346	1,216,418	773,661	5,853,972	5,216,072	73,707	13,881,176
Trade and other receivables	-	-	-	-	-	7,890,023	7,890,023
Total financial assets	5,033,858	17,020,926	4,275,177	20,766,346	18,425,524	12,979,426	78,501,257
Liabilities							
Deposits	10,734,602	2,293,497	2,739,940	-	-	-	15,768,039
Securities sold under agreements to repurchase	14,228,599	8,651,623	4,831,598	-	-	-	27,711,820
Bank loans	608,022	3,020,727	2,925,578	2,640,985	1,143,016	-	10,338,328
Trade payables	-	-	-	-	-	13,510,563	13,510,563
Total financial liabilities	25,571,223	13,965,847	10,497,116	2,640,985	1,143,016	13,510,563	67,328,750
Total interest repricing gap	(20,537,365)	3,055,079	(6,221,939)	18,125,361	17,282,508	(531,137)	11,172,507

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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 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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(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

	Company						
	Within 1 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 2012:							
Assets							
Cash and deposits	785,372	785,565	-	-	-	314,409	1,885,346
Investment securities	-	-	1,606,618	1,481,875	1,213,631	44,213	4,346,337
Loans receivable	-	-	354,843	-	-	822,609	1,177,452
Trade and other receivables	-	-	-	-	-	954,300	954,300
Total financial assets	785,372	785,565	1,961,461	1,481,875	1,213,631	2,135,531	8,363,435
Liabilities							
Bank loans	336,977	1,192,125	1,219,792	37,500	-	-	2,786,394
Trade payables	-	-	-	-	-	1,365,023	1,365,023
Subsidiaries	-	-	-	-	-	527,416	527,416
Total financial liabilities	336,977	1,192,125	1,219,792	37,500	-	1,892,439	4,678,833
Total interest repricing gap	448,395	(406,560)	741,669	1,444,375	1,213,631	243,092	3,684,602

	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

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31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

3. Insurance and Financial Risk Management (Continued)

(c) Financial risk (continued)

(iii) Market risk (continued)

Interest rate risk (continued)

Interest rate sensitivity

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

The Group's interest rate risk arises from investment securities, loans receivable, customers' deposits, securities sold under repurchase agreements and borrowings. The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net income based on floating rate financial assets and floating rate liabilities. The sensitivity of equity is calculated by revaluing fixed rate 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:	Effect on Profit before Taxation	Effect on Other Components of Equity	Change in basis points:	Effect on Profit before Taxation	Effect on Other Components of Equity
2012	2012	2012	2011	2011	2011
JMD / USD	\$'000	\$'000	JMD / USD	\$'000	\$'000
-100 / -50	65,276	400,677	-100 / -50	97,716	426,162
+400 / +250	(377,139)	(1,794,677)	+100 / +50	(97,716)	(412,533)

Company					
Change in basis points:	Effect on Profit before Taxation	Effect on Other Components of Equity	Change in basis points:	Effect on Profit before Taxation	Effect on Other Components of Equity
2012	2012	2012	2011	2011	2011
JMD / USD	\$'000	\$'000	JMD / USD	\$'000	\$'000
-100 / -50	(1,716)	50,716	-100 / -50	6,763	44,169
+400 / +250	1,991	(219,938)	+100 / +50	(6,763)	(42,269)

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31 December 2012

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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 the 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). 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 225% (2011: 200%). The MCT for the company as of December 31, 2012 is set out below.

	Insurance			
	Actual 2012	Required 2012	Actual 2011	Required 2011
MCT	242%	225%	258%	200%

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.

GraceKennedy Limited

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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 the statement of financial position, are:

- (i) To comply with the capital requirements set by the regulators of the banking and investment markets where the entities within the Group operate;
- (ii) To safeguard their ability to continue as going concerns so that they can continue to provide returns for stockholders and benefits for other stakeholders; and
- (iii) To maintain a strong capital base to support the development of business.

Capital adequacy and the use of regulatory capital are monitored monthly by management and the required information is filed monthly with the Bank of Jamaica (BOJ) and the 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%.

The regulatory capital as managed by the subsidiaries' ALCOs is divided into two tiers:

- (i) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill and negative fair value reserves are deducted in arriving at Tier 1 capital; and
- (ii) Tier 2 capital: general provisions for loan losses on assets limited to 1.25% of risk-weighted assets.

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

GraceKennedy Limited

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31 December 2012

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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 2012 \$'000	Required 2012 \$'000	Actual 2011 \$'000	Required 2011 \$'000
Tier 1 capital	4,215,560	2,811,850	4,203,023	2,275,539
Tier 2 capital	129,536	-	112,109	-
Total regulatory capital	4,345,096	2,811,850	4,315,132	2,275,539
Risk-weighted assets:				
On-statement of financial position	23,236,587	-	19,299,537	-
Off-statement of financial position	4,881,918	-	3,455,854	-
Total risk-weighted assets	28,118,505	-	22,755,391	-
Tier one capital ratio	15%		18%	
Total capital ratio	15%	10%	19%	10%

	Investment			
	Actual 2012 \$'000	Required 2012 \$'000	Actual 2011 \$'000	Required 2011 \$'000
Tier 1 capital	3,227,567	3,011,950	3,238,874	1,899,986
Tier 2 capital	4,900	-	-	-
Total regulatory capital	3,232,467	3,011,950	3,238,874	1,899,986
Risk-weighted assets	21,513,932	-	13,571,329	-
Tier one capital ratio	100.00%	100.00%	100.00%	100.00%
Total capital ratio	15.02%	14.00%	23.87%	14.00%
Actual capital to total assets	11.28%	6.00%	12.16%	6.00%

GraceKennedy Limited

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31 December 2012

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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 2012, the Group's strategy, which was unchanged from 2011, was to maintain a debt to equity ratio not exceeding 100%. The debt to equity ratios at 31 December 2012 and 2011 were as follows:

	The Group	
	2012 \$000	2011 \$000
Total borrowings (Note 15)	10,338,328	11,808,923
Owners equity	32,777,751	29,337,896
Gearing ratio	31.5%	40.3%

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.

In 2011, one of its investment subsidiaries was in breach of the capital adequacy benchmark established by the Trinidad and Tobago Securities and Exchange Commission. The breach was addressed by merging the subsidiary with a fellow subsidiary which had adequate capital.

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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 \$1,063,960,000, 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cash at bank and in hand	6,018,899	4,485,790	343,833	321,677
Deposits	4,970,756	7,840,538	1,541,513	1,763,062
	10,989,655	12,326,328	1,885,346	2,084,739

Included in deposits is interest receivable of \$6,215,000 (2011: \$97,275,000) and \$15,500,000 (2011: \$109,206,000) for the Group and company, respectively. The weighted average effective interest rate on deposits was 5.88% (2011: 6.95%) and 4.75% (2011: 5.33%) 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cash at bank and in hand	6,018,899	4,485,790	343,833	321,677
Deposits	4,970,756	7,840,538	1,541,513	1,763,062
	10,989,655	12,326,328	1,885,346	2,084,739
Bank overdrafts (Note 15)	(1,414,607)	(1,368,311)	(334,183)	(385,445)
	9,575,048	10,958,017	1,551,163	1,699,294

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6. Investment Securities

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Available-for-sale:				
Quoted equities	138,177	214,565	43,878	64,755
Government of Jamaica securities	39,358,537	38,644,552	3,150,907	2,967,675
Corporate bonds	5,358,433	1,910,338	552,899	-
Other debt securities	837,095	30,535	598,318	175,248
Other	24,200	175,407	335	335
	45,716,442	40,975,397	4,346,337	3,208,013
Financial assets at fair value through profit or loss:				
Derivative financial instruments (Note 36)	-	17,989	-	-
Quoted equities	23,961	25,544	-	-
	23,961	43,533	-	-
Total	45,740,403	41,018,930	4,346,337	3,208,013

Included in the Government of Jamaica securities is interest receivable of \$814,602,000 (2011: \$757,503,000) and \$98,096,000 (2011: \$1,787,000) for the Group and the company respectively.

