



GUARDIAN HOLDINGS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2011

Ernst & Young

 **ERNST & YOUNG**

GUARDIAN HOLDINGS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

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INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF GUARDIAN HOLDINGS LIMITED

We have audited the consolidated financial statements of Guardian Holdings Limited and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at 31 December 2011 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

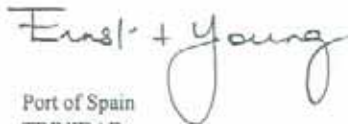
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Port of Spain
TRINIDAD:
23 March 2012

GUARDIAN HOLDINGS LIMITED

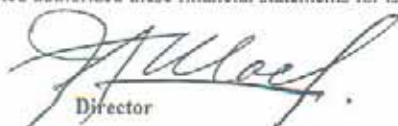
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

Expressed in Trinidad and Tobago Dollars

| | Notes | 2011 \$'000 | 2010 \$'000 |
|---|-------|-------------------|-------------------|
| Assets | | | |
| Property, plant and equipment | 5 | 501,275 | 509,744 |
| Investment properties | 6 | 1,120,431 | 905,507 |
| Intangible assets | 7 | 254,278 | 253,484 |
| Investment in associated companies | 8 | 202,010 | 276,847 |
| Financial assets | 9 | 11,257,043 | 11,183,338 |
| Financial assets of mutual fund unit holders | 9 | 1,164,983 | 1,244,907 |
| Loans and receivables | 10 | 1,510,752 | 2,148,127 |
| Lands for development and sale | 11 | 391,048 | 305,382 |
| Pension plan assets | 12 | 45,827 | 86,728 |
| Value of inforce life insurance business | 13 | 742,043 | 673,474 |
| Deferred tax assets | 14 | 21,490 | 25,595 |
| Reinsurance assets | 15 | 680,273 | 761,614 |
| Segregated fund assets of life insurance policyholders | 16 | 499,502 | 459,937 |
| Deferred acquisition costs | 17 | 72,657 | 369,623 |
| Taxation recoverable | | 138,205 | 157,550 |
| Cash and cash equivalents | 18 | 1,739,394 | 1,475,421 |
| Cash and cash equivalents of mutual fund unit holders | 18 | 161,050 | 150,517 |
| Assets held for sale | 19 | 1,000,356 | — |
| Total assets | | 21,502,617 | 20,987,795 |
| Equity and liabilities | | | |
| Share capital | 20 | 2,008,338 | 2,003,470 |
| Reserves | 21 | (264,360) | (249,587) |
| Retained earnings | | 1,410,625 | 1,285,362 |
| Equity attributable to owners of the parent | | 3,154,603 | 3,039,245 |
| Non-controlling interests in subsidiaries | 22 | 39,668 | 91,079 |
| Total equity | | 3,194,271 | 3,130,324 |
| Liabilities | | | |
| Insurance contracts | 23 | 11,610,115 | 12,453,763 |
| Financial liabilities | 24 | 2,965,525 | 2,729,732 |
| Third party interests in mutual funds | 25 | 1,085,343 | 1,065,548 |
| Segregated fund liabilities of life insurance policyholders | 16 | 499,502 | 459,937 |
| Post retirement medical benefit obligations | 26 | 60,923 | 78,916 |
| Deferred tax liabilities | 14 | 198,928 | 208,432 |
| Provision for taxation | | 56,463 | 102,308 |
| Other liabilities | 27 | 831,191 | 758,835 |
| Liabilities related to assets held for sale | 19 | 1,000,356 | — |
| Total liabilities | | 18,308,346 | 17,857,471 |
| Total equity and liabilities | | 21,502,617 | 20,987,795 |

The accompanying notes form an integral part of these consolidated financial statements. On 23 March 2012, the Board of Directors of Guardian Holdings Limited authorized these financial statements for issue.


Director


Director

GUARDIAN HOLDINGS LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011
Expressed in Trinidad and Tobago Dollars

| | Notes | 2011 \$'000 | 2010 \$'000 |
|--|---------|--------------------|--------------------|
| Insurance activities | | | |
| Insurance premium income | 28 (a) | 3,952,606 | 3,873,213 |
| Insurance premium ceded to reinsurers | 28 (b) | (1,067,746) | (696,729) |
| Reinsurance commission income | | 140,171 | 130,451 |
| | | <u>3,025,031</u> | <u>3,306,935</u> |
| Change in "Value of inforce life insurance business" | 13 | 70,272 | 75,808 |
| Net underwriting revenue | | <u>3,095,303</u> | <u>3,382,743</u> |
| Policy acquisition expenses | 29 | (513,684) | (548,569) |
| Net insurance benefits and claims | 30 | (2,221,411) | (2,572,897) |
| Underwriting expenses | | <u>(2,735,095)</u> | <u>(3,121,466)</u> |
| Net result from insurance activities | | 360,208 | 261,277 |
| Investing activities | | | |
| Investment income | 31 | 832,045 | 871,295 |
| Net realized gains on financial instruments | 32 | 83,872 | 245,003 |
| Net fair value gains on financial instruments | 33 | 83,536 | 98,753 |
| Fee income | 34 | 44,464 | 35,648 |
| Other income/(loss) | 35 | 92,008 | (8,307) |
| Investment contract benefits | | (79,997) | (83,725) |
| Net income from investing activities | | <u>1,055,928</u> | <u>1,158,667</u> |
| Net income from all activities | | 1,416,136 | 1,419,944 |
| Operating expenses | 36 | (729,204) | (728,032) |
| Finance charges | 37 | (110,044) | (82,854) |
| Operating profit | | 576,888 | 609,058 |
| Share of (loss)/profit of associated companies | 8 | (25,005) | 23,026 |
| Profit before taxation | | 551,883 | 632,084 |
| Taxation | 38 | (87,148) | (136,798) |
| Profit after taxation | | 464,735 | 495,286 |
| Amount attributable to participating policyholders | 23.1(d) | (8,716) | (14,359) |
| Profit from continuing operations | | 456,019 | 480,927 |
| Net loss on discontinued operations | 19 | (209,909) | (55,584) |
| Profit for the year | | <u>246,110</u> | <u>425,343</u> |
| Profit attributable to: | | | |
| - Equity holders of the parent | | 261,103 | 405,505 |
| - Non-controlling interests | | (14,993) | 19,838 |
| | | <u>246,110</u> | <u>425,343</u> |
| Earnings per share | | | |
| - Basic - for profit attributable to ordinary equity holders of the parent | 39 | \$ 1.13 | \$ 1.94 |
| - Diluted - for profit attributable to ordinary equity holders of the parent | 39 | \$ 1.10 | \$ 1.88 |
| Earnings per share for continuing operations | | | |
| - Basic - for profit attributable to ordinary equity holders of the parent | 39 | \$ 2.04 | \$ 2.20 |
| - Diluted - for profit attributable to ordinary equity holders of the parent | 39 | \$ 1.98 | \$ 2.14 |

The accompanying notes form an integral part of these consolidated financial statements.

GUARDIAN HOLDINGS LIMITED**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011
Expressed in Trinidad and Tobago Dollars**

| | 2011 | 2010 |
|--|-----------------|----------------|
| | \$'000 | \$'000 |
| Profit for the year | 246,110 | 425,343 |
| Other comprehensive (loss)/income | | |
| Exchange differences on translating foreign operations | (17,036) | 68,592 |
| Gains on property revaluation | 1,926 | 1,312 |
| Actuarial losses on defined benefit pension plans | (60,743) | (14,771) |
| Other reserve movements | 934 | 265 |
| Income tax charge relating to components of other comprehensive income | (580) | (890) |
| Other comprehensive (loss)/income for the period, net of tax | <u>(75,499)</u> | <u>54,508</u> |
| Total comprehensive income for the period, net of tax | <u>170,611</u> | <u>479,851</u> |
| Total comprehensive (loss)/income attributable to: | | |
| - Equity holders of the parent | 220,797 | 464,856 |
| - Non-controlling interests | <u>(50,186)</u> | <u>14,995</u> |
| | <u>170,611</u> | <u>479,851</u> |

The accompanying notes form an integral part of these consolidated financial statements.

GUARDIAN HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
Expressed in Trinidad and Tobago Dollars

| | Attributable to equity holders of the parent | | | | | |
|--|--|---------------------------------|-----------------------------|---|-------------------------------------|------------------------|
| | Share capital \$'000 | Reserves (Note 21) \$'000 | Retained earnings \$'000 | Total ordinary shareholders' equity \$'000 | Non-controlling interests \$'000 | Total equity \$'000 |
| At 1 January 2011 | 2,003,470 | (249,587) | 1,285,362 | 3,039,245 | 91,079 | 3,130,324 |
| Movement in unallocated shares | 197 | - | - | 197 | - | 197 |
| Total comprehensive income/(loss) | - | (16,091) | 236,888 | 220,797 | (50,186) | 170,611 |
| Transfer to/from retained earnings | - | 1,318 | (1,318) | - | - | - |
| Share option scheme - value of services provided (Note 20) | 5,270 | - | - | 5,270 | - | 5,270 |
| Share option scheme - lapses (Note 20) | (599) | - | 599 | - | - | - |
| Dividends (Note 40) | - | - | (110,906) | (110,906) | (1,225) | (112,131) |
| Balance at 31 December 2011 | <u>2,008,338</u> | <u>(264,360)</u> | <u>1,410,625</u> | <u>3,154,603</u> | <u>39,668</u> | <u>3,194,271</u> |

| | Attributable to equity holders of the parent | | | | | |
|--|--|---------------------------------|-----------------------------|---|-------------------------------------|------------------------|
| | Share capital \$'000 | Reserves (Note 21) \$'000 | Retained earnings \$'000 | Total ordinary shareholders' equity \$'000 | Non-controlling interests \$'000 | Total equity \$'000 |
| At 1 January 2010 | 1,530,398 | (325,189) | 1,058,786 | 2,263,995 | 78,442 | 2,342,437 |
| Total comprehensive income | - | 74,772 | 390,084 | 464,856 | 14,995 | 479,851 |
| Decrease in non-controlling interest | - | - | 1,733 | 1,733 | (1,733) | - |
| Issue of Shares | 412,609 | - | - | 412,609 | - | 412,609 |
| Transfer to/from retained earnings | 59,389 | 830 | (60,219) | - | - | - |
| Share option scheme - value of services provided (Note 20) | 1,950 | - | - | 1,950 | - | 1,950 |
| Share option scheme - lapses (Note 20) | (876) | - | 876 | - | - | - |
| Dividends (Note 40) | - | - | (105,898) | (105,898) | (625) | (106,523) |
| Balance at 31 December 2010 | <u>2,003,470</u> | <u>(249,587)</u> | <u>1,285,362</u> | <u>3,039,245</u> | <u>91,079</u> | <u>3,130,324</u> |

The accompanying notes form an integral part of these consolidated financial statements.

GUARDIAN HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
Expressed in Trinidad and Tobago Dollars**

| | Notes | 2011 S'000 | 2010 S'000 |
|--|-----------|----------------|------------------|
| Cash flows from operating activities | | | |
| Profit before taxation from continuing operations | | 551,883 | 632,084 |
| Loss before taxation from discontinued operations | | (209,909) | (55,584) |
| Adjustment for specific items included on the accruals basis: | | | |
| - Finance charges | | 110,044 | 82,854 |
| - Investment income | | (857,053) | (888,213) |
| Adjustment for non-cash items | 41 | (142,149) | (339,801) |
| Interest received | | 808,095 | 940,659 |
| Dividends received | | 36,133 | 32,361 |
| | | <u>297,044</u> | <u>404,360</u> |
| Operating profit before changes in operating assets/liabilities | | | |
| Net increase in insurance liabilities | | 155,142 | 445,759 |
| Net increase/(decrease) in reinsurance assets | | 11,941 | (48,207) |
| Net increase in investment contracts | | 83,765 | 60,596 |
| Purchase of financial assets | | (3,088,106) | (7,276,094) |
| Proceeds from sale of other financial assets | | 2,887,594 | 6,486,036 |
| Purchase of/additions to investment properties | | (201,376) | (188,670) |
| Proceeds from sale of investment property | | 1,184 | - |
| Net decrease in loans and receivables | | 41,873 | 173,061 |
| Net decrease in other operating assets/liabilities | | 164,307 | 69,495 |
| | | <u>353,368</u> | <u>126,336</u> |
| Cash provided by operating activities | | | |
| Interest paid | | (108,045) | (132,065) |
| Net taxation paid | | (120,251) | (107,748) |
| | | <u>125,072</u> | <u>(113,477)</u> |
| Net cash provided by/(used in) operating activities | | | |
| Cash flows from investing activities | | | |
| Additional investment in associated company | | (4,688) | (3,518) |
| Proceeds on sale of associated companies | | 116,851 | 8,261 |
| Proceeds on sale of subsidiary company | | - | 103,397 |
| Purchase of property, plant and equipment | | (32,608) | (46,106) |
| Proceeds on sale of property, plant and equipment | | 363 | 314 |
| Purchase of intangible assets | | (1,846) | (1,632) |
| | | <u>78,072</u> | <u>60,716</u> |
| Net cash provided by investing activities | | | |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | | - | 412,609 |
| Proceeds from borrowings | | 1,309,355 | 206,498 |
| Repayments of borrowings | | (1,169,174) | (1,180,089) |
| Dividends paid to equity holders of the parent | 40 | (110,906) | (105,898) |
| Dividends paid to non-controlling interests | | (1,225) | (625) |
| Redemptions from Mutual Funds | | (689,041) | (389,469) |
| Subscriptions to Mutual Funds | | 756,457 | 207,046 |
| | | <u>95,466</u> | <u>(849,928)</u> |
| Net cash provided by/(used in) financing activities | | | |
| Net increase/(decrease) in cash and cash equivalents | 18 | <u>298,610</u> | <u>(902,689)</u> |

The accompanying notes form an integral part of these consolidated financial statements.

GUARDIAN HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
Expressed in Trinidad and Tobago Dollars

1. Incorporation and principal activities of the Group

Guardian Holdings Limited (the 'Parent' and ultimate parent) was incorporated in the Republic of Trinidad and Tobago on 8 November 1982. It is a public limited liability holding company. The address of the registered office is 1 Guardian Drive, Westmoorings S.E., Trinidad and Tobago.

The Guardian Holdings Group (the 'Group') is a diversified financial services Group engaged in underwriting all classes of long-term, property and casualty business, and the provision of pension and asset management services. The Group conducts its operations through subsidiaries, associated companies and joint ventures.

The ordinary shares of the parent company are listed on the Trinidad and Tobago Stock Exchange and the Jamaica Stock Exchange.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). They have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, investment properties, derivative financial instruments and financial assets at fair value through profit or loss which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.1 Basis of preparation

(a) New standards and amendments/revisions to published standards and interpretations effective in 2011

The following amendments to published standards are mandatory for the Group's accounting periods beginning on or after 1 January 2011:

IAS 24 Related Party Disclosures (Revised)

The amendment clarified the definition of a related party without changing the fundamental approach to related party disclosures. The amendment also provides for a partial exemption to related party disclosures for government related entities. The adoption did not have any impact on the financial position, performance or disclosures of the Group.

IAS 32 Financial Instruments: Presentation - Classification of Rights Issues (Amendment)

The amendment alters the definition of a financial liability in IAS 32 to exclude rights issues and to be consistent with IFRS 2, that a pro rata issue of rights to all existing shareholders to acquire additional shares is a transaction with an entity's owners in their capacity as owners. Consequently, those transactions should be recognised in equity, not comprehensive income. The Group did not enter into any rights issue, option or warrants which would be affected by this amendment. The amendment is effective for financial years beginning on or after 1 February 2010.

IFRIC 14

The amendment was made to remove an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position or performance of the Group.

IFRIC 19

IFRIC 19 clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid. The equity instruments issued are at their fair value and any gain or loss is recognised immediately in profit or loss. This amendments is effective for annual periods beginning on or after 1 July 2010. This policy is currently being applied by the Group and did not have any impact on the financial position of the Group.

GUARDIAN HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
Expressed in Trinidad and Tobago Dollars
(Continued)

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) New standards and amendments/revisions to published standards and interpretations effective in 2011 (continued)

Improvements to IFRS (issued 2010)

The improvements to IFRS project is an annual process that the IASB has adopted to deal with non-urgent but necessary amendments to IFRS (The 'annual improvement process'). In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording.

IFRS 3 Business Combinations

The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of a liquidation should be measured at fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value.

IFRS 7 Financial Instruments - Disclosures

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put quantitative information in context. The Group reflects the revised disclosure requirements in Note 4.2 and Note 40.

IAS 1 Presentation of Financial Statements

The amendment clarifies that an entity may present an analysis of each component of other comprehensive income in the statement of changes in equity or in the notes to the financial statements. The Group provides this analysis in Note 20.

(b) New standards and amendments/revisions to published standards and interpretations effective in 2011 but not applicable to the Group

The following new and revised IFRSs and IFRIC Interpretations that have been issued do not apply to the activities of the Group:

- ▶ IFRS 3 Business Combinations (Contingent consideration arising from business combinations prior to adoption of IFRS 3 (as revised in 2008))
- ▶ IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- ▶ IAS 34 Interim Financial Statements
- ▶ IFRIC 13 Customer Loyalty Programmes
- ▶ IFRS 1 First-time Adoption of International Financial Reporting Standards - Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- ▶ IAS 27 Consolidated and Separate Financial Statements - Group reorganisations in separate financial statements

(c) New interpretations and revised or amended standards that are not yet effective and have not been early adopted by the Group

The improvements become effective for annual periods on or after either 1 July 2011 or 1 January 2012. These changes are currently being evaluated by Management.

- ▶ IFRS 1 First-time Adoption of International Financial Reporting Standards (Amendment) - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters - Effective 1 July 2011
- ▶ IFRS 7 Financial Instruments: Disclosures (Amendment) - Effective 1 July 2011
- ▶ IAS 12 Income taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets - Effective 1 January 2012
- ▶ IAS 1 Presentation of Items of Other Comprehensive Income - Amendments to IAS 1 - Effective 1 July 2012
- ▶ IAS 19 Employee Benefits (Revised) - Effective 1 January 2013
- ▶ IFRS 9 Financial Instruments - Classification and Measurement - Effective January 1 2013
- ▶ IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements - Effective 1 January 2013
- ▶ IFRS 11 Joint Arrangements, IAS 28 Investments in Associates and Joint Ventures - Effective 1 January 2013
- ▶ IFRS 12 Disclosure of Interests in Other Entities - Effective 1 January 2013
- ▶ IFRS 13 Fair Value Measurement - Effective 1 January 2013

GUARDIAN HOLDINGS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011
Expressed in Trinidad and Tobago Dollars
(Continued)

2. Significant accounting policies (continued)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all 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. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date on which control ceases.

The Group uses the purchase method of accounting for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (see Note 2.7). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated income statement.

All intra-group transactions and balances are eliminated on consolidation. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group. A listing of the Group's subsidiaries and associated companies is set out in Note 46.

(b) Associated companies

The Group's investment in its associated companies is accounted for using the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in associates is carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associates. Goodwill relating to associates is included in the carrying amount of the investment and is not amortized. The consolidated income statement reflects the share of the results of operations of the associates. When there has been a change recognized directly in the equity of the associates, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits or losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The share of profit of associated companies is shown on the face of the consolidated income statement. This is profit attributable to the equity holders of the associates.

