# Guardian Holdings Limited

## Statement of Activities and Significant Accounting Policies

## Year ended 31 December 2001

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**Principal Activities of the Group**
Guardian Holdings Limited is a diversified financial services Group which is mainly engaged in underwriting all classes of long-term and general insurance business and asset management.

The Group's associated companies, RBTT Financial Holdings Limited and Pan Jamaican Investment Trust Limited are engaged in banking, financial intermediation services and property development business in Trinidad and Tobago,Jamaica and the wider Caribbean region.

On 31 December 2001 the Group disposed of 86% of its shareholding in Neal and Massy Holdings Limited as part of the transaction more fully described in Note 19. As a result, Neal & Massy Holdings Limited ceased to be an associated company of the Guardian Holdings Group as of that date.

**Significant Accounting Policies**
**Basis of preparation**
The consolidated financial statements are prepared in accordance with and comply with International Accounting Standards. The consolidated financial statements are prepared under the historical cost convention except as disclosed in the accounting policies below.

**Comparative Information**
Where necessary, comparative data has been adjusted to conform with changes in presentation in the current year.

**Subsidiary Companies**
Subsidiary companies are consolidated from the date on which control is transferred to the Group. All intercompany transactions are eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group. A listing of the Group's subsidiaries is set out in Note 26.

**Associated Companies**
Investments in associated undertakings are accounted for by the equity method of accounting. Equity accounting involves recognising in the profit and loss account the Group's share of the associates' profit for the year. The Group's investment in the associated companies represents the attributable share of the net assets of the associates. A listing of the Group's associates is set out in Note 26.

**Joint Ventures**
The Group's interests in jointly controlled entities are accounted for bv proportionate consolidation. Under this method the Group includes its share of the joint ventures' individual income and expenses, assets and liabilities in the relevant components of the financial statements. A listing of the Group's joint ventures is set out in Note 24.

**Foreign Currencies**
Income statements of foreign entities are translated into the Group's reporting currency, Trinidad and Tobago dollars, at average exchange rates for the year and balance sheets are translated at the exchange rates ruling at 31 December. Exchange differences arising from the retranslation of the net investment in foreign subsidiaries and associated companies are taken to shareholders' equity.

Transactions denominated in foreign currencies are recorded at the rates of exchange prevailing at the dates of the transactions. Assets and liabilities denominated in foreign currencies are expressed in Trinidad and Tobago dollars at rates prevailing at the balance sheet date. All gains and losses, including those relating to investment transactions and arising from the translation of investments denominated in foreign currencies of long-term and general insurance companies, are recognised in the profit and loss account.

**Cash and Cash Equivalents**
Cash amounts represent cash on hand and demand deposits. Cash equivalents are primarily short-term highly liquid investments with original purchased maturities of 90 days or less.

**Property, Plant and Equipment**
Property, plant and equipment, except for exclusively Group occupied freehold and leasehold properties, are stated at cost less accumulated depreciation. The latter are revalued no more than every three years and adjustments to the carrying amount are taken to the revaluation reserve.

Depreciation is charged over the estimated useful lives of the assets using the following rates and methods:

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|---|---|---|
| Freehold building | - | straight line method, 2% per annum |
| Leasehold property | - | over the period of the lease |
| Air-conditioning equipment | - | declining balance method, 20% per annum |
| Motor vehicles | - | straight-line method, 20% per annum and reducing balance basis, 25% per annum |
| Other plant, machinery, office furniture & equipment | - | straight line method, 10-40% per annum |

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken to the profit and loss account. On disposal of a revalued property, the component of the revaluation reserve relating to that asset is transferred to retained earnings.

The Group has no properties under finance lease. Payments made under operating leases are expensed on a straight-line basis over the period of the lease.

**Investments**
Purchases of fixed maturity and equity securities are recorded on the trade date, net of transaction costs. The amortisation of premium and accretion of discount on investments are computed using the effective interest method and are recorded in the profit and loss account as an adjustment of yield.

Investments are classified as "available for sale" under IAS 39. Realised and unrealised gains and losses arising from changes in fair value are included in the profit and loss account in the period in which they arise.

Securities that do not have a quoted market price and whose fair value cannot be reliably

measured, are stated at cost.

**Mortgages**
These are stated at their unpaid principal. Provision for estimated uncollectible amounts is made against specific loans based upon management's evaluation of the portfolio in relation to domestic economic conditions and past loan experience.

**Pension Plan**
The Group operates a number of defined benefit plans, the assets of which are held in separate trustee-administered funds. Except in the case of one pension plan, the plans are generally funded by payments from employees and by the relevant Group companies taking account of the recommendations of the independent qualified actuaries. The last actuarial valuation of the scheme of one of the local Group companies revealed that the scheme had significant surpluses. As a result of these surpluses, and on the advice of the actuaries, a contribution holiday of an indefinite duration has been taken.

The pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of a qualified actuary, who carries out full valuations of the plans every three years. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. All actuarial gains and losses are recognised immediately.

**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.

**Long-Term Insurance Business**

- Recognition of Premium Income
  Premiums are shown on a receivable basis net of reinsurance premiums.

- Recognition of Investment Income
  Interest income and rents are recognised in the profit and loss account on an accruals basis. Dividends are recognised when received.

  Upon adoption of IAS 39 with effect from 2001, realised and unrealised investment gains and

losses are dealt with through the profit and loss account.