Included in Government of Jamaica securities are instruments which mature between 3 months and 12 months or which the Group intends to realise within 12 months and have an effective interest rate of 6.94% (2011: 7.5%) and 7.42% (2011: 7.67%) for the Group and the company respectively.

Included in Government of Jamaica securities is \$1,952,395,000 (2011: \$1,773,027,000) held at the Bank of Jamaica under Section 14(1) of the Banking Act, 1992, representing the required ratio of 12% (2011: 12%) for Jamaican dollar cash reserves and 9% (2011: 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 \$29,431,618,000 (2011: \$28,368,098,000) have been pledged by the Group as collateral for securities sold under repurchase agreements.

Included in investment securities for the company is \$322,597,000 (2011: \$270,248,000) which matures in the next 12 months.

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7. Receivables

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Trade receivables, less provision for impairment	4,673,010	4,680,424	908,060	795,242
Insurance receivables, less provision for impairment	2,438,706	2,323,749	-	-
Receivable from associates (Note 34(e))	13,740	10,783	10,866	8,369
Prepayments	617,101	578,453	101,258	90,045
Other receivables	764,567	899,175	35,374	42,100
	8,507,124	8,492,584	1,055,558	935,756

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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Raw materials and spares	475,406	504,304	-	-
Work in process	4,114	5,372	-	-
Finished goods	1,274,275	1,258,114	-	-
Merchandise	3,962,751	4,038,168	1,294,434	1,193,092
Goods in transit	852,829	718,219	136,010	224,760
	6,569,375	6,524,177	1,430,444	1,417,852

9. Loans Receivable

(a) Loans receivable comprise:

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Finance leases, less deferred profit	265,809	280,893	-	-
Loans and receivables:				
Loans to subsidiaries (Note 34 (e))	-	-	1,103,937	749,094
Loans to associated companies (Note 34 (e))	-	10,357	-	-
Loans to others	13,615,270	11,619,435	73,515	-
Other receivables	97	355	-	-
	13,881,176	11,911,040	1,177,452	749,094

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

Included in loans receivable is interest receivable of \$91,514,000 (2011: \$64,723,000) for the Group.

Included in loans receivable for the company is \$354,843,000 (2011: \$Nil) which matures in the next 12 months.

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9. Loans Receivable (Continued)

(b) Finance lease receivables

	Group	
	2012 \$'000	2011 \$'000
Gross receivables from finance leases:		
Not later than 1 year	145,526	170,853
Later than 1 year and not later than 5 years	167,522	167,836
Later than 5 years	11,684	-
	324,732	338,689
Unearned future finance income on finance leases	(58,923)	(57,796)
Net investment in finance leases	265,809	280,893
The net investment in finance leases is analysed as follows:		
Not later than 1 year	116,471	140,901
Later than 1 year and not later than 5 years	139,206	139,992
Later than 5 years	10,132	-
Total	265,809	280,893

10. Investments in Associates

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At beginning of year	824,160	725,826	185,173	185,173
Share of results before tax	256,104	217,220	-	-
Share of tax	(79,894)	(59,648)	-	-
Share of results after tax	176,210	157,572	-	-
Additions	-	25,762	-	-
Movement in other reserves	(94,777)	(85,000)	-	-
At end of year	905,593	824,160	185,173	185,173

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

	2012 \$'000	2011 \$'000
Assets	11,834,179	11,032,563
Liabilities	9,483,092	8,920,355
Revenue	4,817,966	4,792,957
Net Profit	390,020	331,601

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11. Intangible Assets

	Brands and Customer Relationships \$'000	Goodwill \$'000	Computer Software \$'000	Policy Contracts \$'000	Total \$'000
Group					
Cost					
At 1 January 2011	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
Additions	-	-	228,701	-	228,701
Retirement of asset	-	-	(3,021)	-	(3,021)
Transfer from capital work in progress	-	-	120,694	-	120,694
Exchange differences	96,380	45,991	487	-	142,858
At 31 December 2012	1,474,714	769,174	1,921,864	589,088	4,754,840
Accumulated Amortisation					
At 1 January 2011	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
Amortisation charge for the year	89,891	-	149,715	39,272	278,878
Retirement of asset	-	-	(3,021)	-	(3,021)
At 31 December 2012	518,178	335,140	1,520,211	274,907	2,648,436
Net Book Amount					
31 December 2012	956,536	434,034	401,653	314,181	2,106,404
31 December 2011	950,047	388,043	201,486	353,453	1,893,029

Impairment tests for goodwill

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

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11. Intangible Assets (Continued)

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

	2012	2011
	\$000	\$000
Food Trading	434,034	388,043

For the year ended 31 December 2012, 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 five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the 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	10.19%	5.42%	0.61%	11.10%

**Computer
Software
\$'000**

Company

Cost

At 1 January 2011	294,878
Additions	113,281
At 31 December 2011	408,159
Additions	77,919
Retirement of asset	(159)
At 31 December 2012	485,919

Accumulated Amortisation

At 1 January 2011	256,476
Amortisation charge for the year	67,433
At 31 December 2011	323,909
Amortisation charge for the year	62,933
Retirement of asset	(159)
At 31 December 2012	386,683

Net Book Amount

31 December 2012	99,236
31 December 2011	84,250

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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 2011	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 adjustment	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
Additions	28,536	130,123	406,818	229,508	794,985
Revaluation adjustment	199,954	-	-	-	199,954
Transfers	5,164	122,323	189,538	(317,025)	-
Transfer to computer software	-	-	-	(120,694)	(120,694)
Disposals	(30,008)	(12,010)	(146,750)	(6,868)	(195,636)
Exchange differences	297	21,267	25,503	-	47,067
At 31 December 2012	4,650,847	1,304,207	5,705,724	119,391	11,780,169
Accumulated Depreciation					
At 1 January 2011	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
Charge for the year	69,209	94,579	520,117	-	683,905
Revaluation adjustment	(187,997)	-	-	-	(187,997)
On disposals	(474)	(8,881)	(118,438)	-	(127,793)
At 31 December 2012	31	662,005	3,867,324	-	4,529,360
Net Book Value					
31 December 2012	4,650,816	642,202	1,838,400	119,391	7,250,809
31 December 2011	4,327,611	466,197	1,764,970	334,470	6,893,248

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12. Fixed Assets (Continued)