The financial statements of the associates are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring its accounting policies in line with the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in associates. The Group determines at each consolidated statement of financial position date, whether there is any objective evidence that the investment in associates is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and its carrying value and recognizes the amount in the consolidated income statement. A listing of the Group's associates is set out in Note 46.

(c) Joint ventures

Jointly controlled entities are those that involve the establishment of a corporation, partnership or other entity in which each venturer has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity. The Group's interest in jointly controlled entities is accounted for on an equity basis.

(d) Mutual funds

The Group manages and controls certain mutual funds through its asset management subsidiary, Guardian Asset Management, in which it also has a beneficial ownership interest. These funds have been consolidated in these financial statements in accordance with IAS 27.

GUARDIAN HOLDINGS LIMITED

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2. Significant accounting policies (continued)

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products and services that are subject to risks and returns that are different from those of other business segments. For management purposes, the Group is organized into business units based on their products and services and has three reportable operating segments:

- (i) Life, Health and pension insurance
- (ii) Property and casualty insurance
- (iii) Asset management

Transfer prices between operating segments are set on an arms length basis in a manner similar with third parties. Segment income, expenses and results will include those transfers between segments which will then be eliminated on consolidation.

2.4 Foreign currency translation

(a) 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 thousands of Trinidad and Tobago dollars, which is also the Parent's functional currency.

(b) Transactions and balances in the financial statements

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 at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statement.

(c) Group

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the end of the reporting period.
- (ii) income and expenses for each consolidated income statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to the consolidated statement of comprehensive income. When a foreign operation is sold, liquidated or wound up, such exchange differences are recognized in the consolidated 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 the foreign entity's assets and liabilities and are translated at the closing rate.

2.5 Property, plant and equipment

Freehold properties comprise mainly offices occupied by the Group and are shown at fair value, based on periodic, but at least triennial, valuations by external independent appraisers, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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(Continued)

2. Significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are recognized in the consolidated statement of comprehensive income. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in the consolidated statement of comprehensive income; all other decreases are charged to the consolidated income statement.

Land is not depreciated. Depreciation on other assets is charged over the estimated useful lives of the assets using the following rates and methods:

| | | |
|---|---|---|
| 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 |

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement. When revalued assets are sold, the amounts included in the revaluation surplus account are transferred to retained earnings.

2.6 Investment properties

Freehold or leasehold properties held for long-term rental yields that are not occupied by the Group are classified as investment properties. Investment properties comprise freehold land and buildings. They are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. Fair value is based on active market prices, adjusted, as necessary for any difference in the nature, location or condition of the specified asset. Fair value is determined annually by accredited external independent valuers. Investment properties are not subject to depreciation. Any appreciation or diminution in value is recognized in the consolidated income statement.

If investment properties become owner-occupied, they are reclassified as property, plant and equipment, and their fair value at the date of reclassification becomes its cost for subsequent accounting periods. Alternatively, where properties classified as property under IAS 16 become investment properties because of a change in use, these properties are accounted for as investment properties and any differences arising between the carrying amount and the fair value of these items at the date of transfer are recognized in equity as a revaluation of property. However, if a fair value gain reverses a previous impairment loss, the gain is recognized in the consolidated income statement.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Upon disposal, any surplus previously recorded in the property revaluation reserve in equity is transferred to retained earnings.

The Group applies the fair value model for investment properties as described above. However, in exceptional cases for an investment property under construction where fair value is not readily determinable, it is stated at cost until either the fair value becomes readily determinable, or construction is completed (whichever is earlier).

Properties under construction that are intended for sale are classified as lands for development and sale. These balances are carried at the lower of cost and net realizable value.

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2. Significant accounting policies (continued)

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the acquisition date. Goodwill on acquisition of subsidiaries is reported on the consolidated statement of financial position. Goodwill on acquisition of associates is included in investments in associates. 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. Each of those cash-generating units represents the Group's investment in each country of operation by each primary segment.

(b) Brands

Brands acquired through direct purchase or through a business combination are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of brands over their estimated useful lives which range between 3 and 5 years.

(c) Computer software and website development costs

Acquired computer software licenses and website development costs are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are also recognized as intangible assets. These costs are amortized over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred.

2.8 Financial assets

(a) Initial recognition and subsequent measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, or held-to-maturity investments as appropriate. The Group determines the classification of its financial assets at initial recognition. The classification depends on the purpose for which the investments were acquired or originated.

Financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group's financial assets include cash and short-term deposits, debt securities, equity securities, interest receivable, receivables arising from insurance contracts and reinsurance contracts and other loans and receivables.

(b) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held-for-trading. The Group's subsidiaries, with the exception of its asset management company, do not engage in trading financial assets. For investments designated at fair value through profit or loss, the following criteria must be met:

- ▶ The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on a different basis; or
- ▶ The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

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2. Significant accounting policies (continued)

2.8 Financial assets (continued)

(b) Financial assets at fair value through profit or loss (continued)

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realized gain and loss are recognized in the consolidated income statement.

(c) Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold until maturity. These investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. After initial measurement, held-to-maturity financial assets are measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process.

(d) Loans

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The investments are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are included in the cost of the investment. After initial measurement, loans and receivables are measured at amortized cost, using the effective interest rate method. Gains and losses are recognized in the consolidated income statement when the investments are derecognized or impaired, as well as through the amortization process.

(e) Lands for development and sale

Properties under construction that are intended for sale, are classified as lands for development and sale. These balances are carried at the lower of cost and net realizable values.

(f) Fair value of financial assets

The fair value of quoted investments (primarily equity securities) are based on current bid prices at the consolidated statement of financial position date. If the market for a financial asset is not active (primarily government securities, debentures and corporate bonds), 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 and discounted cash flow analysis making maximum use of market inputs and relying as little as possible on entity-specific inputs.

If the fair value of unquoted equities cannot be measured reliably, these financial assets are measured at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment.

(g) Derecognition of financial assets

A financial asset (or when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- ▶ The rights to receive cash flows from the asset have expired.
- ▶ The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement.
- ▶ The Group has transferred its rights to receive cash flows from the asset and either:
 - ▶ has transferred substantially all the risk and rewards of the asset, or
 - ▶ has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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(Continued)

2. Significant accounting policies (continued)

2.8 Financial assets (continued)

(g) Derecognition of financial assets (continued)

When continuing involvement takes the form of a written and / or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that, in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.9 Impairment of assets

(a) Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss is recognized in the consolidated income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. The impairment assessment is performed at each consolidated statement of financial position date.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

(b) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. The recoverable amount is determined on an individual asset basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

Impairment losses of continuing operations are recognized in the consolidated income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the Group makes an estimate of recoverable amount. A previous impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

2.10 Segregated funds

Segregated funds' assets and liabilities represent funds maintained to meet specific investment objectives of policyholders who bear the investment risk. The value of the fund changes based on the market value fluctuations of the assets held by the fund and the returns earned by the investments of the fund. Investment income and both realized and unrealized gains and losses accrue directly to the policyholders.

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2. Significant accounting policies (continued)

2.10 Segregated funds (continued)

The assets of each fund are segregated and are not subject to claims that arise out of any other business of the Group. The assets and liabilities are carried at fair values. Deposits, withdrawals, net investment income and realized gains and losses, together with the increase or decrease in the market value of investments related to segregated policies are charged or credited to the segregated funds liabilities.

The Group earns fees for management of the funds, policy administration, as well as effecting the surrendering of units.

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current financial liabilities on the consolidated statement of financial position.

2.13 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds.

2.14 Insurance and investment contracts

(a) Classification

The Group issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Group defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

A number of insurance contracts contain a discretionary participation feature ("DPF"). This feature entitles the holder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses:

- a) that are likely to be a significant portion of the total contractual benefits;
- b) whose amount or timing is contractually at the discretion of the Group;
- c) and that are contractually based on:
 - (i) the performance of a specified pool of contracts or a specified type of contract;
 - (ii) realized and/or unrealized investment returns on a specified pool of assets held by the Group; or
 - (iii) the profit or loss of the Group, fund or other entity that issues the contract.

The terms and conditions of these contracts set out the bases for the determination of the amounts on which discretionary benefits are based and within which the Group may exercise its discretion as to the quantum and timing of their payments to contract holders, which will be subject to the advice of the Group's actuary or a locally appointed actuary.

(b) Recognition and measurement

Insurance contracts are classified into four main categories, depending on the duration of risk and whether or not the terms and conditions are fixed.

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(Continued)

2. Significant accounting policies (continued)

2.14 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(i) Short-term insurance contracts

These contracts are principally property, motor, casualty (employers' liability, public liability), marine, group life and health insurance contracts. Health insurance contracts include both group and individual health insurance.

Property insurance contracts indemnify the Group's customers in the event of a loss from a specified insured peril such as fire, windstorm or earthquake (not limited to these perils) up to the insured amount and within the terms of the policy conditions. These contracts are issued for both private and commercial risks. Customers who undertake commercial activities on their premises could also receive compensation for consequential loss/business interruption caused by the insured perils.

Motor insurance contracts indemnify the Group's customers for their legal requirement under the relevant country's Road Traffic Act which in certain instances stipulate unlimited coverage for third party liability. These contracts may be extended for additional coverage such as physical damage, theft and personal accident.

Casualty insurance contracts provide coverage for liability exposures that indemnify the Group's customers against actions from third parties which are subject to the policy limits and conditions. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and employers who become liable to pay compensation to third parties for bodily harm or property damage (public liability).

Marine insurance contracts indemnify the Group's customers for loss or damage to their insured cargo, commercial hull and pleasure craft vessels. Third party coverage is also provided.

Group life contracts protect the Group's customers from the consequences of events (such as death or critical illness) that would affect the ability of the customer or his/her dependants to maintain their current level of income. Health insurance contracts provide for both unexpected and preventative medical treatment and drugs. On these contracts, the benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of the economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For all these contracts, premiums are recognized as revenue (earned premiums) proportionally over the period of coverage. The portion of premiums received on inforce contracts that relate to unexpired risks at the consolidated statement of financial position date is reported as an unearned premium liability. Premiums are shown before deduction of commissions payable to agents and brokers and exclude any taxes or duties levied on such premiums. Premium income includes premiums collected by agents and brokers not yet received by the Group.

Unearned premiums represent the portion of premiums written in the current year which relate to periods of insurance subsequent to the consolidated statement of financial position date calculated using either the three hundred and sixty-fifths method or the twenty-fourths method. Unearned premiums relating to marine cargo are calculated using 180 days after the first date of sailing. Unearned premiums relating to group life are calculated based on 25% of net premiums written.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders. They arise from events that have occurred up to the consolidated statement of financial position date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims other than for disability claims. Liabilities for unpaid claims are estimated using techniques such as the input of assessments for individual cases reported to the Group and statistical analyses for the claims incurred but not reported ("IBNR"), and to estimate the expected ultimate cost of more complex claims that may be affected by external factors such as court decisions. Estimates are continually revised as more information becomes available and for the effects of anticipated inflation. Adjustments arising on these revisions are recognized within claims expense in the current year.

(ii) Long-term insurance contracts with fixed and guaranteed terms and without DPF

These contracts insure events associated with human life over a long duration. Premiums are recognized as revenue when they become payable by the policyholder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when incurred.

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2. Significant accounting policies (continued)

2.14 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(ii) Long-term insurance contracts with fixed and guaranteed terms and without DPF (continued)

A liability for policyholders' benefits that are expected to be incurred in the future is recorded when the premiums are recognized. Typically, the liability is determined as the sum of the expected discounted value of the benefit payments less the expected discounted value of the theoretical premiums that would be required to meet the benefits based on the valuation assumptions used (the valuation premiums). In particular, the liability is based on assumptions as to mortality and investment income. A margin for adverse deviations is included in the assumptions.

The liabilities are recalculated at each consolidated statement of financial position date and the change in the liability is recognized as an expense in the consolidated income statement.

For the Trinidad and Tobago life insurance subsidiaries, reserves held are calculated based on the Zillmerised Net Premium Method. A gross premium method is used for some lines of business.

For the Jamaican life insurance subsidiary, reserves are calculated using the Policyholder Premium Method as required under the Insurance Act 2001 of Jamaica.

For the Dutch Caribbean life insurance subsidiary, reserves are calculated on a Modified Net Premium Method in accordance with the requirements of the Central Banks of the Netherlands Antilles and of Aruba.

Unit linked and interest sensitive insurance contracts

The premiums paid for these contracts contain an element that covers the insured event and another which is used to accumulate cash values available for withdrawal at the option of the policyholder. These cash values earn interest.

Unit Linked Insurance contracts

For the Jamaican life insurance subsidiary, the portion of the premium covering the insured risk is recorded as premium income. The portion of the premium which accumulates a cash value for the policyholder is recorded as a liability and is credited to the account of the policyholder in the respective segregated fund (Note 2.10) to which the contract is linked.

The liabilities arising from the unit linked contracts comprise the liability for the insured risk and the accumulated cash value. The liability for the insured risk is determined in a manner identical to the liability for contracts with fixed and guaranteed terms and is included in the policyholders' liability balance while the liability for the accumulated cash value is carried at fair value of the assets which fund the liabilities. The liabilities for the accumulated cash values are included in the segregated funds' liability balance. The Group bears no risk in relation to segregated funds' liability.

The change in the liability arising from the insurance risk is recognized as an expense in the consolidated income statement.

Interest

The Jamaican life insurance subsidiary issues interest sensitive policies for which the entire premium is recorded as premium income and there is no unbundling of the premium receipt between the insurance and investment components. The liability for the interest sensitive policies is determined as the sum of the liability for the insured risk as determined above for unit linked policies and the liability for the accumulated cash values. The entire liability for the interest sensitive policies is recorded in insurance contracts.

The change in the overall liability for the interest sensitive policies is recognized as an expense in the consolidated income statement.

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2. Significant accounting policies (continued)

2.14 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(iii) Long-term insurance contracts without fixed terms

Unit Linked insurance contracts

For the Trinidad and Tobago life insurance subsidiary the entire premium on these contracts is recorded as premium income. The liabilities held for these contracts are the contract holders' notional account balances. The mortality charges deducted in each period from the contract holders as a group are considered adequate to cover the expected total death benefit claims in excess of the contract holders' notional account balances in each period; no additional liability is therefore established for these claims other than a small provision for incurred but not reported claims. Some of the Group's unit-linked annuity contracts contain a guarantee that entitles the holders to a minimum guaranteed crediting rate over the life of the policy. A reserve is held for this guarantee.

(iv) Long-term insurance contracts with fixed and guaranteed terms and with DPF

In addition to death or life benefits, these contracts contain a DPF that entitles the holders to a bonus or dividend declared by the company from time to time. The discretionary element of the benefits payable under these policies, as well as the guaranteed elements are treated as liabilities and any changes in the total benefits due are recognized as charges in the consolidated income statement and form part of increases in reserves for future benefits of policyholders.

(v) Investment contracts

The Group issues investment contracts including deposit administration contracts and individual deferred annuity contracts. Insurance premiums are recognized directly as liabilities. These liabilities are increased by credited interest or change in the unit prices and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Revenue consists of investment income and interest credited is treated as an expense.

(c) Outstanding claims

Provision for outstanding claims and the related costs of settlement are based on incidents reported before the end of the financial year and include appropriate provisions for claims incurred but not yet reported. Estimates are continually revised as more information becomes available and for the effects of anticipated inflation. Adjustments arising on these revisions are included with claims expense in the current year.

(d) Policyholders' benefits

Maturities and annuities are accounted for when due.

Death and disability claims and surrenders are recognized in the financial statements in the year in which they have been notified.

Differences between the estimated claims and subsequent settlements are recognized in the consolidated income statement in year of settlement.

(e) Value to shareholders of inforce long-term business

Besides estimating the insurance liabilities, the Group estimates the present value of future profits to be earned on its long-term lines of business. This value to shareholders of inforce long-term business is included on the consolidated statement of financial position and changes in it flow through the consolidated income statement. The value to shareholders of inforce long-term business is calculated as the present value of free cash flow produced by the insurance contracts and their associated reserves that are inforce as at the consolidated statement of financial position date.

(f) Deferred acquisition costs ("DAC")

Commissions paid to agents and brokers for property, casualty and short-duration life insurance contracts that are related to securing new contracts and renewing existing contracts are expensed over the terms of the policies as premium is earned. All other costs are recognized as expenses when incurred.

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2. Significant accounting policies (continued)

2.14 Insurance and investment contracts (continued)

(g) Liability adequacy test

At each consolidated statement of financial position date, the Group assesses whether its recognized insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate, the deficiency is recognized in the consolidated income statement and the amount of the relevant insurance liabilities is increased.

(h) Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inward reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognized as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the consolidated income statement.

(i) Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognized when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognizes that impairment loss in the consolidated income statement.

(j) Salvage and subrogation reimbursements

Some insurance contracts permit the Group to sell (usually damaged) property acquired in settling a claim (salvage). The Group may also have the right to pursue third parties for payment of some or all costs (subrogation). The estimated cost of claims includes a deduction for the expected value of salvage and other recoveries.

2.15 Borrowings

Borrowings are recognized initially at fair value, plus directly attributable transaction costs. After initial recognition, interest bearing loans are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised.

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2. Significant accounting policies (continued)

2.16 Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. All derivative financial instruments are recorded in the consolidated statement of financial position at fair value as assets when favorable to the Group and liabilities when unfavorable. Realized and unrealized gains and losses on trading derivatives are reflected in income and recognized as trading gains or losses.

2.17 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. Deferred tax assets are taxes recoverable in future periods in respect of deductible temporary differences and tax losses carried forward. Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Tax on the profit is charged at varying rates depending on the type of business that the individual entities are engaged in and the country in which they reside.

2.18 Employee benefits

(a) Pension plans

The Group operates a number of defined benefit and defined contribution 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 after taking account of the recommendations of the independent qualified actuaries.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods.

The asset recognized in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the consolidated statement of financial position date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. Plan assets exclude any insurance contracts issued by the Group.

For defined benefit plans, the pension accounting costs are assessed using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated 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 recognized immediately in the consolidated statement of comprehensive income.

The Group's contributions to the defined contribution pension plans are charged to the consolidated income statement in the year to which they relate.

(b) Post retirement medical benefit obligations

The Group's subsidiary in the Dutch Caribbean provides post-retirement medical benefits to its permanent employees who retire from active service, their spouses and their dependents. The entitlement to these benefits is based on the employee remaining in service up to retirement age or leaving service due to ill health. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit plans. All actuarial gains and losses are recognized immediately. Independent qualified actuaries carry out a valuation of these obligations.

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(Continued)

2. Significant accounting policies (continued)

2.18 Employee benefits (continued)

(c) Share-based compensation

The Group operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized 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. At each consolidated statement of financial position date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the consolidated income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

(d) Employee share ownership plan ("ESOP")

The employees of subsidiaries incorporated in Trinidad and Tobago have the option to receive their bonuses in cash and/or ordinary shares of the parent company purchased on the open market, in accordance with the terms outlined in the Trust Deed governing an approved ESOP. The Group recognizes an expense within staff costs when bonuses are awarded.

(e) Profit sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit sharing based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognizes a provision where contractually obligated or where there is a past practice that has created a constructive obligation.