- Inforce Long-Term Insurance Business

The achieved profits method of accounting for long term insurance business is used to determine the value of the investment to shareholders. Under this method, a value is placed on the shareholders' interest in the inforce policies of the long-term business of the Group. The value is a prudent estimate of the net present value of the profits inherent in the business currently in force and is determined annually by the Group's actuary. In determining this value, assumptions relating to future mortality, persistence and the levels of expenses are based on experience of the type of business concerned. The future profits are discounted at 15% per annum.

The assumptions made and methods employed are reviewed each year in light of the actual experience and the data available. Any siqnificant changes made to these may create a source of profit or loss.

- Policy Loans
  These are stated at outstanding principal plus accrued interest.

- Reserves for Policyholders' Benefits
  The ordinary life and pension policy liabilities are valued annually. For the Trinidad life insurance subsidiaries, the Group's actuary confirms that the amounts of the funds are, in his opinion, adequate to provide for future policy benefits after allowing for future premiums and investment income and making provision for benefits, expenses and taxes payable in respect of its policies in force. Allowance is made for interest, mortality and other assumptions on a consistent basis considered to be appropriate to provide for the liabilities of the companies under the terms of their policies in force.

  For our Jamaican life insurance subsidiary, the value is calculated using the Policyholder Premium Method as required under the Insurance Act 2001. The assumptions are set using realistic, best estimates of future experience with explicit margins for adverse deviations.

. Allocation of Profits
  Appropriate allocations are made annually to the participating policyholders' fund on the basis of annual actuarial valuations.

**General Insurance Business**

. Recognition of Premium Income
  Premium income is shown after the deduction of unearned premiums. Unearned premiums represent

the portion of the premium related to periods of insurance subsequent to the balance sheet date and are calculated generally on the 24th basis with the exception of inward treaty reinsurance, where unearned premiums are determined by the terms of the treaty, a year in arrears,

. Recognition of Investment Income
Interest income and rents are recognised in the Profit and Loss account on an accruals basis. Dividends are recognised when received.

Realised and unrealised investment gains and losses are dealt with through the profit and loss account.

. Unexpired Risks
Provision is made for foreseen underwriting losses for specific classes of business on the existing premium portfolio and is computed as a percentage of the unearned premium in accordance with industry practice.

. Statutory Reserve
A Statutory Reserve is maintained in accordance with the provisions of Section 171 of the Insurance Act 1980 of Trinidad and Tobago, where the company is required to appropriate towards statutory surplus at least 25% of the prior year's profit until such surplus equals or exceeds the reserves in respect of its unexpired policies.

. Outstanding Claims
Provision for outstanding claims and the related costs of settlement are based on estimates for incidents reported before the end of the financial year and includes appropriate provisions for claims incurred but not yet reported, after giving consideration to amounts recoverable from reinsurers. Estimates are continually revised as information becomes available and to take account of the effects of anticipated inflation. Adjustments arising on these revisions are included with claims expense for the current year.

Recoveries on claims are accounted for on a cash basis.

. Catastrophe Reserve
A catastrophe reserve fund has been established in respect of property business, as allowed under Section 49A of the Insurance Act, 1980 of Trinidad and Tobago. Assets have been placed in trust in accordance with the provisions of the Act.

**Reinsurance**

The Group assumes and/or cedes reinsurance in the normal course of business. Reinsurance assets principally include balances due from both insurance and reinsurance companies for ceded insurance liabilities. Amounts recoverable from or due to reinsurers are estimated in a manner consistent with the amounts associated with the reinsured policies and in accordance with the reinsurance contract. Reinsurance is presented on the consolidated balance sheet on a gross basis unless a right of offset exists.

**Property Business**

. Revenue Recognition
  Sales of residential property are recognised in the year in which the units are completed and final billings are rendered in accordance with contractual terms,
  Rental income is recognised on a straight-line basis over the lease term. All properties leased out under operating leases are included in investment properties.

. Investment Properties Valuation
  Investment properties, which comprise both freehold and leasehold land and buildings, are carried at independent professional valuations. Investment properties are not subject to depreciation. Any appreciation or diminution in value is recognised in the profit and loss account. Adjustments in the value of the properties of the life insurance companies investment portfolio are accounted for in accordance with the policy for investments described above.

**Property Development**

The cost of commercial and residential property development includes acquisition and development cost, including fees, the cost of construction and finance charges.

**Goodwill**

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquired entity at the date of acquisition. Goodwill is amortised over a period of twenty years. In prior years, goodwill was amortised over a period of thirty-three years (see note 6).

**Taxation**

Tax on the profit or loss for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the taxable income for the year using the prevailing tax rate and any adjustment of tax payable for previous years.

Deferred tax is provided, using the liability method, on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes,

except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit. Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax on the profit on long-term insurance business is charged at rates varying between 7 1/2% and 15% depending on the country in which the subsidiary resides. These rates are applied to investment income relating to policyholders' funds other than approvea pension plans, less investment expenses allowable in relation thereto. A further 20% corporation tax is charged when distributions are made to shareholders.

For business other than long term insurance, profits are subject to corporation tax at the rate prevailing in the various territories. These rates currently range between 33'/3% and 35%.

**Earnings Per Share**
Basic earnings per share is calculated by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

**Derivatives and Risk Management Activities**
All derivative financial instruments are recorded in the balance sheet at fair value as assets when favourable to the Group and liabilities when unfavourable. Realised and unrealised gains and losses on trading derivatives are reflected in income and recognised as trading gains or losses.