	Freehold Land and Buildings \$'000	Leasehold Buildings and Improvements \$'000	Plant, Equipment, Fixtures & Vehicles \$'000	Capital Work in Progress \$'000	Total \$'000
Company					
Cost or Valuation					
At 1 January 2011	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
Additions	-	10,234	46,549	4,248	61,031
Revaluation adjustment	7,288	-	-	-	7,288
Transfers	-	-	549	(549)	-
Disposals	-	-	(11,128)	-	(11,128)
At 31 December 2012	60,000	88,983	662,788	4,248	816,019
Accumulated Depreciation					
At 1 January 2011	-	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
Charge for the year	1,093	3,453	67,365	-	71,911
Revaluation adjustment	(2,186)	-	-	-	(2,186)
On disposals	-	-	(5,222)	-	(5,222)
At 31 December 2012	-	64,580	512,900	-	577,480
Net Book Value					
31 December 2012	60,000	24,403	149,888	4,248	238,539
31 December 2011	51,619	17,622	176,061	549	245,851

- (a) The tables above include carrying values of \$24,842,000 (2011: \$20,671,000) and \$18,411,000 (2011: \$20,384,000) for the Group and the company, respectively, representing assets being acquired under finance leases. All amounts related to finance leases are shown in the 'Plant, Equipment, Fixtures & Vehicles' category of fixed assets.

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12. Fixed Assets (Continued)

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

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cost	3,435,621	3,251,494	41,123	41,122
Accumulated depreciation	268,626	208,667	6,776	5,748
Net Book Value	3,166,995	3,042,827	34,347	35,374

(c) The Group's land and buildings were last revalued during 2012 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

Change in tax rate

During the 2012/13 budget presentation, the Government of Jamaica announced a reduction in the corporate income tax rate for unregulated entities, from 33 ⅓% to 25%, effective 1 January 2013. The change in the tax rate was signed into law on 28 December 2012 and as such has been applied in determining the amounts for deferred taxation in these financial statements.

Deferred income taxes are calculated in full on temporary differences under the liability method using principal tax rates of 25% for unregulated companies and 33 ⅓% for regulated companies.

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

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At beginning of year	(1,845,164)	(1,618,205)	(2,591,547)	(2,291,979)
Income statement credit/(charge) (Note 27)	578,323	(78,859)	595,093	(280,497)
Tax credit/(charge) relating to components of other comprehensive income (Note 27)	105,647	(151,465)	38,408	(19,071)
Exchange differences	22,670	3,365	-	-
At end of year	(1,138,524)	(1,845,164)	(1,958,046)	(2,591,547)

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. Subject to agreement with the taxation administration in the relevant jurisdictions, the Group has recognised tax losses of \$2,395,444,000 (2011: \$2,069,004,000) and recognised tax credits of \$271,318,000 (2011: \$259,364,000) to carry forward indefinitely against future taxable income.

Deferred income tax liabilities of \$162,053,000 (2011: \$136,054,000) 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 \$486,158,000 (2011: \$408,163,000).

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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					Total \$'000
	Fixed Assets \$'000	Fair Value Gains \$'000	Unrealised Foreign Exchange Gains \$'000	Pension Plan Assets \$'000	Other \$'000	
Deferred tax liabilities						
At 1 January 2011	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
Charged/(credited) to the income statement	57,979	(53,469)	(16,873)	(649,524)	(3,145)	(665,032)
Charged/(credited) to other comprehensive income	36,037	(141,684)	-	-	-	(105,647)
Exchange differences	-	37	-	-	2	39
At 31 December 2012	318,478	158,750	44,434	2,119,556	406,173	3,047,391
	Group				Other \$'000	Total \$'000
	Fixed Assets \$'000	Unutilised Tax Losses \$'000	Employee Benefit Obligations \$'000			
Deferred tax assets						
At 1 January 2011	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
Credited/(charged) to the income statement	12,829	35,637	(50,008)	(85,167)		(86,709)
Exchange differences	293	22,291	-	125		22,709
At 31 December 2012	41,923	1,006,960	671,735	188,249		1,908,867

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13. Deferred Income Taxes (Continued)

	Company					
	Fixed Assets \$'000	Fair Value Gains \$'000	Unrealised Foreign Exchange Gains \$'000	Pension Plan Asset \$'000	Other \$'000	Total \$'000
Deferred tax liabilities						
At 1 January 2011	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
Credited to the income statement	(8,152)	-	(5,015)	(621,693)	(5,101)	(639,961)
Charged/(credited) to other comprehensive income	874	(39,282)	-	-	-	(38,408)
At 31 December 2012	13,927	56,517	6,158	2,094,410	16,615	2,187,627

	Employee Benefit Obligations			
	Fixed Assets \$'000	Employee Benefit Obligations \$'000	Other \$'000	Total \$'000
Deferred tax assets				
At 1 January 2011	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
Charged to the income statement	(3,044)	(36,703)	(5,121)	(44,868)
At 31 December 2012	10,845	213,687	5,049	229,581

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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Deferred tax assets	1,044,050	1,066,226	-	-
Deferred tax liabilities	(2,182,574)	(2,911,390)	(1,958,046)	(2,591,547)
	(1,138,524)	(1,845,164)	(1,958,046)	(2,591,547)
The gross amounts shown in the above tables include the following:				
Deferred tax assets to be recovered after more than 12 months	1,678,695	1,670,775	213,687	250,390
Deferred tax liabilities to be settled after more than 12 months	(2,438,034)	(2,993,542)	(2,108,337)	(2,737,308)

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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 2011. 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 and company's contributions for the year were \$65,010,000 (2011: \$31,323,000) and \$10,955,000 (2011: \$4,666,000) respectively.

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 2011.

Pension benefits

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

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Present value of funded obligations	13,154,421	10,966,907	5,777,511	4,848,849
Fair value of plan assets	(18,996,677)	(18,490,828)	(12,947,196)	(13,106,540)
	(5,842,256)	(7,523,921)	(7,169,685)	(8,257,691)
Unrecognised actuarial (losses)/gains	(2,628,157)	(836,647)	(1,207,955)	56,057
Limitation on asset due to uncertainty of obtaining economic benefit	-	53,324	-	53,324
Asset in the statement of financial position	(8,470,413)	(8,307,244)	(8,377,640)	(8,148,310)

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

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Beginning of year	10,966,907	8,988,665	4,848,849	4,081,547
Current service cost	797,517	749,039	263,292	255,326
Interest cost	1,153,863	1,049,983	499,426	466,742
Actuarial losses	687,736	563,995	401,714	232,768
Benefits paid	(451,602)	(384,775)	(235,770)	(187,534)
End of year	13,154,421	10,966,907	5,777,511	4,848,849

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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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Beginning of year	18,490,828	16,394,884	13,106,540	11,817,994
Expected return on plan assets	1,839,207	1,633,179	1,303,087	1,175,956
Actuarial (losses)/gains	(1,101,637)	602,046	(822,335)	413,192
Contributions	254,110	258,548	84,433	70,630
Benefits paid	(451,602)	(384,775)	(235,770)	(187,534)
Adjustment to plan assets	(34,229)	(13,054)	(488,759)	(183,698)
End of year	18,996,677	18,490,828	12,947,196	13,106,540

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

The amounts recognised in the income statement are as follows:

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current service cost	544,845	501,973	179,300	187,521
Interest cost	1,153,863	1,049,983	499,426	466,742
Expected return on plan assets	(1,839,207)	(1,633,179)	(1,303,087)	(1,175,956)
Net actuarial losses recognised in year	32,092	11,883	448,796	144,903
	(108,407)	(69,340)	(175,565)	(376,790)
Increase in income due to limitation on asset	(53,324)	(252,716)	(53,324)	(252,716)
Total, included in staff costs (Note 26)	(161,731)	(322,056)	(228,889)	(629,506)

The total credit of \$161,731,000 (2011: \$322,056,000) and \$228,889,000 (2011: \$629,506,000) 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 2013 amount to \$655,000.