2.19 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.20 Revenue recognition

Revenue comprises the fair value for services rendered after eliminating revenue within the Group. Revenue is recognized as follows:

(a) Premium income

Premium income is recognized on the accrual basis in accordance with the terms of the underlying contracts as outlined in Note 2.14.

(b) Investment income

Interest income is recognized using the effective interest method. Rental income is recognized in the consolidated income statement on the accrual basis. Dividend income is recognized when the right to receive payment is established. Realized and unrealized investment gains and losses are recognized in the consolidated income statement in the period in which they arise.

(c) Commission income

Commissions are recognized on the accrual basis when the service has been provided.

(d) Fee income

Fees are earned from the management of the assets of the segregated funds and deposit administration funds and from general policy administration and surrenders. Fees are recognized in the period in which the services are rendered.

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(Continued)

2. Significant accounting policies (continued)

2.20 Revenue recognition (continued)

(d) Fee income (continued)

For the asset management company in the Group, portfolio, asset management fees and other management advisory and service fees are recognized based on the applicable service contracts over the period the service is provided. Management fees and commissions arising from negotiating, or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction.

2.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as an appropriation in the Group's consolidated financial statements in the period in which the dividends are approved by the Group's Board of Directors.

2.23 Finance charges

Finance charges are recognized as an expense in the period in which they are incurred except to the extent that they are capitalized when directly attributable to the acquisition, construction or production of an investment property or in developing properties for sale.

2.24 Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the period.

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.

2.25 Assets under management

The Group provides custody and trustee discretionary investment management services to third parties. Such assets under management represent the managed funds administered by the asset management company.

2.26 Subscriptions and redemptions on Mutual Funds portfolio

(a) Subscriptions - Units relating to the various pools of mutual funds consolidated in the Group's financial statements could be subscribed based on the net asset value per unit of the underlying funds determined on each business day.

(b) Distributions - The net income and net realised capital gains of the various pools of mutual funds are calculated and accrued to the investor daily and distributed monthly. Investors have the option either to receive a cash distribution or to reinvest income distributions into units at the prevailing subscription price as at the date of distribution.

(c) Redemptions - Units relating to the various pools of mutual funds consolidated in the Group's financial statements are redeemed at a price per unit based on the net asset value of the underlying funds published on the date that the request is made.

2.27 Comparative information

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

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3. Critical accounting estimates and judgments in applying accounting policies

The Group makes estimates and assumptions that may affect the reported amounts of assets and liabilities during the succeeding financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is an important accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims in particular, the claims arising from motor, casualty and health insurance contracts.

(b) Estimate of future benefit payments and premiums arising from long-term insurance contracts

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Group. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard mortality tables adjusted where appropriate to reflect the Group's own experience or expectations. For contracts that insure the risk of longevity, no allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics (such as AIDS or SARS) and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Group has significant exposure to mortality risk.

However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed to longevity risk.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. See Note 4.1.4 (e) for the sensitivity of the value of insurance liabilities to changes in assumptions used to value these liabilities.

(c) Value of Inforce life insurance business

In determining this value, assumptions relating to future mortality, persistence and the level of expenses are based on experience of the type of business concerned. The assumptions made and methods employed are reviewed each year in light of the actual experience and data available. Any significant changes made to these can create a source of profit or loss. The following tables present the effect on the profit or loss to changes in the assumptions used in the estimation of value to shareholders of inforce long term business.

| | Change in variable | Effect on Consolidated income | |
|---|--------------------|-------------------------------|---------------|
| | | 2011 S'000 | 2010 S'000 |
| For the Trinidadian life insurance subsidiaries: | | | |
| Variable | | | |
| Worsening of mortality | + 1.0% | 4,854 | 4,335 |
| Improvement of annuitant mortality | + 5.0% | 6,771 | 5,882 |
| Lowering of investment returns | - 1.0% | 45,247 | 39,467 |
| Worsening of base renewal expense level | + 5.0% | 15,933 | 14,783 |
| Worsening of expense inflation rate | + 1.0% | 26,881 | 23,073 |
| For the Jamaican life insurance subsidiary: | | | |
| Variable | | | |
| Worsening of mortality | + 10.0% | 7,423 | 4,359 |
| Lowering of investment returns | - 2.0% | 132,338 | 108,274 |
| Worsening of base renewal expense level | + 5.0% | 4,266 | 7,002 |
| Worsening of expense inflation rate | + 1.0% | 20,439 | 33,650 |

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3. Critical accounting estimates and judgments in applying accounting policies (continued)

(d) Fair valuation of financial assets

The fair value of financial assets that are not traded in an active market is determined by using an internally developed bond valuation model. Assumptions used in this model are validated and periodically reviewed internally by qualified personnel. Where applicable, data is calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions used in valuations could affect reported fair value of financial assets. Key assumptions are based on current market yields. The following shows the effect on the profit or loss to changes in the market yields.

| | Effect on consolidated income | | | |
|--|-------------------------------|---------|-----------|---------|
| | 2011 | | 2010 | |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| For the Trinidadian insurance subsidiaries: | | | | |
| Decrease/(increase) in market yields ($\pm 1\%$) | (196,297) | 212,798 | (181,152) | 197,880 |

(e) Impairment losses on loans, receivables and other assets

The Group reviews its asset portfolios to assess impairment on a periodic basis. In determining whether an impairment loss should be recognized in the consolidated income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the underlying portfolios. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(f) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes 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.

(g) Held-to-maturity investments

The Group follows the IAS 39 guideline on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity dates as held to maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire category. The investments would therefore be measured at fair value and not amortized cost. If the entire class of held to maturity investments is tainted, the carrying value would increase by \$514 million as at 31 December 2011 (as at 31 December 2010: increase of \$241 million) with a corresponding entry in the fair value reserve in shareholders' funds.

(h) Impairment of non-financial assets

An impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

(i) Employee benefits

In conducting valuation exercises to measure the effect of all employee benefit plans throughout the Group, the company's independent actuaries use judgement and assumptions in determining discount rates, salary increases, pension increases and rates of return on the assets of the Plans. These are detailed in Note 12 and Note 26.

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4. Management of insurance and financial risk

The Group issues contracts that transfer insurance risk or financial risk or both. This section summarizes these risks and the way the Group manages them.

4.1 Insurance risk

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 claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are 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 aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

4.1.1 Casualty insurance risks

(a) Frequency and severity of claims

The frequency and severity of claims can be affected by several factors. The Group manages these risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling.

The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography.

Underwriting limits are in place to enforce appropriate risk selection criteria. For example, the Group has the right not to renew individual policies, it can impose deductibles and it has the right to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (subrogation).

The Group's reinsurance arrangements include non proportional excess of loss placements on a per claimant and a per occurrence basis.

(b) Sources of uncertainty in the estimation of future claim payments

Claims on casualty contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. As a result, liability claims are settled over a long period of time and a large element of the claims provision relates to claims incurred but not reported (IBNR). There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the inherent risks of the business activities carried out by individual contract holders and the risk management procedures they adopted. The compensation paid on these contracts is the monetary awards granted for bodily injury suffered by employees (for employer's liability cover) or members of the public (for public liability cover). Such awards are lump-sum payments that are calculated as the present value of the lost earnings and rehabilitation expenses that the injured party will incur as a result of the accident.

The estimated cost of claims includes direct expenses to be incurred in settling claims. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The liability for these contracts comprises a provision for IBNR and a provision for reported claims not yet paid at the consolidated statement of financial position date.

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4. Management of insurance and financial risk (continued)

4.1 Insurance risk (continued)

4.1.1 Casualty insurance risks (continued)

(b) Sources of uncertainty in the estimation of future claim payments (continued)

In calculating the estimated cost of unpaid claims (both reported and IBNR), the Group estimation techniques are a combination of loss-ratio-based estimates (where the loss ratio is defined as the ratio between the ultimate cost of insurance claims and insurance premiums earned in a particular financial year in relation to such claims) and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes.

The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims has happened. For casualty contracts, the IBNR proportion of the total liability is high and will typically display greater variability between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities.

In estimating the liability for the cost of reported claims not yet paid the Group considers any information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Note 23.2 presents the development of the estimate of ultimate claim cost for claims notified in a given year. This gives an indication of the accuracy of the Group's estimation technique for claims payments.

4.1.2 Short duration life insurance contracts

(a) Frequency and severity of claims

Short-duration life insurance contracts are contracts which are typically of a short tenure with the tenure being often determined by the length of an individual's time in employment. These contracts are mainly issued to employers to insure their commitments to their employees. The risk is affected by the nature of the industry in which the employer operates. The risk of death and disability will vary by industry.

The Group attempts to manage this risk through its underwriting and claims handling. Additionally there is reinsurance on short-duration life insurance contracts. For the Jamaican life insurance subsidiary, there is concentration of risk in the services sector. For the Trinidadian life insurance subsidiaries, there is concentration of risk in the banking / finance sector and the retail / services sector.

(b) Sources of uncertainty in the estimation of future claim payments

There is no need to estimate mortality rates or morbidity rates for future years because these contracts have short a duration. However, for incurred disability income claims, it is necessary to estimate the rates of recovery from disability for future years. The group currently does so using conservative assumptions.

(c) Changes in assumptions

The Group's assumptions in respect of short duration life insurance contracts have not changed from prior year.

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4. Management of insurance and financial risk (continued)

4.1 Insurance risk (continued)

4.1.3 Property insurance contracts

(a) Frequency and severity of claims

For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, river flooding and hurricanes) and their consequences (for example, subsidence claims). For certain contracts, the Group has also limited the number of claims that can be paid in any policy year or introduced a maximum amount payable for claims in any policy year.

The Group has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claims payment limits are always included to cap the amount payable on occurrence of the insured event. The cost of rebuilding properties, of replacement or indemnity for contents and the time taken to restart operations for business interruption are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm or flood damage. The Group analyses the property exposures using in-house and external modelling tools and purchases sufficient reinsurance protection to cover its perceived liabilities.

The Group's reinsurance arrangements include proportional quota share and surplus arrangements and non proportional excess of loss placements on a per claimant and a per occurrence basis.

b) Sources of uncertainty in the estimation of future claim payments

Property claims are analyzed separately for subsidence and non-subsidence claims. The development of large losses/catastrophes is analyzed separately. Non-subsidence claims can be estimated with greater reliability, and the Group 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 Group to achieve a higher degree of certainty about the estimated cost of claims, and relatively little IBNR is held at year end. The longer time needed to assess the emergence of a subsidence claim makes the estimation process more uncertain.

4.1.4 Long-term insurance contracts

(a) Frequency and severity of claims

For contracts where death is the insured risk, the most significant factors that could increase the overall frequency of claims are epidemics (such as AIDS or SARS) or wide spread changes in lifestyle, such as eating, smoking and exercise habits, resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that would increase longevity.

At present, these risks do not vary significantly in relation to the location of the risk insured by the Group. However, undue concentration could have an impact on the severity of benefit payments on a portfolio basis.

For contracts with fixed and guaranteed terms, there are no mitigating terms and conditions that reduce the insurance risk accepted. For contracts, without fixed terms, a significant portion of the insurance risk is shared with the insured party. The Group charges for mortality risk on a monthly basis for most life and critical insurance contracts without fixed terms. It has the right to alter these charges based on its mortality experience and hence minimize its exposure to mortality risk.

The Group manages these risks through its underwriting strategy and reinsurance arrangements. Medical selection is included in the Group's underwriting procedures with premiums varied to reflect the health condition and family medical history of the applicants. The Group uses excess of loss reinsurance contracts with retention limits that vary by product.

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4. Management of insurance and financial risk (continued)

4.1 Insurance risk (continued)

4.1.4 Long-term insurance contracts (continued)

(a) Frequency and severity of claims (continued)

The table below presents the concentration of insured benefits across five bands per individual life assured. The benefit insured figures are shown gross and net of the reinsurance contracts described above. These tables do not include annuity contracts, for which a separate analysis is reported further below.

For the Jamaican life insurance subsidiary:

| Benefits assured per life \$'000 | 2011 - Total benefits insured | | | |
|---|-------------------------------|---------------|-------------------|---------------|
| | Before reinsurance | | After reinsurance | |
| | TTS'000 | % | TTS'000 | % |
| JS1,000 - 5,000 (TTS70 - TTS350) | 11,984,753 | 87.2% | 11,889,745 | 92.3% |
| JS5,001 - 10,000 (TTS350 - TTS699) | 1,028,007 | 7.5% | 780,066 | 6.1% |
| JS10,001 - 15,000 (TTS699- TTS1,049) | 234,304 | 1.7% | 107,977 | 0.8% |
| JS15,001 - 20,000 (TTS1,049 - TTS1,398) | 163,556 | 1.2% | 54,520 | 0.4% |
| JS20,001 and over (TTS1,398 and over) | 330,028 | 2.4% | 53,760 | 0.4% |
| Total | 13,740,648 | 100.0% | 12,886,068 | 100.0% |

The risk is concentrated in the lower value bands. This has not changed from last year.

| Benefits assured per life \$'000 | 2010 - Total benefits insured | | | |
|---|-------------------------------|---------------|-------------------|---------------|
| | Before reinsurance | | After reinsurance | |
| | TTS'000 | % | TTS'000 | % |
| JS1,000 - 5,000 (TTS70 - TTS350) | 11,319,224 | 87.9% | 11,117,149 | 95.0% |
| JS5,001 - 10,000 (TTS350 - TTS699) | 930,873 | 7.2% | 467,723 | 4.0% |
| JS10,001 - 15,000 (TTS699- TTS1,049) | 211,663 | 1.6% | 62,909 | 0.5% |
| JS15,001 - 20,000 (TTS1,049 - TTS1,398) | 126,334 | 1.0% | 25,886 | 0.2% |
| JS20,001 and over (TTS1,398 and over) | 293,894 | 2.3% | 35,843 | 0.3% |
| Total | 12,881,988 | 100.0% | 11,709,510 | 100.0% |

For the Trinidadian life insurance subsidiaries:

| Benefits assured per life \$'000 | 2011 - Total benefits insured | | | |
|-------------------------------------|-------------------------------|---------------|-------------------|---------------|
| | Before reinsurance | | After reinsurance | |
| | TTS'000 | % | TTS'000 | % |
| 0 - 250 (TTS) | 11,874,939 | 32.1% | 11,259,232 | 43.3% |
| 250-500 (TTS) | 3,890,398 | 10.5% | 3,231,386 | 12.5% |
| 500 -1,000 (TTS) | 10,403,168 | 28.2% | 7,158,911 | 27.6% |
| 1,000 - 3,000 (TTS) | 8,435,437 | 22.9% | 3,595,373 | 13.9% |
| More than 3,000 (TTS) | 2,284,152 | 6.3% | 688,364 | 2.7% |
| Total | 36,888,094 | 100.0% | 25,933,266 | 100.0% |

The risk is concentrated in the lower value bands. This has not changed from last year.

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(Continued)

4. Management of insurance and financial risk (continued)

4.1 Insurance risk (continued)

4.1.4 Long-term insurance contracts (continued)

(a) Frequency and severity of claims (continued)

For the Trinidadian life insurance subsidiaries (continued):

| Benefits assured per life \$'000 | 2010 - Total benefits insured | | | |
|-------------------------------------|-------------------------------|---------------|-------------------|---------------|
| | Before reinsurance | | After reinsurance | |
| | TTS'000 | % | TTS'000 | % |
| 0 - 250 (TTS) | 11,762,006 | 34.8% | 11,101,144 | 50.8% |
| 250 - 500 (TTS) | 3,692,143 | 10.9% | 2,988,253 | 13.7% |
| 500 - 1,000 (TTS) | 9,175,099 | 27.2% | 5,639,947 | 25.8% |
| 1,000 - 3,000 (TTS) | 7,204,077 | 21.3% | 1,948,069 | 8.9% |
| More than 3,000 (TTS) | 1,936,552 | 5.8% | 163,186 | 0.8% |
| Total | 33,769,877 | 100.0% | 21,840,599 | 100.0% |

For the Dutch Caribbean life insurance subsidiaries:

| Benefits assured per life \$'000 | 2011 - Total benefits insured | | | |
|--|-------------------------------|---------------|-------------------|---------------|
| | Before reinsurance | | After reinsurance | |
| | TTS'000 | % | TTS'000 | % |
| NAF\$0 - 500 (TTS\$0 - TTS\$1,769) | 2,457,969 | 87.9% | 2,360,969 | 97.6% |
| NAF\$501 - 1,000 (TTS\$1,769 - TTS\$3,538) | 210,061 | 7.5% | 48,547 | 2.0% |
| NAF\$1,001 - 1,500 (TTS\$3,538 - TTS\$5,307) | 74,488 | 2.7% | 8,512 | 0.4% |
| NAF\$1,501 - 2,000 (TTS\$5,307 - TTS\$7,075) | 28,547 | 1.0% | - | 0.0% |
| More than NAF\$2,000 (TTS\$7,075) | 25,942 | 0.9% | - | 0.0% |
| Total | 2,797,007 | 100.0% | 2,418,028 | 100.0% |

The risk is concentrated in the lower value bands. This has not changed from last year.

| Benefits assured per life \$'000 | 2010 - Total benefits insured | | | |
|--|-------------------------------|---------------|-------------------|---------------|
| | Before reinsurance | | After reinsurance | |
| | TTS'000 | % | TTS'000 | % |
| NAF\$0 - 500 (TTS\$0 - TTS\$1,769) | 2,378,682 | 87.7% | 2,303,725 | 97.9% |
| NAF\$501 - 1,000 (TTS\$1,769 - TTS\$3,538) | 198,062 | 7.3% | 42,516 | 1.8% |
| NAF\$1,001 - 1,500 (TTS\$3,538 - TTS\$5,307) | 81,890 | 3.0% | 8,184 | 0.3% |
| NAF\$1,501 - 2,000 (TTS\$5,307 - TTS\$7,075) | 23,077 | 0.9% | - | 0.0% |
| More than NAF\$2,000 (TTS\$7,075) | 28,502 | 1.1% | - | 0.0% |
| Total | 2,710,213 | 100.0% | 2,354,425 | 100.0% |

The following tables for annuity insurance contracts illustrate the concentration of risk based on five bands that group these contracts in relation to the amount payable per annum as if the annuity were in payment at the year end. The Group does not hold any reinsurance contracts against the liabilities carried for these contracts.

Insurance risk for contracts disclosed in this note is also affected by the contract holders' right to pay reduced or no future premiums, to terminate the contract completely, or to exercise a guaranteed annuity option. As a result, the amount of insurance risk is also subject to contract holder behaviour.

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(Continued)

4. Management of insurance and financial risk (continued)

4.1 Insurance risk (continued)

4.1.4 Long-term insurance contracts (continued)

(a) Frequency and severity of claims (continued)

For the Jamaican life insurance subsidiary:

| | Total annuities payable per annum | | | |
|---|-----------------------------------|---------------|----------------|---------------|
| | 2011 | | 2010 | |
| Annuitant payable per annum per life S'000 | TTS'000 | % | TTS'000 | % |
| JS 0 - 200,000 (TTS0 - TTS13,980) | 41,897 | 30.3% | 32,480 | 31.0% |
| JS200,001 - 300,000 (TTS13,980 - TTS20,970) | 17,209 | 12.4% | 14,930 | 14.3% |
| JS300,001 - 400,000 (TTS20,970 - TTS27,960) | 11,048 | 8.0% | 8,145 | 7.8% |
| JS400,001 - 500,000 (TTS27,960 - TTS34,950) | 9,336 | 6.7% | 6,577 | 6.3% |
| More than JS500,000 (More than TTS34,950) | 59,050 | 42.6% | 42,433 | 40.6% |
| Total | 138,540 | 100.0% | 104,565 | 100.0% |

The greatest risk concentration remains at the highest band and lowest band which is consistent with the prior year.