The actual return on plan assets was \$737,572,000 (2011: \$2,235,222,000) for the Group.

The plan assets are comprised of :

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Equity	3,017,193	3,238,420	2,056,369	2,295,433
Debt	805,344	470,016	548,884	333,154
Real Estate	1,730,882	1,304,103	1,179,683	924,366
Government securities	11,400,293	11,649,720	7,769,876	8,257,474
Other	2,042,965	1,828,569	1,392,384	1,296,113
	18,996,677	18,490,828	12,947,196	13,106,540

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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 \$753,358,000 (2011: \$948,891,000), buildings occupied by Group companies with fair values of \$873,010,000 (2011: \$781,017,000), and repurchase agreement investments with Group companies of \$2,253,354,000 (2011: \$2,502,172,000).

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				
	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Fair value of plan assets	(18,996,677)	(18,490,828)	(16,394,884)	(14,158,424)	(12,640,788)
Defined benefit obligation	13,154,421	10,966,907	8,988,665	6,348,877	5,924,104
Surplus	(5,842,256)	(7,523,921)	(7,406,219)	(7,809,547)	(6,716,684)
Experience adjustments –					
Fair value of plan assets	(1,101,637)	602,046	596,319	1,033,172	(2,028,243)
Defined benefit obligation	466,647	37,502	(1,042,535)	(380,117)	(29,655)
	Company				
	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Fair value of plan assets	(12,947,196)	(13,106,540)	(11,817,994)	(10,654,922)	(8,833,874)
Defined benefit obligation	5,777,511	4,848,849	4,081,547	2,997,034	2,857,737
Surplus	(7,169,685)	(8,257,691)	(7,736,447)	(7,657,888)	(5,976,137)
Experience adjustments –					
Fair value of plan assets	(822,335)	413,192	216,830	826,200	(1,430,040)
Defined benefit obligation	261,593	43,295	(487,381)	(207,117)	642,908

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 (2011: 7.5% per year).

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

Other post-employment obligations (continued)

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

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Present value of unfunded obligations	2,887,948	2,702,493	1,212,257	1,141,825
Unrecognised actuarial losses	(439,869)	(537,267)	(357,510)	(390,656)
Liability in the statement of financial position	2,448,079	2,165,226	854,747	751,169

Movement in the defined benefit obligation is as follows:

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Beginning of year	2,702,493	2,620,878	1,141,825	1,118,185
Current service cost	167,164	163,583	48,370	42,165
Interest cost	280,481	288,251	115,112	113,043
Actuarial (gains)/losses	(14,939)	191,479	28,157	209,340
Past service cost - vested benefits	(117,525)	(233,690)	(43,038)	(75,555)
Benefits paid	(129,726)	(328,008)	(78,169)	(265,353)
End of year	2,887,948	2,702,493	1,212,257	1,141,825

The amounts recognised in the income statement were as follows:

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current service cost	167,164	163,583	48,370	42,165
Interest cost	280,481	288,251	115,112	113,043
Net actuarial losses recognised in year	82,459	68,228	61,303	34,343
Past service cost – vested benefits	(117,525)	(233,690)	(43,038)	(75,555)
Total, included in staff costs (Note 26)	412,579	286,372	181,747	113,996

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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Gratuity Plan	852,488	814,881	187,448	181,285
Group Life Plan	133,878	91,737	46,777	32,552
Insured Group Health	415,635	326,282	116,232	92,000
Self Insured Health Plan	636,362	581,524	202,176	188,372
Supplementary Pension Plan	409,716	350,802	302,114	256,960
Liability in the statement of financial position	2,448,079	2,165,226	854,747	751,169

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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	38,812	30,495	10,334	8,160
Effect on the defined benefit obligation	199,664	160,652	59,757	48,919

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

	Group				
	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Defined benefit obligation	2,887,948	2,702,493	2,637,690	1,818,887	1,504,127
Experience adjustments	(62,051)	119,858	(88,145)	(30,187)	47,980

	Company				
	2012 \$'000	2011 \$'000	2010 \$'000	2009 \$'000	2008 \$'000
Defined benefit obligation	1,212,257	1,141,825	1,118,185	823,956	755,673
Experience adjustments	(1,245)	147,638	(11,373)	(55,991)	81,881

Principal actuarial assumptions used in valuing post-employment benefits

The principal actuarial assumptions used were as follows:

	2012	2011
Discount rate	10.5%	10.0%
Long term inflation rate	6.0%	6.0%
Expected return on plan assets	10.0%	10.0%
Future salary increases	7.5%	7.5%
Future pension increases	6.5%	6.0%

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:

	2012	2011
Male	23.09	21.33
Female	25.93	25.09

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

Plans	2012 Years	2011 Years
Gratuity Plan	17.3	17.6
Group Life Plan	17.6	17.9
Insured Group Health	17.8	18.4
Pension Plan	16.9	17.5
Self Insured Health Plan	10.3	11.3

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15. Bank and Other Loans

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Secured on assets	2,520,868	4,243,324	-	-
Unsecured	7,817,460	7,565,599	2,786,394	4,038,856
	10,338,328	11,808,923	2,786,394	4,038,856

(a) Unsecured loans of subsidiaries are supported by letters of comfort from the parent company. Interest rates on these loans range between 2.51% - 12.76% (2011: 2.51% - 13.26%).

(b) Bank and other loans comprise:

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Bank overdrafts (Note 5)	1,414,607	1,368,311	334,183	385,445
Bank borrowings	5,671,683	7,316,684	1,659,349	2,504,421
Finance leases	21,536	25,032	35,673	34,045
Customer deposits	2,926	77,041	-	-
Derivative financial instruments (Note 36)	5,828	35,538	-	-
Other loans	3,221,748	2,986,317	757,189	1,114,945
Total borrowings	10,338,328	11,808,923	2,786,394	4,038,856

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 \$61,758,000 (2011: \$55,818,000) and \$9,173,000 (2011: \$11,166,000) for the Group and the company, respectively.

Included in bank borrowings and other loans is \$5,032,753,000 (2011: \$6,487,726,000) and \$2,237,986,000 (2011: \$2,923,830,000) for the Group and the company respectively, which matures in the next 12 months.

Included in customer deposits is interest payable of \$23,000 (2011: \$681,000) 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	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Not later than 1 year	4,728	4,412	17,232	17,233
Later than 1 year and not later than 5 years	19,543	24,039	27,477	26,508
	24,271	28,451	44,709	43,741
Future finance charges on finance leases	(2,735)	(3,419)	(9,036)	(9,696)
Present value of finance lease liabilities	21,536	25,032	35,673	34,045

GraceKennedy Limited

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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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Between 1 and 2 years	7,691	6,961	22,302	21,864
Between 2 and 5 years	13,845	18,071	13,371	12,181
	21,536	25,032	35,673	34,045

16. Payables

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Trade payables	5,879,392	5,155,789	660,404	599,756
Payable to associates (Note 34(e))	179,054	171,548	49,570	66,315
Accruals	1,723,299	1,745,935	375,735	563,271
Claims outstanding	2,047,345	1,909,269	-	-
Insurance reserves	2,353,420	1,926,989	-	-
Other payables	1,328,053	1,343,295	279,314	216,710
	13,510,563	12,252,825	1,365,023	1,446,052

All payables balances are due within the next 12 months.

17. Provisions

Provisions comprise warranties as follows:

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At beginning of year	7,243	8,037	6,221	6,221
Additional provisions	-	404	-	-
Utilised during year	(404)	(1,198)	-	-
At end of year	6,839	7,243	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

	2012	2011	2012	2011
	'000	'000	'000	'000
Authorised -				
Ordinary shares	400,000	400,000	400,000	400,000
Issued and fully paid -	'000	'000	\$'000	\$'000
Ordinary stock units	335,319	332,330	848,249	762,076
Treasury shares	(518)	(2,075)	(40,170)	(168,108)
Issued and outstanding	334,801	330,255	808,079	593,968

- (a) During the year, the company issued 2,989,000 (2011: 619,000) shares to its employees for cash of \$86,173,000 (2011: \$19,752,000). The shares were issued under the Directors, Senior Managers and Permanent Employees Stock Option Plans.
- (b) During the year, the company through its employee investment trust sold 1,677,000 (2011: Nil) units of its own shares at a fair value of \$80,405,000 (2011: \$Nil) and purchased 120,000 (2011: Nil) units at a fair value of \$5,972,000 (2011: \$Nil). The total number of treasury shares held by the company at the end of the year was 518,000 (2011: 2,075,000) at a cost of \$40,170,000 (2011: \$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:

	2012		2011	
	Executive '000	Non-Executive '000	Executive '000	Non-Executive '000
At 1 January	2,546	272	2,812	432
Exercised	(2,546)	(192)	(266)	(120)
Forfeited	-	-	-	(40)
Expired	-	(80)	-	-
At 31 December	-	-	2,546	272

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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 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:

	2012 '000	2011 '000
At 1 January	2,753	-
Granted	-	2,932
Exercised	(8)	-
Forfeited	(62)	(179)
At 31 December	2,683	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 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:	2012 '000	2011 '000
At 1 January	1,279	-
Granted	-	2,739
Exercised	(198)	(233)
Forfeited	-	(1,227)
Expired	(1,081)	-
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:	2012 '000	2011 '000
At 1 January	317	-
Granted	-	362
Exercised	(45)	
Forfeited	(46)	(45)
At 31 December	226	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:	2012 '000	2011 '000
At 1 January	1,136	-
Granted	-	1,136
Forfeited	(33)	-
At 31 December	1,103	1,136

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18. Share Capital (Continued)

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

	2012		2011	
	Average exercise price in \$ per share	Options '000	Average exercise price in \$ per share	Options '000
At 1 January	43.74	8,303	29.49	3,244
Granted	-	-	48.95	7,169
Forfeited	53.07	(141)	42.70	(1,491)
Exercised	28.83	(2,989)	31.91	(619)
Expired	46.74	(1,161)	-	-
At 31 December	53.65	4,012	43.74	8,303

Shares totalling 1,000,000 (2011: 4,098,000) 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:

	2012		2011
	Exercise price in \$ per share	Options '000	Options '000
2012	33.63	-	4,097
2016	50.79	2,909	3,070
2017	61.20	1,103	1,136
		4,012	8,303

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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)
Expensed in 2012	(22,828)
Amount to be expensed in future periods	34,430

- (i) On 14 December 2012, 1,677,000 shares were sold to key management personnel through the employee investment trust at a discount of 14% from the average of the last 3 trading days' closing prices of the stock as at 26 November 2012. The cost of the discount of \$11,434,000 was expensed in 2012.

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
	2012				2011			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Realised gains on disposal of assets	87,487	-	-	87,487	93,262	-	-	93,262
Capital distributions received	46,750	-	-	46,750	46,750	-	-	46,750
Realised gain on sale of shares	89,565	-	-	89,565	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	-	-	1,279,407	1,279,407	-	-	911,198	911,198
Fair value gains, net of deferred taxes	-	-	399,834	399,834	-	-	745,945	745,945
Loan loss reserve	-	392,424	-	392,424	-	454,186	-	454,186
Catastrophe reserve	12,270	-	-	12,270	12,270	-	-	12,270
Other	85,319	-	-	85,319	85,380	-	-	85,380
	2,623,639	392,424	1,679,241	4,695,304	2,682,980	454,186	1,657,143	4,794,309

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19. Capital and Fair Value Reserves (Continued)

	Company					
	Capital Reserve	Fair Value Reserves	Total	Capital Reserve	Fair Value Reserves	Total
	2012			2011		
	\$'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	-	22,040	22,040	-	14,659	14,659
Fair value gains, net of deferred taxes	-	259,745	259,745	-	334,076	334,076
	24,507	281,785	306,292	24,507	348,735	373,242

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

	2012 \$'000	2011 \$'000
Beginning of year	1,276,509	1,145,352
Share of total comprehensive income:		
Share of net profit of subsidiaries	316,551	243,660
Revaluation surplus	6,169	-
Other	11,030	941
	333,750	244,601
Disposal of non-controlling interest	(49,111)	33,308
Employee share option scheme: value of services received	611	3,560
Dividends paid	(229,419)	(150,312)
End of year	1,332,340	1,276,509

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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

	2012						
	Food Trading \$'000	Retail & Trading \$'000	Banking & Investments \$'000	Insurance \$'000	Money Services \$'000	Unallocated/ Elimination \$'000	Group \$'000
REVENUE							
External sales	40,208,345	6,284,645	5,345,443	4,656,411	4,845,424	-	61,340,268
Inter-segment sales	257,546	7,037	23,859	389,277	62	(677,781)	-
Total Revenue	40,465,891	6,291,682	5,369,302	5,045,688	4,845,486	(677,781)	61,340,268
Operating results	1,054,327	193,392	675,403	384,333	1,573,376	63,681	3,944,512
Unallocated income	-	-	-	-	-	225,713	225,713
Profit from operations	-	-	-	-	-	-	4,170,225
Finance income	31,039	5,681	24,358	16,589	77,651	194,295	349,613
Finance expense	(383,596)	(67,708)	(104,980)	(7,324)	(959)	(53,872)	(618,439)
Share of results of associates	113,507	-	55,206	7,497	-	-	176,210
Profit before taxation	815,277	131,365	649,987	401,095	1,650,068	429,817	4,077,609
Taxation							(248,468)
Net Profit							3,829,141
Operating assets	23,264,775	2,382,281	58,333,278	9,030,905	5,061,582	(3,027,875)	95,044,946
Investment in associates	498,002	-	348,220	49,238	10,133	-	905,593
Unallocated assets	-	-	-	-	-	10,426,351	10,426,351
Total assets	23,762,777	2,382,281	58,681,498	9,080,143	5,071,715	7,398,476	106,376,890
Operating liabilities	12,326,011	1,259,741	50,289,975	5,510,379	1,284,325	(3,334,842)	67,335,589
Unallocated liabilities	-	-	-	-	-	4,931,210	4,931,210
Total liabilities	12,326,011	1,259,741	50,289,975	5,510,379	1,284,325	1,596,368	72,266,799
Other segment items							
Additions to non-current assets ^(b)	503,086	50,727	289,912	93,326	86,635	-	1,023,686
Depreciation	(448,883)	(51,188)	(67,730)	(39,171)	(76,933)	-	(683,905)
Amortisation	(143,332)	(6,812)	(36,542)	(80,865)	(11,327)	-	(278,878)