For the Trinidadian life insurance subsidiaries:

| | Total annuities payable per annum | | | |
|---|-----------------------------------|---------------|---------------|---------------|
| | 2011 | | 2010 | |
| Annuitant payable per annum per life S'000 | TTS'000 | % | TTS'000 | % |
| 0 - 5,000 (TTS) | 6,136 | 7.3% | 6,057 | 7.7% |
| 5,001 - 10,000 (TTS) | 20,926 | 25.0% | 10,800 | 13.9% |
| 10,001 - 20,000 (TTS) | 12,399 | 14.8% | 19,172 | 24.6% |
| More than 20,000 (TTS) | 44,310 | 52.9% | 41,897 | 53.8% |
| Total | 83,771 | 100.0% | 77,926 | 100.0% |

The greatest concentration remains at the highest band, which is consistent with the prior year.

For the Dutch Caribbean life insurance subsidiaries:

| | Total annuities payable per annum | | | |
|---|-----------------------------------|---------------|---------------|---------------|
| | 2011 | | 2010 | |
| Annuitant payable per annum per life S'000 | TTS'000 | % | TTS'000 | % |
| NAF\$0 - 10 (TTS0 - TTS35) | 1,573 | 12.0% | 1,515 | 11.1% |
| NAF\$11 - 20 (TTS35 - TTS71) | 2,993 | 22.8% | 2,705 | 19.7% |
| NAF\$21 - 30 (TTS71 - TTS106) | 2,208 | 16.9% | 2,412 | 17.6% |
| NAF\$31 - 40 (TTS106 - TTS142) | 2,538 | 19.4% | 2,756 | 20.1% |
| NAF\$41 - 50 (TTS142 - TTS177) | 1,294 | 9.9% | 1,283 | 9.4% |
| More than NAF\$50 (More than TTS177) | 2,484 | 19.0% | 3,038 | 22.1% |
| Total | 13,090 | 100.0% | 13,709 | 100.0% |

The risk is spread over all the bands which is consistent with the prior year.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011 Expressed in Trinidad and Tobago Dollars (Continued)

4. Management of insurance and financial risk (continued)

4.1 Insurance risk (continued)

4.1.4 Long-term insurance contracts (continued)

(b) Sources of uncertainty in the estimation of future benefit payments and premium receipts

Uncertainty in the estimation of future benefit payments and premium receipts for long-term insurance contracts arises from the unpredictability of long-term changes in overall levels of mortality and the variability in contract holder behaviour.

The Group uses appropriate base tables of standard mortality according to the type of contract being written and the territory in which the insured person resided. An investigation into the actual experience for the Group is carried out periodically, and the results compared to that used in the policyholder liability and value to shareholders of inforce long-term business figures. No adjustment for future mortality improvements is made for contracts that insure survival.

(c) Process used to decide on assumptions

For long term insurance contracts, the Group determines assumptions in relation to future deaths, voluntary termination, investment returns, administrative expenses and other items that are appropriate to the policies, their location and the local statutory reserving requirements. In the case of Jamaica, the assumptions are best estimate assumptions with appropriate provisions for adverse deviations, consistent with the use of a Policy Premium Method valuation. For other territories, the assumptions used are those appropriate for traditional net premium valuation methods.

The assumptions used for the insurance contracts disclosed in this note are as follows:

- **Mortality**
An appropriate base table of standard mortality is chosen depending on the type of contract. For contracts insuring survivorship, no allowance is made for future mortality improvements.
- **Morbidity**
Estimates of the future incidence of critical illness is made using the reinsurance terms available to the Group as a guide.
- **Persistency**
An investigation into the Group's experience is performed to determine an appropriate persistency rate. Persistency rates vary by product type and policy duration.
- **Investment returns**
The Group sets the investment return assumption based on the total expected return available on suitable investment asset classes.
- **Renewal expense level and inflation**
The current level of expenses is taken as an appropriate expense base with allowance for future expense inflation.
- **Tax**
It has been assumed that current tax legislation and rates for long-term insurance companies continue unaltered.

| (d) Change in assumptions | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| • Determination of liabilities: | | |
| For the Jamaican life insurance subsidiary: | | |
| Changes in expense assumptions | 1,633 | (189,006) |
| Changes in lapse assumptions | 2,228 | – |
| Changes in investment returns | (8,051) | 207,867 |
| Other assumptions | (30,794) | 652 |

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(Continued)

4. Management of insurance and financial risk (continued)

4.1 Insurance risk (continued)

4.1.4 Long-term insurance contracts (continued)

(d) Change in assumptions (continued)

For the Trinidadian life insurance subsidiaries:

No changes have been made to the assumptions used to determine the value of long-term insurance liabilities.

For the Dutch Caribbean insurance subsidiaries:

No changes have been made to the assumptions used to determine the value of long-term insurance liabilities.

(e) Sensitivity analysis

The following tables present the sensitivity of the value of insurance liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance liabilities.

Long-term insurance contracts with fixed and guaranteed terms and without DPF:

| Variable | Change in variable 2011 | Change in liability 2011 S'000 | Change in variable 2010 | Change in liability 2010 S'000 |
|---|----------------------------|--------------------------------------|----------------------------|--------------------------------------|
| For the Jamaican life insurance subsidiary: | | | | |
| Worsening of mortality | + 10.0% | 66,995 | + 10.0% | 46,861 |
| Lowering of investment returns | - 2.0% | 446,471 | - 2.0% | 351,228 |
| Worsening of base renewal expense level | + 5.0% | 25,528 | + 5.0% | 30,648 |
| Worsening of expense inflation rate | + 1.0% | 75,320 | + 1.0% | 102,250 |
| For the Trinidadian life insurance subsidiaries: | | | | |
| Worsening of mortality | + 1.0% | 1,343 | + 1.0% | 1,256 |
| Improvement of annuitant mortality | + 5.0% | 16,032 | + 5.0% | 14,035 |
| Lowering of investment returns | - 1.0% | 73,607 | - 1.0% | 69,565 |
| Worsening of base renewal expense level | + 5.0% | 314 | + 5.0% | 257 |
| Worsening of expense inflation rate | + 1.0% | 980 | + 1.0% | 784 |
| For the Dutch Caribbean life insurance subsidiaries: | | | | |
| Worsening of mortality | + 10.0% | 46,475 | + 10.0% | 43,649 |
| Improvement of annuitant mortality | + 10.0% | 4,441 | + 10.0% | 3,703 |

Long-term insurance contracts with fixed and guaranteed terms and with DPF:

Variable

For the Jamaican life insurance subsidiary:

| | | | | |
|--|---------|-------|---------|-------|
| Worsening of mortality | + 10.0% | 260 | + 10.0% | 213 |
| Lowering of investment returns | - 2.0% | 3,095 | - 2.0% | 2,903 |
| Worsening of basis renewal expense level | + 5.0% | 665 | + 5.0% | 796 |
| Worsening of expense inflation | + 1.0% | 991 | + 1.0% | 1,302 |

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(Continued)

4. Management of insurance and financial risk (continued)

4.1 Insurance risk (continued)

4.1.4 Long-term insurance contracts (continued)

(e) Sensitivity analysis (continued)

| Variable | Change in variable 2011 | Change in liability 2011 S'000 | Change in variable 2010 | Change in liability 2010 S'000 |
|---|----------------------------|--------------------------------------|----------------------------|--------------------------------------|
| For the Dutch Caribbean life insurance subsidiaries: | | | | |
| Worsening of mortality | + 10.0% | 12,036 | + 10.0% | 11,447 |

The above analyses are based on a change in assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

4.2 Financial risk

The Group is exposed to financial risk through its financial assets, financial liabilities (investment contracts and borrowings), reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The components of this financial risk are interest rate risk, equity price risk, foreign currency risk, liquidity 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.

Risk management is carried out by Executive Investment Committees and Actuarial departments of operating units under policies approved by the Group's board of directors. The Group identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity.

4.2.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk - currency risk, interest rate risk and other price risk each of which are considered below.

(a) Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency rates on its financial position and cash flows. The Group has operations in the Caribbean as well as operations at Lloyd's which underwrites risks on a worldwide basis. The main exposure to risks are in respect to the US dollar, Antillean Guilder, Jamaican dollar and the Sterling. The Group's strategy for dealing with foreign exchange risk is to offset as far as possible foreign currency liabilities with assets denominated in the same currency.

Each subsidiary has an Executive Investment Committee which has oversight for the management of currency risk. The Trinidad insurance subsidiaries' exposure to currency risk is also mitigated by the requirements of the Insurance Act 1980, which does not allow more than 20% of the assets supporting policyholder liabilities to be held in currencies other than the currency of the liability.

The tables below summarizes the Group's exposure to foreign currency exchange rate risk as at 31 December. The Group's assets and liabilities at carrying amounts are included in the table categorized by currency positions expressed in TTS equivalents

| | TT S'000 | US S'000 | NAF S'000 | JMD S'000 | GBP S'000 | Euro S'000 | Other S'000 | Total S'000 |
|-------------------------------|-------------|-------------|--------------|--------------|--------------|---------------|----------------|----------------|
| As at 31 December 2011 | | | | | | | | |
| Total assets | 6,582,172 | 4,168,322 | 3,304,850 | 3,662,354 | 1,646,073 | 1,271,883 | 866,963 | 21,502,617 |
| Total liabilities | 7,752,651 | 1,583,979 | 3,675,127 | 2,797,383 | 1,597,386 | 329,019 | 572,801 | 18,308,346 |
| | (1,170,479) | 2,584,343 | (370,277) | 864,971 | 48,687 | 942,864 | 294,162 | 3,194,271 |

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(Continued)

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.1 Market risk (continued)

(a) Currency risk (continued)

| | TT S'000 | US S'000 | NAF S'000 | JMD S'000 | GBP S'000 | Euro S'000 | Other S'000 | Total S'000 |
|------------------------|-------------|-------------|--------------|--------------|--------------|---------------|----------------|----------------|
| As at 31 December 2010 | | | | | | | | |
| Total assets | 6,064,631 | 4,204,189 | 3,164,527 | 3,397,189 | 2,261,019 | 1,108,797 | 787,443 | 20,987,795 |
| Total liabilities | 7,086,002 | 1,394,823 | 3,745,964 | 2,602,643 | 2,220,965 | 303,264 | 503,810 | 17,857,471 |
| | (1,021,371) | 2,809,366 | (581,437) | 794,546 | 40,054 | 805,533 | 283,633 | 3,130,324 |

The analysis below is performed for reasonable possible movements in foreign currency exchange rates with all other variables held constant, showing the impact on the consolidated income statement and equity at the reporting date.

| Change in variables | US | NAF | JMD | GBP | Euro | Other | |
|----------------------------|-------------|--------------|--------------|--------------|---------------|----------------|----------------|
| 2011 | -0.2% | -0.2% | 0.9% | 16.0% | 6.6% | -6.8% to 1.8% | |
| 2010 | 1.0% | 2.0% | 2.0% | 2.0% | 5.0% | 1.0% | |
| | US S'000 | NAF S'000 | JMD S'000 | GBP S'000 | Euro S'000 | Other S'000 | Total S'000 |
| Impact on income statement | | | | | | | |
| 2011 | 3,112 | - | 64 | (12,122) | 51,213 | 90 | 42,357 |
| 2010 | 914 | (1,541) | 152 | (5,729) | 8,311 | 1,288 | 3,395 |
| Impact on equity | | | | | | | |
| 2011 | 11,691 | (537) | 8,687 | 14,793 | 8,298 | (2,995) | 39,937 |
| 2010 | 20,521 | 17,135 | 17,473 | 4,989 | 1,791 | 1,470 | 63,379 |

(b) Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The major element of interest rate risk within the Group is the risk that the interest earned on the Group's investments is insufficient to meet the interest rates credited or guaranteed to policyholders. This applies to traditional life insurance policies and the deposit administration plans.

Exposure is managed largely by the use of natural hedges that arise by matching interest sensitive assets with liabilities of a similar nature. The Group also mitigates the effect of interest rate risk of the investment portfolio through the functioning of an Executive Investment Committee and the pricing of products by the actuarial function. The investment portfolio return is continually monitored by the Investment Committee. The results of these reviews inform the pricing of products and interest rates to be credited to the respective policies and plans.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. For the sensitivity analyses, a 1% movement in interest rates was used for 2011 for the Trinidad market (2010: 1%), a 2% movement was used for 2011 for the Jamaica market (2010: 2%) and a 0.1% movement for 2011 was used for the Dutch Caribbean (2010: 1%). The effect of an increase in the above rates would result in a decrease in the consolidated income statement and equity of \$183,925,000 for 2011 (2010: decrease of \$145,895,000). The effect of a decrease in the above rates would result in an increase in the consolidated income statement and equity of \$175,497,000 for 2011 (2010: increase of \$144,496,000).

(c) Other price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position as fair value through profit or loss. The Group manages its price risk by limiting the amount of its investments in equities and by monitoring movements in equity prices.

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(Continued)

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.1 Market risk (continued)

(c) Other price risk (continued)

The sensitivity analysis for equity price risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices at the reporting date. For the sensitivity analysis, an 8% movement in prices of local equities was used for 2011 for the Trinidad market (2010: 8%), a 10% movement in prices of local equities was used for 2011 for the Jamaica market (2010: 10%) and a 0.06% movement for 2011 was used for Dutch Caribbean (2010: 1%). The effect of an increase/decrease in the above rates would result in an increase/decrease in the consolidated income statement and equity of \$30,372,000 for 2011 (2010: \$121,159,000).

4.2.2 Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due, at a reasonable cost. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities, and the ability to close out market positions.

Certain of the Group's contracts have features that allow them to be terminated at short notice creating a potential liquidity exposure. The Group monitors liquidity on a regular basis. An internally constituted Executive Investment Committee set limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover claims.

There are no individual contracts or policyholders who have the potential to influence the withdrawal of a significant amount of liabilities.

The following tables analyze the insurance and financial liabilities of the Group into relevant maturity groupings based on the remaining period, at consolidated statement of financial position date, to the contractual maturity date. The amounts disclosed in the table are at contractual undiscounted cash flows with the exception of insurance contracts and investment contracts which are at expected undiscounted cash flows.

| | Carrying amount | No stated maturity | Undiscounted cash flows | | |
|--|-------------------|--------------------|-------------------------|------------------|-------------------|
| | | | Less than one year | One - five years | Over five years |
| As at 31 December 2011 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Insurance and financial liabilities | | | | | |
| Long-term insurance contracts | 9,563,910 | 1,712,485 | 420,955 | 2,310,933 | 14,938,283 |
| Short-term insurance contracts | 2,046,205 | — | 1,450,019 | 579,073 | 17,110 |
| Investment contracts | 1,538,945 | 1,507,137 | 31,808 | — | — |
| Medium term borrowings | 1,286,994 | — | 108,124 | 801,417 | 1,176,047 |
| Short-term borrowings | 75,803 | — | 77,491 | — | — |
| Derivative financial instruments | 31,040 | — | — | 31,040 | — |
| Third party interests in mutual funds | 1,085,343 | 1,085,343 | — | — | — |
| Interest payable | 32,743 | — | 32,743 | — | — |
| Other liabilities | 831,191 | 61,931 | 602,975 | 166,285 | — |
| Segregated funds' liabilities | 499,502 | 387,915 | 6,504 | 10,943 | 94,140 |
| Total | 16,991,676 | 4,754,811 | 2,730,619 | 3,899,691 | 16,225,580 |

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4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.2 Liquidity risk (continued)

| | Carrying amount S'000 | No stated maturity S'000 | Undiscounted cash flows | | |
|--|-----------------------------|--------------------------------|--------------------------------|------------------------------|-----------------------------|
| | | | Less than one year S'000 | One - five years S'000 | Over five years S'000 |
| As at 31 December 2010 | | | | | |
| Insurance and financial liabilities | | | | | |
| Long-term insurance contracts | 8,802,539 | 1,635,286 | 386,265 | 2,127,216 | 13,525,861 |
| Short-term insurance contracts | 3,651,224 | – | 2,507,843 | 1,126,314 | 17,066 |
| Investment contracts | 1,455,180 | 1,432,925 | 22,255 | – | – |
| Medium term borrowings | 1,151,680 | – | 360,880 | 1,090,825 | – |
| Short-term borrowings | 89,841 | – | 90,523 | – | – |
| Derivative financial instruments | 24,856 | – | – | 24,856 | – |
| Third party interests in mutual funds | 1,065,548 | 1,065,548 | – | – | – |
| Interest payable | 8,175 | – | 8,175 | – | – |
| Other liabilities | 758,835 | 64,454 | 694,381 | – | – |
| Segregated funds' liabilities | 459,937 | 459,038 | 91 | 698 | 110 |
| Total | 17,467,815 | 4,657,251 | 4,070,413 | 4,369,909 | 13,543,037 |

4.2.3 Credit risk

Credit risk is defined as the potential for loss that can occur as a result of an individual, counterparty or issuer being unable or unwilling to honour its contractual obligations to us. Each subsidiary in the various jurisdictions, has an Executive Investment Committee (EIC) that sets credit limits and monitors exposure by constraining the magnitude and tenor of the exposure to counterparties and issuers. Some of the credit risk mitigation techniques include, where appropriate, the right to require initial collateral or margin, the right to terminate transactions or to obtain collateral (including guarantees) should unfavorable events occur. The EIC initiates regular portfolio reviews, monitors counterparty creditworthiness, and evaluates potential transaction risks with a view towards early problem identification and protection against unacceptable credit-related losses.

The Group actively monitors the financial status of its reinsurers both by reference to publicly available information and the Financial Strength Ratings of A.M. Best. All of the Group's reinsurers are rated superior by A.M. Best. A rating of superior is assigned to reinsurance companies that have, in the opinion of A.M. Best, a superior ability to meet their ongoing obligations to the primary insurer.