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22. Segment Information (Continued)

Operating segments (continued)

	2011						
	Food Trading \$'000	Retail & Trading \$'000	Banking & Investments \$'000	Insurance \$'000	Money Services \$'000	Unallocated/ Elimination \$'000	Group \$'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)

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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Total for reportable segments	3,647,792	3,514,279	98,978,414	94,576,492	70,670,431	69,053,851
Inter-segment eliminations	-	-	(3,027,875)	(4,692,996)	(3,334,842)	(4,839,382)
Unallocated amounts:						
Corporate central office results	583,763	216,676	-	-	-	-
Post-employment benefits	(119,684)	375,175	-	-	-	-
Share-based payments	(34,262)	(73,687)	-	-	-	-
Taxation recoverable	-	-	911,888	916,802	-	-
Deferred tax assets	-	-	1,044,050	1,066,226	-	-
Pension plan asset	-	-	8,470,413	8,307,244	-	-
Taxation	-	-	-	-	300,557	268,278
Deferred tax liabilities	-	-	-	-	2,182,574	2,911,390
Other post-employment obligations	-	-	-	-	2,448,079	2,165,226
Total unallocated	429,817	518,164	10,426,351	10,290,272	4,931,210	5,344,894
Total per financial statements	4,077,609	4,032,443	106,376,890	100,173,768	72,266,799	69,559,363

Geographical information

	Revenue ^(a)		Non-current assets ^(b)	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Jamaica	40,598,571	38,879,849	8,066,267	7,517,571
United Kingdom	8,751,317	8,367,655	1,378,795	1,304,765
United States of America	4,344,814	4,048,842	517	438
Canada	3,448,573	3,047,605	26,217	26,371
Other Caribbean countries	3,457,967	3,241,712	791,010	761,292
Other countries	739,026	631,069	-	-
Total	61,340,268	58,216,732	10,262,806	9,610,437

^(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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Sales of products	46,492,990	44,179,479	13,249,138	12,805,047
Sales of services	4,844,273	4,498,941	-	-
Financial services income	5,658,002	5,162,794	-	-
Interest income on investments classified as –				
Available-for-sale securities	2,712,388	2,962,255	-	-
Interest income on loans receivable	1,632,615	1,406,382	-	-
Income on investments at fair value through profit or loss	-	6,881	-	-
	61,340,268	58,216,732	13,249,138	12,805,047

24. Expense by Nature

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Auditors' remuneration	121,144	117,957	14,615	14,636
Advertising and marketing	1,816,135	1,572,187	557,813	533,343
Amortisation of intangibles	278,878	345,223	62,933	67,433
Cost of inventory recognised as expense	34,646,035	33,096,564	10,234,700	9,969,794
Depreciation	683,905	649,493	71,911	73,158
Impairment	-	72,150	-	-
Insurance	536,419	471,270	86,016	74,189
Interest expense and other financial services expenses	5,273,129	5,048,031	-	-
Legal, professional and other fees	583,358	558,669	432,111	417,811
Occupancy costs - Lease rental charges, utilities, etc.	1,860,108	1,812,259	769,908	748,803
Repairs and maintenance expenditure	457,905	420,514	16,046	27,647
Staff costs (Note 26) *	8,284,538	7,310,015	1,879,183	1,262,781
Transportation	953,550	932,203	221,916	194,770
Other expenses *	2,710,673	2,624,288	487,489	516,783
	58,205,777	55,030,823	14,834,641	13,901,148

* Reclassified for comparative purposes

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25. Other Income

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Dividend income	4,211	5,923	1,489,664	857,402
Net foreign exchange gains	241,787	215,650	105,317	68,375
Gain on disposal of investments	41,693	50,238	8,681	10,045
(Loss)/gain on disposal of fixed assets	(2,073)	10,136	(554)	2,119
Fees and commissions	139,621	66,388	1,463,868	1,201,490
Interest income – available-for-sale securities	302,478	289,870	-	-
Rebates, reimbursements and recoveries	221,687	312,473	380,783	367,386
Miscellaneous	86,330	83,330	2,520	4,377
	1,035,734	1,034,008	3,450,279	2,511,194

26. Staff Costs

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Wages and salaries	6,110,537	5,611,955	1,426,854	1,316,922
Pension (Note 14)	(161,731)	(322,056)	(228,889)	(629,506)
Pension contributions to defined contribution scheme (Note 14)	65,010	31,323	10,955	4,666
Other post-employment benefits (Note 14)	412,579	286,372	181,747	113,996
Share options granted to employees	34,262	73,687	28,108	37,978
Statutory contributions	594,814	541,228	134,264	123,225
Other costs	1,229,067	1,087,506	326,144	295,500
	8,284,538	7,310,015	1,879,183	1,262,781

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27. Taxation

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

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current tax	799,321	965,100	53,781	-
Adjustment to prior year provision	27,470	(3,989)	-	(3,199)
Deferred tax (Note 13)	(578,323)	78,859	(595,093)	280,497
	248,468	1,039,970	(541,312)	277,298

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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Profit before tax	4,077,609	4,032,443	1,984,793	1,450,062
Tax calculated at a tax rate of 33⅓%	1,359,203	1,344,148	661,598	483,354
Adjusted for the effects of:				
Different tax rates in other countries	(105,505)	(116,801)	-	-
Change in tax rate of unregulated Jamaican companies	(557,095)	-	(632,747)	-
Income not subject to tax	(341,406)	(179,188)	(531,577)	(321,273)
Expenses not deductible for tax purposes	121,891	312,868	13,549	121,314
Adjustment to prior year provision	27,470	(3,989)	-	(3,199)
Share of profits of associates included net of tax	(58,737)	(52,524)	-	-
Recognition/utilisation of previously unrecognised tax losses	(142,564)	-	-	-
Recognition of previously unrecognised tax credits	(53,781)	(259,364)	(53,781)	-
Other	(1,008)	(5,180)	1,646	(2,898)
Tax expense/(credit)	248,468	1,039,970	(541,312)	277,298

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27. Taxation (Continued)

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

Group						
	2012			2011		
	Before tax \$'000	Tax (charge)/ credit \$'000	After tax \$'000	Before tax \$'000	Tax charge \$'000	After tax \$'000
Foreign currency translation adjustments	399,775	-	399,775	93,008	-	93,008
Revaluation surplus	387,951	(36,037)	351,914	34,900	(35,093)	(193)
Fair value (losses)/gains	(487,795)	141,684	(346,111)	354,079	(116,372)	237,707
Share of other comprehensive income of associated companies	22,464	-	22,464	-	-	-
Other comprehensive income	322,395	105,647	428,042	481,987	(151,465)	330,522
Deferred tax (Note 13)		105,647			(151,465)	