(a) Assets bearing credit risk

Below is an analysis of assets bearing credit risk.

| | Neither past due nor impaired S'000 | Past due but not impaired S'000 | Impaired S'000 | Total S'000 |
|--|--|--|-------------------|-------------------|
| As at 31 December 2011 | | | | |
| Debt securities | 8,788,064 | 11,567 | 1,911 | 8,801,542 |
| Financial assets of mutual fund unit holders | 1,052,875 | – | 6,250 | 1,059,125 |
| Deposits with financial institutions (more than 90 days) | 1,153,164 | 17,325 | 2,548 | 1,173,037 |
| Other financial assets | 52,616 | – | – | 52,616 |
| Interest receivable | 250,455 | 1,075 | – | 251,530 |
| Loans and receivables | 1,314,009 | 33,397 | 57,633 | 1,405,039 |
| Reinsurance assets | 680,273 | – | – | 680,273 |
| Deferred acquisition costs | 72,657 | – | – | 72,657 |
| Cash and cash equivalents | 1,878,336 | 22,108 | – | 1,900,444 |
| | 15,242,449 | 85,472 | 68,342 | 15,396,263 |

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(Continued)

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.3 Credit risk (continued)

(a) Assets bearing credit risk (continued)

| | Neither past due nor impaired \$'000 | Past due but not impaired \$'000 | Impaired \$'000 | Total \$'000 |
|--|---|---|--------------------|-------------------|
| As at 31 December 2010 | | | | |
| Debt securities | 9,106,671 | 10,556 | 268 | 9,117,495 |
| Financial assets of mutual fund holders | 1,096,113 | – | – | 1,096,113 |
| Deposits with financial institutions (more than 90 days) | 852,881 | 6,619 | 2,541 | 862,041 |
| Other financial assets | 47,423 | – | – | 47,423 |
| Interest receivable | 238,326 | 1,609 | – | 239,935 |
| Loans and receivables | 1,900,208 | 67,297 | 78,133 | 2,045,638 |
| Reinsurance assets | 761,614 | – | – | 761,614 |
| Deferred acquisition costs | 369,623 | – | – | 369,623 |
| Cash and cash equivalents | 1,625,938 | – | – | 1,625,938 |
| | <u>15,998,797</u> | <u>86,081</u> | <u>80,942</u> | <u>16,165,820</u> |

(b) Credit quality of assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings if available or to a rating assigned by the investment manager using an approach consistent with that used by Standard and Poor's. The table below provides information regarding the credit risk exposure of the Group by classifying assets according to the Standard & Poor's credit rating methodology.

AAA

An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA

An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment is very strong.

A

An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

BBB

An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Below

Obligations rated 'Below BBB' are regarded as having significant speculative characteristics. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

Not Rated

This indicates that there is insufficient information on which to base a rating. These balances are current and are monitored regularly for impairment. This classification includes obligations due from individuals, short term securities and receivables arising under contracts of insurance underwritten in the international property and casualty business of the Group.

The concentration of credit risk is substantially unchanged compared to prior year.

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(Continued)

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.3 Credit risk (continued)

(b) Credit quality of assets (continued)

| | AAA | AA | A | BBB | Below BBB | Not Rated | Total |
|--|------------------|----------------|------------------|------------------|------------------|------------------|-------------------|
| | S'000 | S'000 | S'000 | S'000 | S'000 | S'000 | 2011 S'000 |
| As at 31 December 2011 | | | | | | | |
| Debt securities | 966,661 | 71,664 | 4,963,904 | 517,908 | 2,249,253 | 18,674 | 8,788,064 |
| Financial assets of mutual fund unitholders | 6,304 | – | 594,118 | 296,798 | 155,655 | – | 1,052,875 |
| Deposits with financial institutions (more than 90 days) | – | 27,000 | 514,172 | 456,217 | 146,677 | 9,098 | 1,153,164 |
| Other financial assets | – | 4,483 | 5,935 | 14,151 | – | 28,047 | 52,616 |
| Interest receivable | 11,396 | 1,203 | 158,516 | 14,020 | 64,620 | 700 | 250,455 |
| Loans and receivables | – | 22,893 | 628,719 | 38,801 | 850 | 622,746 | 1,314,009 |
| Reinsurance assets | – | – | 640,243 | – | – | 40,030 | 680,273 |
| Deferred acquisition costs | – | – | 21,396 | – | – | 51,261 | 72,657 |
| Cash and cash equivalents | – | 160,884 | 698,692 | 175,472 | 240,660 | 602,628 | 1,878,336 |
| | <u>984,361</u> | <u>288,127</u> | <u>8,225,695</u> | <u>1,513,367</u> | <u>2,857,715</u> | <u>1,373,184</u> | <u>15,242,449</u> |
| As at 31 December 2010 | | | | | | | |
| Debt securities | 1,344,557 | 208,042 | 4,944,694 | 454,964 | 2,148,861 | 5,553 | 9,106,671 |
| Financial assets of mutual fund unitholders | – | – | 612,535 | 191,692 | 291,886 | – | 1,096,113 |
| Deposits with financial institutions (more than 90 days) | – | – | 547,253 | 129,148 | 158,104 | 18,376 | 852,881 |
| Other financial assets | – | 5,048 | 9,925 | 2,667 | 22,982 | 6,801 | 47,423 |
| Interest receivable | 18,341 | 2,290 | 142,949 | 9,382 | 64,433 | 931 | 238,326 |
| Loans and receivables | – | 1,426 | 636,262 | 19,863 | 1,769 | 1,240,888 | 1,900,208 |
| Reinsurance assets | – | – | 723,114 | – | – | 38,500 | 761,614 |
| Deferred acquisition costs | – | – | 14,727 | – | – | 354,896 | 369,623 |
| Cash and cash equivalents | – | 118,894 | 478,332 | 374,941 | 107,216 | 546,555 | 1,625,938 |
| | <u>1,362,898</u> | <u>335,700</u> | <u>8,109,791</u> | <u>1,182,657</u> | <u>2,795,251</u> | <u>2,212,500</u> | <u>15,998,797</u> |

(c) Assets that are past due but not impaired

| | Carrying value S'000 | | | | |
|--|----------------------|------------------------|------------------------|-------------------------|---------------------|
| | Less than 3 months | Between 3 and 6 months | Between 6 and 9 months | Between 9 and 12 months | More than 12 months |
| As at 31 December 2011 | | | | | |
| Debt securities | 7,423 | 1,853 | 437 | 17 | 1,837 |
| Deposits with financial institutions (more than 90 days) | 7,884 | 5,632 | 3,208 | – | 601 |
| Interest receivable | 275 | 423 | 191 | – | 186 |
| Loans and receivables | 30,773 | 1,708 | 1,303 | 600 | (987) |
| Cash and cash equivalents | 22,108 | – | – | – | – |
| | <u>68,463</u> | <u>9,616</u> | <u>5,139</u> | <u>617</u> | <u>1,637</u> |

GUARDIAN HOLDINGS LIMITED

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(Continued)

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.3 Credit risk (continued)

(c) Assets that are past due but not impaired (continued)

| | Carrying value S'000 | | | | |
|-------------------------------|----------------------|------------------------|------------------------|-------------------------|---------------------|
| | Less than 3 months | Between 3 and 6 months | Between 6 and 9 months | Between 9 and 12 months | More than 12 months |
| As at 31 December 2010 | | | | | |
| Debt securities | 8,218 | 1,313 | – | – | 1,025 |
| Other financial assets | 3,909 | 898 | 1,812 | – | – |
| Interest receivable | 401 | 37 | 134 | – | 1,037 |
| Loans and receivables | 56,553 | (359) | 5,095 | 6,231 | (223) |
| | <u>69,081</u> | <u>1,889</u> | <u>7,041</u> | <u>6,231</u> | <u>1,839</u> |

| | Fair value of collateral held | |
|---|-------------------------------|---------------|
| | 2011 S'000 | 2010 S'000 |
| (d) Collateral held in respect of assets that are past due but not impaired | | |
| Loans and receivables | 1,430 | 1,430 |
| | <u>1,430</u> | <u>1,430</u> |

| | Carrying value | |
|--|----------------|---------------|
| | 2011 S'000 | 2010 S'000 |
| (e) Financial assets that are impaired | | |
| Debt securities | 1,911 | 268 |
| Deposits with financial institutions (more than 90 days) | 2,548 | 2,541 |
| Loans and receivables | 57,633 | 78,133 |
| Financial assets of mutual fund unit holders | 6,250 | – |
| | <u>68,342</u> | <u>80,942</u> |

(f) Allowance for impairment

| | Premiums and reinsurance receivables S'000 | Other loans and receivables S'000 | Financial assets S'000 | Total S'000 |
|--|---|--------------------------------------|---------------------------|----------------|
| Balance at 1 January 2011 | 66,642 | 5,147 | 2,809 | 74,598 |
| Exchange differences | 136 | 282 | 6 | 424 |
| Provision for loan impairment | (16,423) | – | 589 | (15,834) |
| Amounts written off during the year as uncollectible | (16,698) | (4,603) | – | (21,301) |
| Amounts recovered during the year | (183) | – | – | (183) |
| Balance at 31 December 2011 | <u>33,474</u> | <u>826</u> | <u>3,404</u> | <u>37,704</u> |

GUARDIAN HOLDINGS LIMITED

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FOR THE YEAR ENDED 31 DECEMBER 2011
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(Continued)

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.3 Credit risk (continued)

(f) Allowance for impairment (continued)

| | Premiums and reinsurance receivables S'000 | Other loans and receivables S'000 | Financial assets S'000 | Total S'000 |
|--|--|--|------------------------------|----------------|
| Balance at 1 January 2010 | 39,946 | 3,918 | 2,546 | 46,410 |
| Exchange differences | 352 | 16 | (6) | 362 |
| Provision for loan impairment | 27,401 | 3,737 | 269 | 31,407 |
| Amounts written off during the year as uncollectible | (971) | (74) | – | (1,045) |
| Amounts recovered during the year | (86) | (2,450) | – | (2,536) |
| Balance at 31 December 2010 | 66,642 | 5,147 | 2,809 | 74,598 |

(g) Concentrations of risks of financial assets with credit risk exposure

The following table breaks down the Group's main credit risk exposure at their carrying amounts, as categorized by the industry sectors of counterparties.

| | Financial Institutions S'000 | Manu- facturing S'000 | Real estate S'000 | Wholesale & retail trade S'000 | Public sector S'000 | Other industries S'000 | Individuals S'000 | Total S'000 |
|--|------------------------------------|-----------------------------|----------------------|--------------------------------------|---------------------------|------------------------------|----------------------|-------------------|
| As at 31 December 2011 | | | | | | | | |
| Debt securities | 787,102 | 41,054 | 5,214 | 24,471 | 6,941,766 | 996,114 | 5,821 | 8,801,542 |
| Financial assets of mutual fund unitholders | 333,719 | – | 34,127 | 8,972 | 549,536 | 132,771 | – | 1,059,125 |
| Deposits with financial institutions | 1,171,038 | – | – | – | 1,999 | – | – | 1,173,037 |
| Other financial assets | – | – | – | – | – | 52,616 | – | 52,616 |
| Interest receivable | 94,509 | 169 | 58 | 249 | 145,233 | 11,090 | 222 | 251,530 |
| Loans and receivables | 9,035 | – | 216,763 | – | 30,064 | 815,765 | 333,412 | 1,405,039 |
| Reinsurance assets | – | – | – | – | – | 680,273 | – | 680,273 |
| Deferred acquisition costs | – | – | – | – | – | 72,657 | – | 72,657 |
| Cash and cash equivalents | 1,747,844 | – | 52,554 | – | 100,043 | 3 | – | 1,900,444 |
| | 4,143,247 | 41,223 | 308,716 | 33,692 | 7,768,641 | 2,761,289 | 339,455 | 15,396,263 |

GUARDIAN HOLDINGS LIMITED

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(Continued)

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.3 Credit risk (continued)

(g) Concentrations of risks of financial assets with credit risk exposure (continued)

| | Financial Institutions \$'000 | Manu- facturing \$'000 | Real estate \$'000 | Wholesale & retail trade \$'000 | Public sector \$'000 | Other industries \$'000 | Individuals \$'000 | Total \$'000 |
|---|-------------------------------------|------------------------------|-----------------------|---------------------------------------|----------------------------|-------------------------------|-----------------------|-------------------|
| As at 31 December 2010 | | | | | | | | |
| Debt securities | 1,135,005 | 50,937 | – | 26,358 | 6,635,257 | 1,229,045 | 40,893 | 9,117,495 |
| Financial assets of mutual fund unit holders | 311,693 | – | 16,096 | 5,084 | 692,774 | 70,466 | – | 1,096,113 |
| Deposits with financial institutions | 679,157 | – | – | – | 182,884 | – | – | 862,041 |
| Other financial assets | – | 7,218 | – | 74 | 2,667 | 37,464 | – | 47,423 |
| Interest receivable | 75,803 | 259 | – | 381 | 143,745 | 13,894 | 5,853 | 239,935 |
| Loans and receivables | 9,230 | – | 223,760 | – | 26,380 | 1,492,014 | 345,474 | 2,096,858 |
| Reinsurance assets | – | – | – | – | – | 761,614 | – | 761,614 |
| Deferred acquisition costs | – | – | – | – | – | 369,623 | – | 369,623 |
| Cash and cash equivalents | 1,625,938 | – | – | – | – | – | – | 1,625,938 |
| | <u>3,836,826</u> | <u>58,414</u> | <u>239,856</u> | <u>31,897</u> | <u>7,683,707</u> | <u>3,974,120</u> | <u>392,220</u> | <u>16,217,040</u> |

4.2.4 Capital management

The Group's objectives when managing capital are:

- to comply with the capital requirements required by the regulators of the markets where the Group operates;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance and investment contracts commensurately with the level of risk.

In each country in which the Group operates, the local insurance regulator indicates the required minimum amount and type of capital that must be held by each of the subsidiaries in addition to their insurance liabilities and the Group is subject to insurance solvency regulations in all the territories in which it issues insurance contracts. The minimum required capital must be maintained at all times throughout the year. The Group is subject to insurance solvency regulations in all the territories in which it issues insurance and investment contracts.

The table below summarizes the minimum required capital across the main territories in the Group. The Group has complied with these minimum capital requirements. These figures are an aggregate number, being the sum of the statutory capital and surplus for each insurance subsidiary in each country subject to local regulatory requirements, which may differ from jurisdiction to jurisdiction.

| | Guardian Re (SAC) Limited \$'000 | Guardian General Insurance Ltd and Its subsidiaries \$'000 | Jamaica life insurance company \$'000 | Trinidad life insurance companies \$'000 | Dutch Caribbean insurance companies \$'000 | Group \$'000 |
|----------------------------|---|---|--|---|--|-----------------|
| 2011 | | | | | | |
| Minimum regulatory capital | 119,714 | 122,870 | 204,783 | 621,144 | 189,685 | 1,258,196 |
| 2010 | | | | | | |
| Minimum regulatory capital | 122,306 | 167,592 | 184,279 | 555,958 | 222,519 | 1,252,654 |

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(Continued)

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.4 Capital management (continued)

The Trinidadian asset management subsidiary holds a license under the Financial Institutions Act 2008 and as such the subsidiary is required to have a minimum paid up share capital of \$15 million. Also the Act requires the subsidiary to transfer a minimum of 10% of its profit after tax to a Statutory Reserve Fund until the balance in the Fund is not less than the paid up capital of the subsidiary as well as the subsidiary's qualifying capital shall be no less than 8% of its risk adjusted assets. The subsidiary has complied with these requirements.

5. Property, plant and equipment

| | Freehold and Leasehold Properties S'000 | Office Furniture and Equipment S'000 | Motor Vehicles S'000 | Work in Progress S'000 | Total S'000 |
|--|---|--|----------------------------|------------------------------|----------------|
| Year ended 31 December 2011 | | | | | |
| Opening net book amount | 397,621 | 102,085 | 9,627 | 411 | 509,744 |
| Exchange rate adjustments | 1,971 | 66 | 256 | – | 2,293 |
| Revaluation surplus | 1,920 | – | – | – | 1,920 |
| Additions | 4,709 | 21,705 | 4,946 | 1,249 | 32,609 |
| Disposals and adjustments | (1) | (765) | (662) | (2) | (1,430) |
| Transfer from investment property (Note 6) | 4,414 | – | – | – | 4,414 |
| Depreciation charge | (12,028) | (32,614) | (3,633) | – | (48,275) |
| Closing net book amount | <u>398,606</u> | <u>90,477</u> | <u>10,534</u> | <u>1,658</u> | <u>501,275</u> |
| At 31 December 2011 | | | | | |
| Cost or valuation | 440,044 | 402,118 | 22,784 | 1,658 | 866,604 |
| Accumulated depreciation | (41,438) | (311,641) | (12,250) | – | (365,329) |
| Closing net book amount | <u>398,606</u> | <u>90,477</u> | <u>10,534</u> | <u>1,658</u> | <u>501,275</u> |
| Year ended 31 December 2010 | | | | | |
| Opening net book amount | 389,406 | 105,123 | 9,034 | 5,081 | 508,644 |
| Exchange rate adjustments | 3,018 | 858 | 115 | 19 | 4,010 |
| Revaluation surplus | 1,376 | – | – | – | 1,376 |
| Additions | 11,885 | 28,604 | 5,381 | 236 | 46,106 |
| Disposals and adjustments | (3,475) | (159) | (1,811) | – | (5,445) |
| Disposal of subsidiary | – | – | – | – | – |
| Transfers | 2,837 | 2,088 | – | (4,925) | – |
| Transfer from investment property (Note 6) | 3,180 | – | – | – | 3,180 |
| Depreciation charge | (10,606) | (34,429) | (3,092) | – | (48,127) |
| Closing net book amount | <u>397,621</u> | <u>102,085</u> | <u>9,627</u> | <u>411</u> | <u>509,744</u> |
| At 31 December 2010 | | | | | |
| Cost or valuation | 429,147 | 382,156 | 20,486 | 411 | 832,200 |
| Accumulated depreciation | (31,526) | (280,071) | (10,859) | – | (322,456) |
| Closing net book amount | <u>397,621</u> | <u>102,085</u> | <u>9,627</u> | <u>411</u> | <u>509,744</u> |

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(Continued)

5. Property, plant and equipment (continued)

The following are the dates of the last valuations of land and buildings in the Group:

| | | |
|--|---|---------------|
| Guardian Life of the Caribbean Limited | - | December 2011 |
| Bancassurance Caribbean Limited | - | December 2011 |
| Guardian Life Limited | - | December 2011 |
| Fatum Holding NV | - | December 2011 |
| Guardian General Insurance Limited | - | December 2011 |
| Guardian Shared Services Limited | - | December 2011 |

Valuations were made on the basis of open market value by external independent valuers.

Depreciation expense of \$48,275,000 (2010 - \$48,127,000) has been charged in operating expenses.

If freehold and leasehold properties were stated on a historical cost basis, the amounts would be as follows:

| | 2011 \$'000 | 2010 \$'000 |
|--------------------------|-----------------|-----------------|
| Cost | 329,923 | 330,753 |
| Accumulated depreciation | <u>(48,010)</u> | <u>(38,062)</u> |
| Net book amount | <u>281,913</u> | <u>292,691</u> |

6. Investment properties

| | | |
|--|----------------|----------------|
| Balance at beginning of year | 905,507 | 911,221 |
| Exchange rate adjustments | (160) | (28,970) |
| Additions | 201,376 | 40,156 |
| Fair value gains/(losses) (Note 33) | 23,088 | (8,945) |
| Disposals | (1,466) | - |
| Re-classification to fixed assets (Note 5) | (4,414) | (3,180) |
| Fair value adjustments directly related to the unit linked funds | <u>(3,500)</u> | <u>(4,775)</u> |

| | | |
|------------------------|------------------|----------------|
| Balance at end of year | <u>1,120,431</u> | <u>905,507</u> |
|------------------------|------------------|----------------|

| | | |
|---------------|---------------|---------------|
| Rental income | <u>29,805</u> | <u>28,474</u> |
|---------------|---------------|---------------|

| | | |
|---|--------------|--------------|
| Direct operating expenses incurred in respect of investment property that generated rental income during the period | <u>2,974</u> | <u>2,139</u> |
|---|--------------|--------------|

7. Intangible assets

| | Goodwill \$'000 | Other \$'000 | Total \$'000 |
|------------------------------------|--------------------|-----------------|-----------------|
| Year ended 31 December 2011 | | | |
| Balance at beginning of year | 251,436 | 2,048 | 253,484 |
| Exchange rate adjustments | - | (11) | (11) |
| Additions | - | 1,846 | 1,846 |
| Amortization | <u>-</u> | <u>(1,041)</u> | <u>(1,041)</u> |
| Balance at end of year | <u>251,436</u> | <u>2,842</u> | <u>254,278</u> |

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(Continued)

7. Intangible assets (continued)

| | Goodwill \$'000 | Other \$'000 | Total \$'000 |
|------------------------------------|--------------------|-----------------|-----------------|
| At 31 December 2011 | | | |
| Cost | 251,436 | 16,329 | 267,765 |
| Accumulated amortization | — | (13,487) | (13,487) |
| Net book value | <u>251,436</u> | <u>2,842</u> | <u>254,278</u> |
| Year ended 31 December 2010 | | | |
| Balance at beginning of year | 254,330 | 15,902 | 270,232 |
| Exchange rate adjustments | — | 650 | 650 |
| Additions | — | 1,632 | 1,632 |
| Disposal | (2,894) | (12,981) | (15,875) |
| Amortization | — | (3,155) | (3,155) |
| Balance at end of year | <u>251,436</u> | <u>2,048</u> | <u>253,484</u> |
| At 31 December 2010 | | | |
| Cost | 251,436 | 14,480 | 265,916 |
| Accumulated amortization | — | (12,432) | (12,432) |
| Net book value | <u>251,436</u> | <u>2,048</u> | <u>253,484</u> |

Other intangible assets represent brand costs, computer software costs and website development costs.

Goodwill is assigned to the Group's cash generating units on acquisition. In accordance with IFRS 3, all assets that gave rise to goodwill were reviewed for impairment at year end using the 'value in use' method. In each case, the cash flow projections are based on financial budgets approved by senior management covering a five year period.

A summary of the goodwill for each cash-generating unit is presented below:

| | 2011 \$'000 | 2010 \$'000 |
|------------------------------------|----------------|----------------|
| Guardian General Insurance Limited | 97,459 | 97,459 |
| Guardian Insurance Limited | <u>153,977</u> | <u>153,977</u> |
| | <u>251,436</u> | <u>251,436</u> |

For Guardian Insurance Limited and Guardian General Insurance Limited, a discount rate of 13% and 12.6% respectively was used. A cash flow projection term of 5 years was used for both and the growth rate used was 0%. In addition the values assigned to key assumptions reflect past performance. Based on the results of this review, no impairment expense was required for goodwill.

| 8. Investment in associated companies | 2011 \$'000 | 2010 \$'000 |
|--|------------------------|------------------------|
| Balance at beginning of year | 276,847 | 274,074 |
| Exchange rate adjustments | 3,958 | (650) |
| Share of (loss)/profit after tax | (25,005) | 23,026 |
| Dividends received | (15,740) | (12,276) |
| Reserve and other movements | 450 | (318) |
| Book value of associated company disposed of | <u>(38,500)</u> | <u>(7,009)</u> |
| Balance at end of year | <u>202,010</u> | <u>276,847</u> |

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(Continued)

8. Investment in associated companies (continued)

The Group's interests in its associates, which are unlisted, are as follows:

| Name | Share of assets \$'000 | Share of liabilities \$'000 | Share of revenue \$'000 | Share of (loss)/profit after tax \$'000 | Interest held % |
|------------------------------------|---------------------------|--------------------------------|----------------------------|--|--------------------|
| Jubilee Group Holdings Limited | - | - | - | (22,218) | 0.0 |
| Royal Star Assurance (Bahamas) Ltd | 109,943 | 55,581 | 96,652 | 5,674 | 25.0 |
| Ocho Rios Beach Resorts Limited | 18,365 | 6,269 | 999 | (20,478) | 24.0 |
| RGM Limited | 307,913 | 175,633 | 46,645 | 11,753 | 33.3 |
| Servus Limited | 7,667 | 4,395 | 24,281 | 264 | 50.0 |
| Total at the end of 2011 | 443,888 | 241,878 | 168,577 | (25,005) | |

| Name | Share of assets \$'000 | Share of liabilities \$'000 | Share of revenue \$'000 | Share of (loss)/profit after tax \$'000 | Interest held % |
|------------------------------------|---------------------------|--------------------------------|----------------------------|--|--------------------|
| Jubilee Group Holdings Limited | 889,288 | 827,069 | 440,725 | 8,287 | 39.1 |
| Royal Star Assurance (Bahamas) Ltd | 104,188 | 52,725 | 89,610 | 5,457 | 25.0 |
| M&C General Insurance Company Ltd | - | - | - | 622 | 0.0 |
| Ocho Rios Beach Resorts Limited | 39,388 | 6,832 | 132 | 331 | 24.0 |
| RGM Limited | 317,247 | 189,642 | 42,064 | 7,824 | 33.3 |
| Servus Limited | 8,652 | 5,648 | 26,689 | 505 | 50.0 |
| Total at the end of 2010 | 1,358,763 | 1,081,916 | 599,220 | 23,026 | |

None of the Group's associated companies are publicly quoted. Effective 31 August 2011, the Group disposed of its 39.1% holding in Jubilee Group Holdings Limited (Note 32a).

9. Financial assets

| | 2011 | | 2010 | |
|---|--------------------------|----------------------|--------------------------|----------------------|
| | Carrying value \$'000 | Fair value \$'000 | Carrying value \$'000 | Fair value \$'000 |
| Financial assets | 11,257,043 | 11,770,630 | 11,183,338 | 11,423,844 |
| Financial assets in Mutual Funds | 1,164,983 | 1,164,983 | 1,244,907 | 1,244,907 |
| | <u>12,422,026</u> | <u>12,935,613</u> | <u>12,428,245</u> | <u>12,668,751</u> |
| Financial assets at fair value through profit or loss | 5,942,167 | 5,942,167 | 6,475,571 | 6,475,571 |
| Held to maturity financial assets | 6,479,859 | 6,993,445 | 5,952,674 | 6,193,180 |
| Total financial assets | 12,422,026 | 12,935,612 | 12,428,245 | 12,668,751 |

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9. Financial assets (continued)

| Financial assets at fair value through profit or loss | Carrying value | |
|--|------------------|------------------|
| | 2011 S'000 | 2010 S'000 |
| Equity securities: | | |
| - Listed | 1,187,088 | 1,167,218 |
| - Unlisted | 40,506 | 49,496 |
| | <u>1,227,594</u> | <u>1,216,714</u> |
| Debt securities: | | |
| - Government securities | 2,359,867 | 2,492,342 |
| - Debentures and corporate bonds | 1,672,281 | 2,325,295 |
| | <u>4,032,148</u> | <u>4,817,637</u> |
| Deposits with financial institutions (more than 90 days) | 535,340 | 291,994 |
| Other | 52,616 | 47,423 |
| | <u>587,956</u> | <u>339,417</u> |
| | 5,847,698 | 6,373,768 |
| Interest receivable | 94,469 | 101,803 |
| | <u>5,942,167</u> | <u>6,475,571</u> |
| Current | 1,971,991 | 2,325,412 |
| Non-current | 3,970,176 | 4,150,159 |
| | <u>5,942,167</u> | <u>6,475,571</u> |

The carrying amount of financial assets above that were pledged as collateral for liabilities was \$4,403,759,000 (2010: 4,024,388,000)

| Held-to-maturity financial assets | 2011 | | 2010 | |
|--|-------------------------|---------------------|-------------------------|---------------------|
| | Carrying value S'000 | Fair value S'000 | Carrying value S'000 | Fair value S'000 |
| Debt securities: | | | | |
| - Government securities | 5,121,861 | 5,672,964 | 4,671,772 | 4,947,192 |
| - Debentures and corporate bonds | 405,567 | 421,299 | 396,030 | 410,729 |
| | <u>5,527,428</u> | <u>6,094,263</u> | <u>5,067,802</u> | <u>5,357,921</u> |
| Deposits with financial institutions (more than 90 days) | 762,734 | 762,734 | 718,883 | 718,883 |
| | 6,290,162 | 6,856,997 | 5,786,685 | 6,076,804 |
| Interest receivable | 189,697 | 136,448 | 165,989 | 116,376 |
| | <u>6,479,859</u> | <u>6,993,445</u> | <u>5,952,674</u> | <u>6,193,180</u> |

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9. Financial assets (continued)

| | Carrying value | |
|-------------|------------------|------------------|
| | 2011 S'000 | 2010 S'000 |
| Current | 663,396 | 831,317 |
| Non-current | 5,816,463 | 5,121,357 |
| | <u>6,479,859</u> | <u>5,952,674</u> |

Where fixed rate bonds do not have regular prices in an active market, a projected yield curve based on the most recent issues of government debt is used to estimate fair value. Adjustments are made for credit spreads on non-government issues and features such as call options.

The table below illustrates the movements in financial assets:

| | Financial assets at fair value through income statement S'000 | Held to maturity financial assets S'000 | Total S'000 |
|--|---|---|-------------------|
| At beginning of 2011 | 6,373,768 | 5,786,685 | 12,160,453 |
| Exchange differences | (418) | (822) | (1,240) |
| Additions | 2,156,989 | 1,620,158 | 3,777,147 |
| Disposals/maturities | (2,621,932) | (1,115,841) | (3,737,773) |
| Fair value net gains/(losses) | 158,099 | (18) | 158,081 |
| Impairment losses | (589) | — | (589) |
| Transfer to assets held for sale (Note 19) | (218,219) | — | (218,219) |
| At the end of 2011 | <u>5,847,698</u> | <u>6,290,162</u> | <u>12,137,860</u> |
| At beginning of 2010 | 7,310,650 | 4,041,720 | 11,352,370 |
| Exchange differences | 132,983 | 51,056 | 184,039 |
| Additions | 4,549,755 | 3,115,808 | 7,665,563 |
| Disposals/maturities | (5,253,599) | (1,422,223) | (6,675,822) |
| Fair value net gains/(losses) | 316,884 | (727) | 316,157 |
| Impairment losses | (269) | — | (269) |
| Transfer from assets held for sale | 453,952 | — | 453,952 |
| Capitalized interest | 303 | 1,051 | 1,354 |
| Disposal of subsidiary | (1,136,891) | — | (1,136,891) |
| At the end of 2010 | <u>6,373,768</u> | <u>5,786,685</u> | <u>12,160,453</u> |

10. Loans and receivables

| | 2011 | | 2010 | |
|-----------------------|----------------------------|------------------------|----------------------------|------------------------|
| | Carrying value S'000 | Fair value S'000 | Carrying value S'000 | Fair value S'000 |
| Loans and receivables | <u>1,510,752</u> | <u>1,529,682</u> | <u>2,148,127</u> | <u>2,148,127</u> |

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10. Loans and receivables (continued)

| | Carrying value | |
|---|------------------|------------------|
| | 2011 S'000 | 2010 S'000 |
| Debt securities: | | |
| - Government securities | 38,753 | 40,816 |
| - Debentures and corporate bonds | 101,260 | 107,852 |
| | <u>140,013</u> | <u>148,668</u> |
| Premiums receivable | 667,280 | 814,577 |
| Due from reinsurers | 147,233 | 84,437 |
| Provision for impairment of premium and reinsurance receivables | (33,474) | (66,642) |
| Mortgages | 418,097 | 420,697 |
| Policy loans | 67,102 | 69,303 |
| Other loans and receivables | 612,031 | 656,495 |
| Provision for impairment of other loans and receivables | (826) | (5,147) |
| Transfer to assets held for sale (Note 19) | (531,129) | — |
| | <u>1,346,314</u> | <u>1,973,720</u> |
| Interest receivable | 24,425 | 25,739 |
| | <u>1,510,752</u> | <u>2,148,127</u> |
| Current | 259,569 | 830,480 |
| Non-current | 1,251,183 | 1,317,647 |
| | <u>1,510,752</u> | <u>2,148,127</u> |

The carrying amount of loans and receivables above that was pledged as collateral for liabilities was \$226,746,000 (2010: \$352,971,000).

| | 2011 S'000 | 2010 S'000 |
|--|----------------|----------------|
| 11. Land for development and sale | | |
| Balance at beginning of year | 305,382 | 134,880 |
| Exchange rate adjustments | (4,107) | (11,453) |
| Additions | 62,477 | 207,565 |
| Reversal of impairment | 27,296 | — |
| Provision for impairment | — | (25,610) |
| | <u>391,048</u> | <u>305,382</u> |

Lands for development and sale comprise of the Group's investments in a mixed use commercial and residential urban re-development project in Fort De France, Martinique which is intended for sale. This is accounted for at the lower of cost or net realizable value. As at 31 December 2011 the provision for impairment is nil (2010: \$25.6 Million).

12. Pension plan assets

The following information explains the quantification of the assets recognized in the consolidated statement of financial position and the net income for the year in accordance with the provisions of IAS 19.

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12. Pension plan assets (continued)

| | 2011 | 2010 |
|---|------------------|------------------|
| | \$'000 | \$'000 |
| Fair value of pension plan assets | 626,952 | 577,197 |
| Less: Present value of funded obligations | <u>(580,071)</u> | <u>(489,572)</u> |
| | 46,881 | 87,625 |
| Less: Present value of unfunded obligations | <u>(1,054)</u> | <u>(897)</u> |
| IAS 19 Consolidated statement of financial position asset | <u>45,827</u> | <u>86,728</u> |

IAS 19 consolidated statement of financial position assets represent the economic value that the Group will derive from the pension plan surplus based on its current plans and in accordance with legislative restrictions on the use of pension plan surpluses.

The amount in the consolidated income statement is made up as follows:

| | 2011 | 2010 |
|---|---------------|-----------------|
| | \$'000 | \$'000 |
| Expected return on plan assets | 38,465 | 37,000 |
| Interest cost | (32,963) | (31,131) |
| Current service cost | (12,651) | (20,447) |
| Effect of any curtailment or settlement | <u>21,732</u> | <u>-</u> |
| Net gain/(loss) for the year (Note 35) | <u>14,583</u> | <u>(14,578)</u> |

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

| | | |
|------------------------------------|----------------|-----------------|
| Balance at beginning of year | 577,197 | 552,607 |
| Exchange rate adjustments | 848 | 2,960 |
| Expected return on plan assets | 38,492 | 37,120 |
| Benefit payments | (15,513) | (17,052) |
| Company contributions | 5,036 | 13,519 |
| Contributions by plan participants | 769 | 634 |
| Actuarial losses | <u>20,123</u> | <u>(12,591)</u> |
| Balance at end of year | <u>626,952</u> | <u>577,197</u> |

The movement in the obligation to plan members over the year is as follows:

| | | |
|------------------------------------|-----------------|-----------------|
| Balance at beginning of year | 490,469 | 450,769 |
| Exchange rate adjustments | 650 | 2,262 |
| Current service cost | 12,651 | 20,447 |
| Interest cost | 32,963 | 31,131 |
| Contributions by plan participants | 769 | 634 |
| Actuarial losses | 80,902 | 2,278 |
| Curtailments | (21,766) | - |
| Benefits paid | <u>(15,513)</u> | <u>(17,052)</u> |
| Balance at end of year | <u>581,125</u> | <u>490,469</u> |

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12. Pension plan assets (continued)

The principal actuarial assumptions used for accounting purposes were:

| | 2011 | 2010 |
|---|--|--|
| Discount rates | 4.5% - 6.0% | 5.5% - 7.5% |
| Future salary increases | 2.5% - 3.5% | 2.5% - 4.5% |
| Expected return on plan assets | 4.5% - 7.5% | 5.5% - 7.5% |
| Post retirement mortality | PA90 ultimate/ US table GAM 83 GBM/GBV9095 | PA90 ultimate/ US table GAM 83 GBM/GBV9095 |
| Pre-retirement mortality | GAM 94 | 10% DIS |
| Withdrawal from service | Nil | Nil |
| Future pension increases | 0.0% - 3.5% | 0.0% - 3.5% |
| Proportion of employees opting for early retirement | Nil | Nil |

The actual return on plan assets was \$49,178,000 (2010: \$19,899,000)

| Pension plan assets are comprised as follows: | 2011 | | 2010 | |
|---|----------------|---------------|----------------|---------------|
| | \$'000 | % | \$'000 | % |
| Equity securities | 426,674 | 68.1% | 374,313 | 64.9% |
| Debt securities | 85,751 | 13.7% | 103,362 | 17.9% |
| Property | 14,000 | 2.2% | 15,100 | 2.6% |
| Other | <u>100,527</u> | <u>16.0%</u> | <u>84,422</u> | <u>14.6%</u> |
| | <u>626,952</u> | <u>100.0%</u> | <u>577,197</u> | <u>100.0%</u> |

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 consolidated statement of financial position date. Expected returns on equity and property investments reflect long-term real rates of return experienced in the respective markets.

Expected contributions to post-employment benefit plans for the year ending 31 December 2012 are \$5,616,000.

| As at 31 December | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|----------------|----------------|----------------|----------------|----------------|
| Present value of defined benefit obligation | (580,071) | (489,572) | (449,930) | (373,255) | (322,540) |
| Fair value of plan assets | <u>626,952</u> | <u>577,197</u> | <u>552,607</u> | <u>520,776</u> | <u>466,185</u> |
| Surplus | <u>46,881</u> | <u>87,625</u> | <u>102,677</u> | <u>147,521</u> | <u>143,645</u> |
| Experience adjustments on plan liabilities | 57,254 | 2,278 | 40,506 | 20,848 | 6,395 |
| Experience adjustments on plan assets | 20,123 | (12,591) | (9,239) | (10,597) | (8,547) |

13. Value of inforce life insurance policies

| | 2011 | 2010 |
|---------------------------------|----------------|----------------|
| | \$'000 | \$'000 |
| Balance at beginning of year | 673,473 | 583,705 |
| Exchange rate adjustments | (1,702) | 13,961 |
| Increase for the year (Note 41) | <u>70,272</u> | <u>75,808</u> |
| Balance at end of year | <u>742,043</u> | <u>673,474</u> |

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13. Value of inforce life insurance policies (continued)

| | 2011 | 2010 |
|--|------------------|-------------------|
| | \$'000 | \$'000 |
| Changes in assumptions during the year: | | |
| For the Jamaican life insurance subsidiary: | | |
| Changes in expense assumptions | 878 | (47,461) |
| Changes in lapse assumptions | 426 | - |
| Changes in investment returns | (6,486) | 59,290 |
| Changes in other assumptions | <u>6,906</u> | <u>279</u> |
| Total change | <u>1,724</u> | <u>12,108</u> |
| For the Trinidad life insurance subsidiaries: | | |
| Changes in expense assumptions | <u>13,330</u> | <u>-</u> |

There were no changes in the assumptions used for the life insurance subsidiaries in Dutch Caribbean.