Company						
	2012			2011		
	Before tax \$'000	Tax (charge)/ credit \$'000	After tax \$'000	Before tax \$'000	Tax credit/ (charge) \$'000	After tax \$'000
Revaluation surplus	9,474	(874)	8,600	-	1,171	1,171
Fair value (losses)/gains	(61,327)	39,282	(22,045)	60,725	(20,242)	40,483
Other comprehensive income	(51,853)	38,408	(13,445)	60,725	(19,071)	41,654
Deferred tax (Note 13)		38,408			(19,071)	

GraceKennedy Limited

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28. Net Profit Attributable to the owners of GraceKennedy Limited

Dealt with as follows in the financial statements of:

	2012 \$'000	2011 \$'000
The company	2,526,105	1,172,764
Intra-group dividends and gain on disposal of subsidiaries within the Group eliminated on consolidation	(1,488,189)	(857,520)
Adjusted company profit	1,037,916	315,244
The subsidiaries	2,298,464	2,275,997
The associates	176,210	157,572
	3,512,590	2,748,813

29. Dividends

	2012 \$'000	2011 \$'000
Paid,		
Interim – 60 cents per stock unit (2011: 55 cents)	199,441	181,300
Interim – 70 cents per stock unit (2011: 45 cents)	233,271	148,447
Final – 70 cents per stock unit (2011: 50 cents)	233,225	165,127
	665,937	494,874

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.

	2012	2011
Net profit attributable to owners (\$'000)	3,512,590	2,748,813
Weighted average number of stock units outstanding ('000)	333,881	329,814
Basic earnings per stock unit (\$)	10.52	8.33

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

- (a) 1,329,000 (2011: 4,271,000) ordinary stock units for the full year in respect of the Stock Option Plan for directors (Note 18),
- (b) 2,683,000 (2011: 2,753,000) ordinary stock units for the full year in respect of the Stock Option Plan for managers (Note 18), and
- (c) Nil (2011: 1,279,000) ordinary stock units for the full year in respect of the Stock Option Plan for permanent employees (Note 18).

	2012	2011
Net profit attributable to owners (\$'000)	3,512,590	2,748,813
Weighted average number of stock units outstanding ('000)	333,881	329,814
Adjustment for share options ('000)	199	1,565
	334,080	331,379
Diluted earnings per stock unit (\$)	10.51	8.30

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31. Cash Flows from Operating Activities

Reconciliation of net profit to cash generated from operating activities:

	Note	Group		Company	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Net profit		3,829,141	2,992,473	2,526,105	1,172,764
Items not affecting cash:					
Depreciation	12	683,905	649,493	71,911	73,158
Amortisation	11	278,878	345,223	62,933	67,433
Impairment charge		-	72,150	-	-
Loss/(gain) on disposal of fixed assets		2,073	(10,136)	554	(2,119)
Gain on disposal of investments		(41,693)	(50,238)	(8,681)	(10,045)
Share options – value of employee services expensed	18	22,828	73,687	16,674	37,978
Exchange loss/(gain) on foreign balances		944,006	45,056	(54,995)	10,391
Interest income – non financial services		(349,613)	(332,817)	(412,061)	(362,119)
Interest income – financial services		(4,634,382)	(4,658,507)	-	-
Interest expense – non financial services		618,439	677,863	292,044	327,150
Interest expense – financial services		1,239,624	1,901,678	-	-
Taxation expense	27	248,468	1,039,970	(541,312)	277,298
Unremitted equity income in associates		(58,969)	(72,572)	-	-
Pension plan surplus		(163,169)	(333,539)	(229,330)	(632,332)
Other post-employment obligations		282,853	(41,636)	103,578	(151,357)
		2,902,389	2,298,148	1,827,420	808,200
Changes in working capital components:					
Inventories		(45,198)	(796,216)	(12,592)	(237,601)
Receivables		(14,540)	(911,845)	(116,224)	(10,294)
Loans receivable, net		(1,945,666)	(1,541,657)	-	-
Payables		1,257,738	467,466	(104,032)	(76,587)
Deposits		1,385,203	584,903	-	-
Securities sold under repurchase agreements		269,197	(144,125)	-	-
Subsidiaries		-	-	1,677,229	557,000
Provisions		(404)	(794)	-	-
Total provided by/(used in) operating activities		3,808,719	(44,120)	3,271,801	1,040,718

GraceKennedy Limited

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31. Cash Flows from Operating Activities (Continued)

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

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Total provided by/(used in) operating activities	3,808,719	(44,120)	3,271,801	1,040,718
Interest received – financial services	4,646,800	4,684,262	-	-
Interest paid – financial services	(1,268,019)	(1,945,785)	-	-
Translation gains	197,787	67,564	-	-
Taxation paid	(789,598)	(632,349)	(71,528)	(64,519)
Cash provided by operating activities	6,595,689	2,129,572	3,200,273	976,199

32. Commitments

(a) Future lease payments under operating leases at 31 December 2012 were as follows:

		\$'000
In financial year	2013	922,034
	2014	870,545
	2015	763,200
	2016 and beyond	1,840,045

(b) At 31 December 2012, the Group had \$Nil (2011: \$24,157,000) 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. GKRS is presently in the process of an application to assess and approve its costs in the Supreme Court. The appeal has now been fixed for hearing on 23 September 2013. 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
(a) Sales of goods and services				
Sales of goods	4,743	2,446	438,553	413,346
Sales of services	63,143	37,941	1,751,515	1,495,071
(b) Purchase of goods and services				
Purchases of goods	1,927,522	1,986,129	4,793,981	4,660,005
Purchases of services	-	-	78,855	69,310
(c) Interest				
Interest income	283	378	116,300	78,274
Interest expense	4,764	4,155	63,816	73,905

(d) Transactions with key management

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

The compensation of key management for services is shown below:

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Salaries and other short-term employee benefits	237,550	248,874	169,272	191,441
Fees paid to directors	36,439	27,282	30,509	23,828
Post-employment benefits	(84,005)	56,018	(77,902)	89,283
Share-based payments	25,642	17,489	23,106	13,731
	215,626	349,663	144,985	318,283

The following amounts are in respect of directors' emoluments:

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Fees	36,439	27,282	30,509	23,828
Management remuneration	170,201	195,487	126,560	153,688
Post-employment benefits paid	26,958	230,449	5,016	203,095
Share-based payments	7,918	-	7,918	-
	241,516	453,218	170,003	380,611

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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	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Sale of goods and services –				
Sale of goods	677	916	677	916
Sale of services	559	1,660	-	-
Interest earned and incurred –				
Interest income	1,533	1,244	-	-
Interest expense	14,213	13,590	-	-

Transactions with companies controlled by directors and other key management personnel

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Sale of goods and services –				
Sale of goods	-	458	-	-
Sale of services	513	504	-	-
Purchase of goods and services –				
Purchase of goods	-	797	-	-
Purchase of services	-	7,349	-	6,849

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34. Related Party Transactions and Balances (Continued)