14. Deferred taxation

The following amounts are shown in the consolidated statement of financial position:

| | | |
|---|----------------------|----------------------|
| Deferred tax assets: | | |
| - To be recovered after more than 12 months | 15,183 | 20,373 |
| - To be recovered within 12 months | <u>6,307</u> | <u>5,222</u> |
| | <u>21,490</u> | <u>25,595</u> |
| Deferred tax liabilities | | |
| - Crystallizing after more than 12 months | (186,878) | (208,432) |
| - Crystallizing within 12 months | <u>(12,050)</u> | <u>-</u> |
| | <u>(198,928)</u> | <u>(208,432)</u> |
| Net deferred tax liability | <u>(177,438)</u> | <u>(182,837)</u> |

Deferred income tax assets are recognized for tax losses carried forward to the extent that the realization of the related tax benefit through the future taxable profits is probable.

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

| | 2011 | 2010 |
|---|----------------------|----------------------|
| | \$'000 | \$'000 |
| Balance at beginning of year | (182,837) | (152,348) |
| Exchange rate adjustments | 260 | (1,327) |
| Credit/(charge) for the year (Note 38) | 5,717 | (40,308) |
| Tax charged to equity in respect of revaluation of properties | (579) | (910) |
| Disposal of subsidiary | - | 12,060 |
| Other movements | <u>1</u> | <u>(4)</u> |
| Balance at end of year | <u>(177,438)</u> | <u>(182,837)</u> |

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14. Deferred taxation (continued)

The movement in the deferred tax assets and liabilities during the year is attributable to the following items:

| | Balance at beginning of year \$'000 | Exchange rate adjustment \$'000 | Credit/ (charge) for the year \$'000 | Revaluation of properties \$'000 | Other movements \$'000 | Disposal of subsidiary \$'000 | Balance at Dec 2011 \$'000 |
|--|--|--|---|---|------------------------------|-------------------------------------|----------------------------------|
| Future distributions | (143,763) | 102 | 7,988 | – | 1 | – | (135,672) |
| Value to shareholders of inforce long-term insurance business | – | – | – | – | – | – | – |
| Zero coupon bonds | (16,734) | – | 3,167 | – | – | – | (13,567) |
| Pension plan assets | 1,316 | – | 1,567 | – | – | – | 2,883 |
| Accelerated tax depreciation | (17,183) | (44) | (231) | – | – | – | (17,458) |
| Tax losses carried forward | 22,455 | 138 | (4,917) | – | – | – | 17,676 |
| Investments at fair value through profit or loss | (1,390) | 24 | (1,890) | – | – | – | (3,256) |
| Revaluation of properties | (10,094) | 40 | 33 | (579) | – | – | (10,600) |
| Catastrophe reserve | (17,444) | – | – | – | – | – | (17,444) |
| | <u>(182,837)</u> | <u>260</u> | <u>5,717</u> | <u>(579)</u> | <u>1</u> | <u>–</u> | <u>(177,438)</u> |
| | Balance at beginning of year \$'000 | Exchange rate adjustment \$'000 | Credit/ (charge) for the year \$'000 | Revaluation of properties \$'000 | Other movements \$'000 | Disposal of subsidiary \$'000 | Balance at Dec 2010 \$'000 |
| Future distributions | (126,932) | (510) | (16,317) | – | (4) | – | (143,763) |
| Value to shareholders of inforce long-term insurance business | (14,281) | – | 14,281 | – | – | – | – |
| Zero coupon bonds | (14,907) | – | (1,827) | – | – | – | (16,734) |
| Pension plan assets | (3,214) | – | 4,530 | – | – | – | 1,316 |
| Accelerated tax depreciation | (10,773) | (239) | (6,171) | – | – | – | (17,183) |
| Tax losses carried forward | 25,666 | (56) | (3,155) | – | – | – | 22,455 |
| Investments at fair value through profit or loss | 14,681 | (174) | (27,957) | – | – | 12,060 | (1,390) |
| Revaluation of properties | (8,836) | (348) | – | (910) | – | – | (10,094) |
| Catastrophe reserve | (13,752) | – | (3,692) | – | – | – | (17,444) |
| | <u>(152,348)</u> | <u>(1,327)</u> | <u>(40,308)</u> | <u>(910)</u> | <u>(4)</u> | <u>12,060</u> | <u>(182,837)</u> |

There are tax losses relating to overseas subsidiaries that are available for set off against future chargeable profits of \$31,638,000(2010 - \$18,424,000). These tax losses expire over varying periods of up to nine years. For these balances, no deferred tax asset has been recognized for tax losses carried forward due to the uncertain timing of their recovery. Some of these losses have not yet been agreed with the respective tax regulators.

15. Reinsurance assets

2011
\$'000

2010
\$'000

This represents the Group's net contractual rights under reinsurance contracts:

Long-term insurance contracts:

With fixed and guaranteed terms

35,663

37,018

Without fixed terms

18,807

14,186

54,470

51,204

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15. Reinsurance assets (continued)

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Short-term insurance contracts: | | |
| Claims reported and loss adjustment expenses (Note 23.1(e)) | 398,740 | 472,217 |
| Claims incurred but not reported (Note 23.1(e)) | 41,662 | 12,712 |
| Unearned premiums (Note 23.1(f)) | 254,800 | 225,481 |
| Transfer to assets held for sale (Note 19) | (69,399) | — |
| | <u>625,803</u> | <u>710,410</u> |
| Total reinsurers' share of insurance liabilities | <u>680,273</u> | <u>761,614</u> |
| Current | 363,202 | 493,066 |
| Non-current | <u>317,071</u> | <u>268,548</u> |
| Total reinsurers' share of insurance liabilities | <u>680,273</u> | <u>761,614</u> |

16. Segregated fund assets and liabilities of life insurance policies

(a) Assets of the segregated funds

The assets listed below are managed by the Jamaican life insurance subsidiary on behalf of certain life insurance policyholders in ten policy segregated funds. These are the Blue Chip Fund, Eagle Growth Fund, Mutual Growth Fund, Shelter Plus Fund, Horizon Equity Fund, in addition to the Guardian Equity Fund, The Guardian Money Market Fund, The Guardian Long Term Growth Fund, The Guardian Stabilization Fund and The Guardian Foreign Currency Indexed Fund. The policyholders share all rewards and risks of the performance of the funds and the assets have been segregated for determining the policyholders' interest in the funds.

Unit values are determined by dividing the value of the assets in the funds on a valuation date by the number of units in the funds on the valuation date. The assets are carried at fair value and returns to investors are based on market valuations.

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| Investments: | | |
| Government of Jamaica securities | 324,484 | 323,985 |
| Equity securities | 92,888 | 73,295 |
| Securities purchased under resale agreements | 26,277 | 14,625 |
| Unit trust | 364 | 314 |
| Investment properties | <u>2,708</u> | <u>2,655</u> |
| | 446,721 | 414,874 |
| Other assets | <u>52,781</u> | <u>45,063</u> |
| | <u>499,502</u> | <u>459,937</u> |
| Current | 79,058 | 59,687 |
| Non-current | <u>420,444</u> | <u>400,250</u> |
| | <u>499,502</u> | <u>459,937</u> |
| The related segregated funds' liability is disclosed as follows: | | |
| Current | 79,058 | 59,687 |
| Non-current | <u>420,444</u> | <u>400,250</u> |
| | <u>499,502</u> | <u>459,937</u> |

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16. Segregated fund assets and liabilities of life insurance policies (continued)

(b) Income from segregated funds' investments

| | 2011 | 2010 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Government of Jamaica securities | 42,762 | 49,185 |
| Equity securities | 20,668 | 11,443 |
| Securities purchased under resale agreements | <u>2,276</u> | <u>2,087</u> |
| | <u>65,706</u> | <u>62,715</u> |

17. Deferred acquisition costs

Short-term insurance contracts:

| | | |
|--|------------------|----------------|
| Balance at beginning of year | 369,624 | 466,541 |
| Net exchange differences | (72,521) | (14,608) |
| Increase in the year | 321,960 | 386,026 |
| Release in the year | (370,007) | (468,336) |
| Transfer to assets held for sale (Note 19) | <u>(176,399)</u> | <u>—</u> |
| Balance at end of year | <u>72,657</u> | <u>369,623</u> |
| Current | 72,657 | 297,469 |
| Non-current | <u>—</u> | <u>72,154</u> |
| | <u>72,657</u> | <u>369,623</u> |

18. Cash and cash equivalents

| | | |
|---|------------------|------------------|
| Cash and cash equivalents | 1,739,394 | 1,475,421 |
| Cash and cash equivalents in Mutual Funds | <u>161,050</u> | <u>150,517</u> |
| | <u>1,900,444</u> | <u>1,625,938</u> |
| Cash at bank and in hand | 913,403 | 723,326 |
| Short term deposits (90 days or less) | <u>825,991</u> | <u>752,095</u> |
| | 1,739,394 | 1,475,421 |
| Cash and cash equivalents in Mutual Funds | 161,050 | 150,517 |
| Bank overdraft (Note 24) | <u>(568)</u> | <u>—</u> |
| Net cash and cash equivalents | <u>1,899,876</u> | <u>1,625,938</u> |
| At beginning of year | 1,625,938 | 2,285,993 |
| Difference on retranslation of opening balance | (24,672) | 4,542 |
| Transfer from assets held for sale | — | 295,681 |
| Assets held for sale | <u>—</u> | <u>(57,589)</u> |
| | 1,601,266 | 2,528,627 |
| At end of year | <u>1,899,876</u> | <u>1,625,938</u> |
| Net increase/(decrease) in cash used in cash flow | <u>298,610</u> | <u>(902,689)</u> |

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18. Cash and cash equivalents (continued)

The interest rate on short term bank deposits held by subsidiaries ranged from 0.25% - 7.08% (2010: 0.79% - 9%).

The carrying amount of cash and cash equivalents pledged as collateral for financial liabilities was \$28,157,000 as at 31 December 2011 (2010: \$23,224,000).

19. Assets and liabilities held for sale

Assets and liabilities held for sale

The Group's reinsurance subsidiary Guardian Re (SAC) Limited provided proportional quota share reinsurance on an international property book and incidental life book written in the Lloyd's market up to 30 September 2011. After this date, the Group ceased underwriting any new risks at Lloyd's or offering renewal at expiry, and is actively seeking to dispose of its residual interest in these treaties. Consequently, the Group's residual interests in these treaties have been classified as a disposal group held for sale and as a discontinued operation. Additionally, during the year the Group in conjunction with other investors formed Appleclaim Insurance Holdings Limited (AIHL), a company in which the Group holds a 39.217% interest. This company was formed exclusively for facilitating the disposition of these treaties, and therefore has also been designated as held for sale.

The net results of the disposal group and AIHL have been consolidated into one line on the Statement of Income as Net loss on Discontinued Operations, and the results of 2010 have been similarly restated to include a one line comparative result. These results are presented below:

| | 2011 | 2010 |
|-------------------------------------|------------------|-----------------|
| | \$'000 | \$'000 |
| Revenue | 585,047 | 896,114 |
| Expenses | (762,034) | (954,284) |
| Net loss on AIHL for the year | (20,213) | - |
| Impairment of AIHL | (12,709) | - |
| Net loss | <u>(209,909)</u> | <u>(58,170)</u> |
| Other discontinued operations | - | 2,586 |
| Net loss on discontinued operations | <u>(209,909)</u> | <u>(55,584)</u> |

The major classes of assets and liabilities classified as held for sale at 31 December 2011 are as follows:

| | | |
|--|------------------|----------|
| Assets held for sale | | |
| Financial assets | 218,219 | - |
| Financial assets - interest receivable | 5,210 | - |
| Reinsurance assets | 69,399 | - |
| Deferred acquisition cost | 176,399 | - |
| Other assets | 531,129 | - |
| | <u>1,000,356</u> | <u>-</u> |
| Liabilities related to assets held for sale | | |
| Short term insurance contracts | 1,000,356 | - |
| Net assets directly associated with disposal group held for sale | <u>-</u> | <u>-</u> |

The net cash flows incurred by the disposal group are as follows:

| | | |
|-----------------|----------------|---------------|
| Operating | 195,923 | 79,151 |
| Investing | - | - |
| Net cash inflow | <u>195,923</u> | <u>79,151</u> |

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20. Share capital

Authorized

An unlimited number of ordinary shares of no par value

An unlimited number of preferred shares of no par value

| | 2011 \$'000 | 2010 \$'000 |
|---|------------------|------------------|
| <i>Issued and fully paid</i> | | |
| 231,899,986 ordinary shares of no par value (2010: 231,899,986 ordinary shares) | <u>2,008,338</u> | <u>2,003,470</u> |

The holders of ordinary shares are entitled to one vote on a show of hands and one vote for each such share held by him on a ballot or poll at all meetings of shareholders of the company, to receive any dividends declared and payable by the company on the ordinary shares and to receive the remaining property of the company upon dissolution, liquidation or winding up in proportion of ordinary shares then held by each of them. This is subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the company.

| | Number of shares (thousands) | Share capital \$'000 | Share option plan \$'000 | Total \$'000 |
|------------------------------------|------------------------------------|----------------------------|-----------------------------------|------------------|
| Balance at 1 January 2011 | 231,557 | 1,952,353 | 51,117 | 2,003,470 |
| Movement in unallocated shares | (502) | 197 | - | 197 |
| Executive share option plan: | | | | |
| - value of services provided | - | - | 5,270 | 5,270 |
| - lapses | - | - | (599) | (599) |
| Balance at 31 December 2011 | <u>231,055</u> | <u>1,952,550</u> | <u>55,788</u> | <u>2,008,338</u> |
| Balance at 1 January 2010 | 201,810 | 1,480,355 | 50,043 | 1,530,398 |
| Issue of shares | 29,747 | 471,998 | - | 471,998 |
| Executive share option plan: | | | | |
| - value of services provided | - | - | 1,950 | 1,950 |
| - lapses | - | - | (876) | (876) |
| Balance at 31 December 2010 | <u>231,557</u> | <u>1,952,353</u> | <u>51,117</u> | <u>2,003,470</u> |

Performance share option plan

The Group operates a Stock Option Plan for its Executives. A total of 33,890,023 shares have been allocated to this plan since inception inclusive of bonus issues and stock dividends. Increases were approved at the Annual Meetings in 1999, 2004 and in 2011.

The current status of options inclusive of bonus issues and stock dividends to date is as follows (in thousands):

| | 2011 | 2010 |
|---|-----------------|----------------|
| Total shares allocated to the plan | 33,890 | 17,031 |
| Issued pursuant to exercise of options | (9,586) | (9,586) |
| Outstanding options | <u>(11,389)</u> | <u>(6,386)</u> |
| Remaining options have not been granted | <u>12,915</u> | <u>1,059</u> |

GUARDIAN HOLDINGS LIMITED

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20. Share capital (Continued)

The movement in the number of share options outstanding for the year is as follows:

| | 2011 Average exercise price | 2011 Options (thousands) | 2010 Average exercise price | 2010 Options (thousands) |
|----------------------|--------------------------------------|--------------------------------|--------------------------------------|--------------------------------|
| At beginning of year | \$ 27.10 | 6,386 | \$ 27.10 | 6,504 |
| Granted | \$ 18.00 | 5,085 | — | — |
| Lapsed | \$ 23.92 | (82) | \$ 26.74 | (118) |
| At end of year | \$ 23.06 | 11,389 | \$ 27.10 | 6,386 |

The exercise price of the options granted up to 2008 is equal to the average market price of the shares on the three dealing days preceding the date of the grant. The exercise price of the options granted in 2011 is the greater of \$18.00 and the adjusted reference price. The vesting period is 2 years. Options are exercisable starting two years from the grant date up to the eight anniversary of the date of grant. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

| Expiry date | Exercise price | Number of shares (thousands) | |
|----------------|-------------------|---------------------------------|-------|
| | | 2011 | 2010 |
| 14 Sep 2015 | \$21.40 | 243 | 243 |
| 31 Mar 2016 | \$33.17 | 763 | 763 |
| 3 Apr 2017 | \$43.33 | 695 | 695 |
| 28 May 2018 | \$27.73 | 1,398 | 1,421 |
| 2 Apr 2019 | \$19.99 | 1,511 | 1,538 |
| 31 Mar 2020 | \$24.51 | 1,694 | 1,726 |
| 5 Sep 2021 | \$18.00 | 5,085 | — |
| | | 11,389 | 6,386 |

21. Reserves

| | Property revaluation reserve \$'000 | Statutory reserves \$'000 | Translation reserves \$'000 | Total \$'000 |
|---------------------------------|--|---------------------------------|-----------------------------------|-----------------|
| Balance at 1 January 2011 | 92,498 | 8,655 | (350,740) | (249,587) |
| Other comprehensive income | 1,347 | 287 | (17,725) | (16,091) |
| Transfer from retained earnings | — | 1,318 | — | 1,318 |
| Balance at 31 December 2011 | 93,845 | 10,260 | (368,465) | (264,360) |
| Balance at 1 January 2010 | 91,529 | 6,289 | (423,007) | (325,189) |
| Other comprehensive loss | 969 | 367 | 73,436 | 74,772 |
| Transfer from retained earnings | — | 1,999 | (1,169) | 830 |
| Balance at 31 December 2010 | 92,498 | 8,655 | (350,740) | (249,587) |

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21. Reserves (continued)

The property revaluation reserve is used to record increases or decreases in the carrying amount of an item of property that has been revalued. If an asset's carrying amount is increased as a result of a revaluation, the increase is recognized in equity under the heading of revaluation surplus. However, the increase is recognized in the consolidated income statement to the extent that it reverses a revaluation decrease of the same asset previously recognized in the statement of comprehensive income. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized in the consolidated income statement.

A statutory reserve is maintained by general insurance companies in Trinidad and Tobago. This is in accordance with the provisions of Section 171 of the Insurance Act 1980 of Trinidad and Tobago, where companies are required to appropriate towards statutory reserve at least 25% of the prior year's profit until the excess of assets over liabilities equals or exceeds the reserve in respect of its unearned premiums. The general insurance companies in Trinidad and Tobago comply with this requirement.

The Financial Institutions Act 1993 requires a financial institution in Trinidad and Tobago to transfer annually a minimum of 10% of its profit after taxation to a reserve fund until the balance on this reserve is not less than the paid up capital of the institution. The asset management company in Trinidad and Tobago complies with this requirement.

The translation reserve is used to record exchange differences arising from group companies whose functional currency is different to the functional currency used in the consolidated financial statements. Differences in retranslating opening net assets for investment in group companies using the exchange rate at year end compared to the exchange rate at the beginning of the year are recognized in other comprehensive income and taken to the translation reserve. The difference between a group company's profit or loss for the year translated at the year end exchange rate and the profit or loss for the year converted at the average rate for the year is recognized in other comprehensive income and taken to the translation reserve.

22. Non-controlling interests in subsidiaries

At the end of the year, the non controlling interest balance represents a 42% effective shareholding in Laevulose Inc Limited Group and 46% shareholding in Trans-Nemwil Insurance (Grenada) Limited.