(e) Year-end balances with related parties

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cash and deposits with subsidiaries	-	-	785,565	1,121,047
Investment securities with subsidiaries	-	-	45,419	175,248
Receivable from subsidiaries	-	-	-	1,149,813
Receivable from associates (Note 7)	13,740	10,783	10,866	8,369
Loans receivable from subsidiaries (Note 9)	-	-	1,103,937	749,094
Loans receivable from associates (Note 9)	-	10,357	-	-
Payable to subsidiaries	-	-	527,416	-
Payable to associates (Note 16)	179,054	171,548	49,570	66,315
Loans & leases payable to subsidiaries	-	-	148,483	503,791
Deposits payable to associates	146,147	35,555	-	-

Loans receivable from associated companies were repaid in 2012 and bore interest at 7.00%. Loans receivable from subsidiaries are repayable in the years 2013 and 2016 and bear interest at 0% - 6% (2011: Nil%). No provision was required in 2012 and 2011 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Receivables	177	236	177	236
Loans receivable	89,669	17,648	73,515	-
Deposits payable	101,571	86,143	-	-
Securities sold under agreements to repurchase	272,084	486,561	-	-

The loans receivable attract interest at rates ranging between 0% - 14.75% (2011: 7.50% - 17.25%) and are repayable in the years 2013 - 2022. These loans are secured and are made on terms similar to those offered to other employees. No provision has been required in 2012 and 2011 for the loans made to directors and senior managers.

Balances with companies controlled by directors and other key management personnel

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'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 1,329,000 (2011: 4,271,000).

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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 2012				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Available-for-sale securities:				
Quoted equities	138,177	-	-	138,177
Government of Jamaica securities	-	39,358,537	-	39,358,537
Corporate bonds	-	5,358,433	-	5,358,433
Other debt securities	-	837,095	-	837,095
Other	-	24,200	-	24,200
Financial assets at fair value through profit or loss:				
Quoted equities	23,961	-	-	23,961
	162,138	45,578,265	-	45,740,403

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

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35. Fair Values of Financial Instruments (Continued)

Company				
2012				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Assets				
Available-for-sale securities:				
Quoted equities	43,878	-	-	43,878
Government of Jamaica securities	-	3,150,907	-	3,150,907
Corporate bonds	-	552,899	-	552,899
Other debt securities	-	598,318	-	598,318
Other	-	335	-	335
	43,878	4,302,459	-	4,346,337

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

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35. Fair Values 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	
	2012	2011
	\$'000	\$'000
At beginning of year	115,797	877,858
Foreign exchange gains/(losses) recognised in the income statement	-	1,150
Gains and losses recognised in other comprehensive income	-	24,459
Disposals	(115,797)	(787,670)
At end of year	-	115,797

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			
	2012		2011	
	Assets	Liabilities	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
Forward foreign exchange contracts	-	5,828	17,989	-
Interest rate swap agreement	-	-	-	35,538
Total	-	5,828	17,989	35,538

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 2012 were \$513,090,000 (2011: \$656,345,000).

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 2012 was \$Nil (2011: \$297,152,000).

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 \$12,210,000,000 (2011: \$9,384,610,000). Fees earned in relation to custodial services were \$12,444,000 (2011: \$11,537,000).

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 \$28,391,385,000 (2011: \$27,607,130,000). Fees earned in relation to fiduciary activities were \$162,118,000 (2011: \$150,921,000).

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39. Subsequent Events

(a) National Debt Exchange

In February 2013, the Group participated in the National Debt Exchange (NDX) transaction under which it exchanged its holdings of domestic debt instruments issued by the Government of Jamaica for new, longer-dated debt instruments with lower coupon interest rates.

The key features of the NDX are as follows:

- Jamaican-resident holders of certain domestic debt instruments (collectively referred to as the "Old Notes") were invited to exchange those Old Notes for new, longer-dated debt instruments (collectively referred to as the "New Notes"). Participation in the NDX was voluntary.
- The New Notes offered have a variety of payment terms, including but not limited to fixed and variable rates in J\$, CPI-indexed in J\$, and fixed rates in USD.
- Eligible investors had the option to choose New Notes based on the type and maturity of the Old Notes which are offered for exchange based on certain election options. The election options only allow investors to choose New Notes of longer tenor relative to Old Notes. Most New Notes have lower coupon interest rates than Old Notes.
- Introduction of new Fixed Rate Accreting Notes ("FRANs") which were issued with J\$80 of principal value for every J\$100 of principal value of Old Notes, whereby such principal will accrete to J\$100 of principal value by the maturity date in 2028. The Group elected not to receive any FRANs.
- Eligible investors who made offers to the Government of Jamaica to exchange Old Notes received an equivalent principal value (par-for-par value) of New Notes and the payment in cash of accrued interest, net of applicable withholding taxes, on the Old Notes up to but excluding 22 February 2013 (the Settlement Date).

(i) Debt securities

The NDX has had a significant impact on the expected future cash flows from the Group's and company's investment portfolio. The transaction is expected to have a short term adverse impact on profitability, however the effect on the Group's and company's statement of financial position is projected to be less than 3% and 2% of owners' equity respectively. This therefore will not materially affect the financial position of the Group or company. The tables below summarise the impact on coupon rates and maturities of the instruments that were exchanged.

	Group	
	Pre NDX	Post NDX
Jamaican dollar denominated instruments:		
Total face value exchanged (J\$16,731,222,000)		
Weighted average coupon rate (%)	9.22	7.25
Weighted average tenor to maturity (years)	4.07	8.60
United States dollar denominated instruments:		
Total face value exchanged (US\$66,791,000)		
Weighted average coupon rate (%)	7.00	5.25
Weighted average tenor to maturity (years)	1.49	7.00

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39. Subsequent Events (Continued)

(a) National Debt Exchange (continued)

(i) Debt securities (continued)

	Company	
	Pre NDX	Post NDX
Jamaican dollar denominated instruments:		
Total face value exchanged (J\$1,466,000,000)		
Weighted average coupon rate (%)	10.47	7.77
Weighted average tenor to maturity (years)	5.54	10.21
United States dollar denominated instruments:		
Total face value exchanged (US\$3,700,000)		
Weighted average coupon rate (%)	7.25	5.25
Weighted average tenor to maturity (years)	3.00	7.00

(ii) Post-employment benefits

Following the NDX, there is likely to be a shift in the Jamaica sovereign debt yield curve. This shift may result in a reduction in the discount rate used to measure the Group's obligations under its defined benefit pension and other post-employment benefit plans. The Group, in conjunction with its actuaries, is in the process of determining the impact on both the accounting measurement and funding of these plans.

(b) Surtax

On 12 February 2013, the Minister of Finance and Planning announced in Parliament that a surtax of 5% will be imposed on the taxable income of "large unregulated companies" effective from 1 April 2013. This represents an addition to the 25% tax rate to be levied as at 1 January 2013. Based on Ministry Paper 15 of 2013 issued by the Ministry of Finance and Planning, "large unregulated companies" are to be defined as those companies with gross income equal to or greater than \$500,000,000, that are not regulated by the Financial Services Commission, the Bank of Jamaica, the Ministry of Finance and Planning or the Office of Utilities Regulation. The surtax has not been applied in determining the amounts for taxation in these financial statements as it had not been enacted or substantively enacted at 31 December 2012. Details of how it will be implemented have not yet been fully disclosed by the tax authorities. The surtax is likely to increase the tax liability of some Jamaican companies within the Group and the impact will be assessed when further details of the surtax are released.