23. Insurance contracts

| | 2011 S'000 | 2010 S'000 |
|--|-------------------|-------------------|
| <i>Long term insurance contracts:</i> | | |
| With fixed and guaranteed terms and without DPF (Note 23.1(a)) | 5,791,328 | 5,422,839 |
| With fixed and guaranteed terms and with DPF (Note 23.1 (b)) | 65,372 | 69,488 |
| Without fixed terms (Note 23.1(c)) | <u>3,251,544</u> | <u>2,850,935</u> |
| | 9,108,244 | 8,343,262 |
| Participating policyholders' share of the surplus from long-term insurance business (Note 23.1(d)) | <u>455,666</u> | <u>459,277</u> |
| | <u>9,563,910</u> | <u>8,802,539</u> |
| <i>Short term insurance contracts:</i> | | |
| Claims reported and loss adjustment expenses (Note 23.1(e)) | 1,193,975 | 2,156,045 |
| Claims incurred but not reported (Note 23.1(e)) | 107,763 | 191,900 |
| Unearned premiums (Note 23.1(f)) | <u>744,467</u> | <u>1,303,279</u> |
| | <u>2,046,205</u> | <u>3,651,224</u> |
| Total gross insurance liabilities | <u>11,610,115</u> | <u>12,453,763</u> |
| Current | 1,434,361 | 2,510,820 |
| Non-current | <u>10,175,754</u> | <u>9,942,943</u> |
| | <u>11,610,115</u> | <u>12,453,763</u> |

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23. Insurance contracts (continued)

23.1 Movements in insurance liabilities and reinsurance assets

(a) Long-term insurance contracts with fixed and guaranteed terms and without DPF

| | 2011 \$'000 | 2010 \$'000 |
|--|------------------|------------------|
| At beginning of year | 5,422,839 | 4,962,386 |
| Valuation premiums received | 253,267 | 283,984 |
| Liabilities released for payments on death, surrender and other terminations in the year | (234,242) | (238,901) |
| Accretion of interest | 190,855 | 181,251 |
| Cash paid for claims settled in the year | (240,662) | (190,545) |
| Increase in liabilities | 248,307 | 175,105 |
| Other movements | 153,326 | 171,262 |
| Net exchange differences | (2,362) | 78,297 |
| At end of year | <u>5,791,328</u> | <u>5,422,839</u> |

(b) Long-term insurance contracts with fixed and guaranteed terms and with DPF

| | | |
|--|---------------|---------------|
| At beginning of year | 69,488 | 67,048 |
| Net exchange differences | (2,475) | 3,693 |
| Change in interest rates | 1,346 | 1,611 |
| Change in expenses | (7) | (2,840) |
| Normal decrease due to the passage of time | (2,980) | (24) |
| At end of year | <u>65,372</u> | <u>69,488</u> |

(c) Long-term insurance contracts without fixed terms

| | | |
|--|------------------|------------------|
| At beginning of year | 2,850,935 | 2,495,265 |
| Premiums received | 630,120 | 547,593 |
| Fees deducted from account balances | (206,397) | (176,766) |
| Liabilities released for payments on death, surrender and other terminations in the year | (309,244) | (215,710) |
| Changes in unit prices | 250,586 | 188,458 |
| Cash paid for claims settled in the year | (273,934) | (249,435) |
| Increase in liabilities | 295,591 | 269,072 |
| Other movements | 13,849 | (7,424) |
| Net exchange differences | 38 | (118) |
| At end of year | <u>3,251,544</u> | <u>2,850,935</u> |

(d) Participating policyholders' share of the surplus from long-term insurance business

| | | |
|---------------------------------|----------------|----------------|
| At beginning of year | 459,277 | 445,959 |
| Surplus arising from operations | 8,716 | 14,359 |
| Translation reserve | (12,327) | (1,041) |
| At end of year | <u>455,666</u> | <u>459,277</u> |

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(Continued)

23. Insurance contracts (continued)

23.1 Movements in insurance liabilities and reinsurance assets (continued)

Short term insurance contracts:

(e) Claims and loss adjustment expenses/claims incurred but not reported

| Year ended 31 December | 2011 | | | 2010 | | |
|--|-----------------|-----------------------|---------------|-----------------|-----------------------|---------------|
| | Gross \$'000 | Reinsurance \$'000 | Net \$'000 | Gross \$'000 | Reinsurance \$'000 | Net \$'000 |
| Notified claims | 2,156,045 | (472,217) | 1,683,828 | 1,043,606 | (152,858) | 890,748 |
| Incurred but not reported | 191,900 | (12,712) | 179,188 | 176,554 | (10,385) | 166,169 |
| Total at beginning of year | 2,347,945 | (484,929) | 1,863,016 | 1,220,160 | (163,243) | 1,056,917 |
| Cash paid for claims settled in the year | (1,651,992) | 142,862 | (1,509,130) | (1,616,859) | 109,232 | (1,507,627) |
| Increase in liabilities | 1,291,184 | (104,135) | 1,187,049 | 1,796,262 | (167,379) | 1,628,883 |
| Net exchange differences | (45,176) | 5,801 | (39,375) | (37,157) | 10,342 | (26,815) |
| Transfer (to)/from liabilities held for sale | (640,223) | 59,396 | (580,827) | 985,539 | (273,881) | 711,658 |
| Total at end of year | 1,301,738 | (381,005) | 920,733 | 2,347,945 | (484,929) | 1,863,016 |
| Notified claims | 1,193,975 | (348,801) | 845,174 | 2,156,045 | (472,217) | 1,683,828 |
| Incurred but not reported | 107,763 | (32,204) | 75,559 | 191,900 | (12,712) | 179,188 |
| | 1,301,738 | (381,005) | 920,733 | 2,347,945 | (484,929) | 1,863,016 |

(f) Provisions for unearned premiums

| | 2011 | | | 2010 | | |
|--|-----------------|-----------------------|---------------|-----------------|-----------------------|---------------|
| | Gross \$'000 | Reinsurance \$'000 | Net \$'000 | Gross \$'000 | Reinsurance \$'000 | Net \$'000 |
| Total at beginning of year | 1,303,279 | (225,481) | 1,077,798 | 1,495,130 | (202,005) | 1,293,125 |
| Increase in the period | 1,223,224 | (253,483) | 969,741 | 1,343,364 | (226,212) | 1,117,152 |
| Release in the period | (1,304,125) | 225,392 | (1,078,733) | (1,836,617) | 226,686 | (1,609,931) |
| Net exchange differences | (117,778) | (1,229) | (119,007) | (35,114) | (760) | (35,874) |
| Transfer (to)/from liabilities held for sale | (360,133) | 10,003 | (350,130) | 336,516 | (23,190) | 313,326 |
| Total at end of year | 744,467 | (244,798) | 499,669 | 1,303,279 | (225,481) | 1,077,798 |

23.2 Development claim tables - short term insurance contracts

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. An accident year basis is considered to be the most appropriate for the business written by the Group. However, due to the unavailability of the Lloyd's syndicates' claims by accident year, these claims are reported separately by underwriting year of account. This presentation is different from the basis used for the claims development tables for the other insurance claims of the Group, where the reference is to the actual date of the event that caused the claim (accident year basis).

The top half of each table below illustrates how the Group's estimate of total claims outstanding for each accident year / underwriting year has changed at successive year ends. The bottom half of the table reconciles the cumulative claims to the amount appearing on the consolidated statement of financial position as per summary below.

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23. Insurance contracts (continued)

23.2 Development claim tables - short term insurance contracts (continued)

| | | | | | | Total \$'000 |
|---|------------------|------------------|------------------|------------------|------------------|-------------------------|
| Insurance | | | | | | |
| - By accident year | | | | | | 732,604 |
| - By underwriting year | | | | | | <u>569,134</u> |
| Total liability (Note 23.1 (e)) | | | | | | <u>1,301,738</u> |
| Insurance | | | | | | |
| - By accident year | | | | | | 574,274 |
| - By underwriting year | | | | | | <u>346,459</u> |
| Total liability (Note 23.1 (e)) | | | | | | <u>920,733</u> |
| Insurance claims - gross | | | | | | |
| Accident year | | | | | | |
| | 2007 | 2008 | 2009 | 2010 | 2011 | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Estimate of ultimate claims costs: | | | | | | |
| - at end of accident year | 705,327 | 757,761 | 742,897 | 960,476 | 879,973 | 4,046,434 |
| - one year later | 697,094 | 700,706 | 709,607 | 923,777 | - | - |
| - two years later | 707,772 | 716,830 | 689,989 | - | - | - |
| - three years later | 691,282 | 718,080 | - | - | - | - |
| - four years later | 696,890 | - | - | - | - | - |
| Current estimate of cumulative claims | 696,890 | 718,080 | 689,989 | 923,777 | 879,973 | 3,908,709 |
| Cumulative payments to date | <u>(635,601)</u> | <u>(674,433)</u> | <u>(642,883)</u> | <u>(825,975)</u> | <u>(517,418)</u> | <u>(3,296,310)</u> |
| Liability recognized in the consolidated statement of financial position | 61,289 | 43,647 | 47,106 | 97,802 | 362,555 | 612,399 |
| Liability in respect of prior years | | | | | | <u>120,205</u> |
| Total liability | | | | | | <u>732,604</u> |
| Insurance claims - gross | | | | | | |
| Underwriting year | | | | | | |
| Estimate of ultimate claims costs: | | | | | | |
| - at end of underwriting year | 393,166 | 350,611 | 352,826 | 38,874 | 35,117 | 1,170,594 |
| - one year later | 751,970 | 629,031 | 687,456 | 36,368 | - | - |
| - two years later | 756,798 | 603,906 | 671,009 | - | - | - |
| - three years later | 761,028 | 597,248 | - | - | - | - |
| - four years later | 757,358 | - | - | - | - | - |
| Current estimate of cumulative claims | 757,358 | 597,248 | 671,009 | 36,368 | 35,117 | 2,097,100 |
| Cumulative payments to date | <u>(646,740)</u> | <u>(508,553)</u> | <u>(454,206)</u> | <u>(14,753)</u> | <u>(7,538)</u> | <u>(1,631,790)</u> |
| Liability recognized in the consolidated statement of financial position | 110,618 | 88,695 | 216,803 | 21,615 | 27,579 | 465,310 |
| Liability in respect of prior years | | | | | | <u>103,824</u> |
| Total liability | | | | | | <u>569,134</u> |

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23. Insurance contracts (continued)

23.2 Development claim tables - short term insurance contracts (continued)

Insurance claims - net

Accident year

| | 2007 \$'000 | 2008 \$'000 | 2009 \$'000 | 2010 \$'000 | 2011 \$'000 | Total \$'000 |
|---|----------------|----------------|----------------|----------------|----------------|-----------------|
| Estimate of ultimate claims costs: | | | | | | |
| - at end of accident year | 529,129 | 618,683 | 667,520 | 812,804 | 824,204 | 3,452,340 |
| - one year later | 549,858 | 581,080 | 649,415 | 755,060 | - | - |
| - two years later | 560,019 | 604,433 | 630,232 | - | - | - |
| - three years later | 550,054 | 603,925 | - | - | - | - |
| - four years later | 526,677 | - | - | - | - | - |
| Current estimate of cumulative claims | 526,677 | 603,925 | 630,232 | 755,060 | 824,204 | 3,340,098 |
| Cumulative payments to date | (501,957) | (555,825) | (575,673) | (684,732) | (522,580) | (2,840,767) |
| Liability recognized in the consolidated statement of financial position | 24,720 | 48,100 | 54,559 | 70,328 | 301,624 | 499,331 |
| Liability in respect of prior years | | | | | | 74,943 |
| Total liability | | | | | | 574,274 |

Insurance claims - net

Underwriting year

Estimate of ultimate claims costs:

| | | | | | | |
|---|-----------|-----------|-----------|----------|---------|-------------|
| - at end of underwriting year | 373,485 | 322,443 | 308,091 | 38,874 | 35,117 | 1,078,010 |
| - one year later | 653,743 | 579,838 | 600,132 | 36,368 | - | - |
| - two years later | 687,769 | 586,069 | 596,536 | - | - | - |
| - three years later | 701,324 | 588,340 | - | - | - | - |
| - four years later | 699,116 | - | - | - | - | - |
| Current estimate of cumulative claims | 699,116 | 588,340 | 596,536 | 36,368 | 35,117 | 1,955,477 |
| Cumulative payments to date | (644,522) | (508,553) | (454,206) | (14,753) | (7,538) | (1,629,572) |
| Liability recognized in the consolidated statement of financial position | 54,594 | 79,787 | 142,330 | 21,615 | 27,579 | 325,905 |
| Liability in respect of prior years | | | | | | 20,554 |
| Total liability | | | | | | 346,459 |

24. Financial liabilities

| | 2011 | | 2010 | |
|---|-----------------------------|-------------------------|-----------------------------|-------------------------|
| | Carrying value \$'000 | Fair value \$'000 | Carrying value \$'000 | Fair value \$'000 |
| Non-current portion of financial liabilities | | | | |
| Investment contract liabilities (Note 24.1) | 1,538,945 | 1,538,945 | 1,455,180 | 1,455,180 |
| Medium-term borrowings (Note 24.2) | 1,260,129 | 1,253,373 | 908,600 | 902,700 |
| Derivative financial instrument | 31,040 | 31,040 | 24,856 | 24,856 |
| | <u>2,830,114</u> | <u>2,823,358</u> | <u>2,388,636</u> | <u>2,382,736</u> |

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24. Financial liabilities (continued)

| | 2011 | | 2010 | |
|---|--------------------------|----------------------|--------------------------|----------------------|
| | Carrying value \$'000 | Fair value \$'000 | Carrying value \$'000 | Fair value \$'000 |
| Current portion of financial liabilities | | | | |
| Medium-term borrowings | 26,865 | 26,865 | 243,080 | 242,508 |
| Short-term borrowings | 75,235 | 75,235 | 89,841 | 89,841 |
| Total current portion of borrowings (Note 24.2) | 102,100 | 102,100 | 332,921 | 332,349 |
| Bank overdraft (Note 18) | 568 | 568 | - | - |
| Interest payable | 32,743 | 32,743 | 8,175 | 8,175 |
| | <u>135,411</u> | <u>135,411</u> | <u>341,096</u> | <u>340,524</u> |
| Total | <u>2,965,525</u> | <u>2,958,769</u> | <u>2,729,732</u> | <u>2,723,260</u> |

The derivative financial instrument relates to an interest rate swap that matures on December 15, 2015. The derivative financial instrument is recorded at fair value and the corresponding loss included in net fair value gains/(losses) on financial instruments in the consolidated income statement. The notional amount of this instrument is US\$50 Million.

The aggregate fair value of borrowings is determined by applying a discounted cash flow model for the remaining term to maturity using a current yield curve for a similar debt instrument. The discount rate used in the valuation technique is based on the borrowing rate of 7.98% (2010: 7.98%). For short term debt, the carrying amounts approximate their fair value.

The Group has not had any defaults of principal, interest or other breaches with respect to their borrowings during the period (2010 - Nil).

24.1 Investment contract liabilities

| | 2011 \$'000 | 2010 \$'000 |
|--|------------------|------------------|
| The movements in the liabilities arising from investment contracts are summarized below: | | |
| At beginning of year | 1,455,180 | 1,394,584 |
| Premiums received | 212,924 | 199,279 |
| Fees deducted from account balances | (10,886) | (21,918) |
| Account balances paid on surrender and other terminations in the year | (187,686) | (275,830) |
| Interest credited through income statement | 78,951 | 81,972 |
| Other movements | (4,542) | 37,272 |
| Net exchange differences | (4,997) | 39,821 |
| At end of year | <u>1,538,944</u> | <u>1,455,180</u> |

Investment contract liabilities carry floating rates of interest and therefore the carrying amounts approximate their fair values.

24.2 Borrowings

| | 2011 \$'000 | 2010 \$'000 |
|----------------|------------------|------------------|
| Parent company | 1,093,295 | 1,201,680 |
| Subsidiaries | 268,934 | 39,841 |
| | <u>1,362,229</u> | <u>1,241,521</u> |
| Current | 102,100 | 332,921 |
| Non-current | 1,260,129 | 908,600 |
| | <u>1,362,229</u> | <u>1,241,521</u> |

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24. Financial liabilities (continued)

24.2 Borrowings (continued)

Details of total current and non-current bank loans are as follows:

Parent Company

Facility 1 - \$1 billion

This is a fixed rate 12-year bond ending in December 2023 and is comprised of two series. Interest is charged at 7.975% per annum and is paid semi-annually. Series 1 is repayable by 7 equal half-yearly installments of \$3,375,000, 16 equal half-yearly installments of \$18,750,000 and a final balloon installment of \$576,375,000 commencing on 27 July 2011. Series 2 is repayable by 6 equal half-yearly installments of \$375,000, 16 equal half-yearly installments of \$2,083,333 and a final balloon installment of \$64,416,667 commencing on 27 January 2012. The loan is secured by a debenture creating a charge over the fixed and floating assets of the Group.

Facility 2 - \$50 million

This is an unsecured 1-year fixed rate loan ending in October 2012. Interest is charged at 2.82% per annum payable at maturity.

Subsidiaries

Loan 1 - US\$50 million

This is a secured floating rate 5-year loan ending in June 2016. Interest is charged at LIBOR plus 4.8% and is payable semi-annually. The principal is to be repaid at maturity. The loan is secured by the shares of a subsidiary.

25. Third party interest in Mutual Funds

| | 2011 \$'000 | 2010 \$'000 |
|--|------------------|------------------|
| Balance at beginning of year | 1,065,548 | 866,167 |
| Change in liability for interest in consolidated funds (Note 33) | 22,569 | 31,733 |
| Unrealized (losses)/gains | (6,966) | 63,500 |
| Net change in mutual fund holder balances | 23,803 | 129,434 |
| Distributions | (19,611) | (25,286) |
| | <u>1,085,343</u> | <u>1,065,548</u> |

26. Post retirement medical benefit obligations

The amounts recognized in the consolidated statement of financial position for the Dutch Caribbean insurance companies are as follows:

| | 2011 \$'000 | 2010 \$'000 |
|--|-----------------|----------------|
| Present value of obligations | <u>60,923</u> | <u>78,916</u> |
| The amount in the consolidated income statement is made up as follows: | | |
| Interest cost | 4,530 | 4,011 |
| Current service cost | 2,259 | 4,067 |
| Actuarial losses | 5,897 | 2,310 |
| Adjustment in value of recognizable assets | (29,114) | - |
| (Income)/expense for the year (Note 36) | <u>(16,428)</u> | <u>10,388</u> |
| The movement in the liability is as follows: | | |
| Balance at beginning of year | 78,916 | 69,498 |
| Difference on retranslation of opening balance | (1,565) | (970) |
| (Income)/expense as per above | <u>(16,428)</u> | <u>10,388</u> |
| Balance at end of year | <u>60,923</u> | <u>78,916</u> |

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26. Post retirement medical benefit obligations (continued)

The principal actuarial assumptions used were as follows:

| | 2011 | 2010 |
|-----------------------------|-----------------|-----------------|
| Discount rate | 4.7% | 5.5% |
| Healthcare cost escalation | 6.0% | 6.0% |
| Retiree premium escalation: | | |
| Existing retirees | 0.0% | 0.0% |
| Future retirees | 0.0% | 0.0% |
| Pre-retirement mortality | GBM/ GBV9095 | GBM/ GBV9095 |
| Post retirement mortality | Ignored | Ignored |

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

| | Increase | Decrease |
|---|----------|----------|
| Effect on the aggregate of the current service cost and interest cost | 7,486 | 6,373 |
| Effect on the defined benefit obligation | 11,566 | 9,086 |

Expected contributions to post-employment benefit plans for the year ending 31 December 2012 are \$1,763,000.

| As at 31 December | 2011 \$'000 | 2010 \$'000 | 2009 \$'000 | 2008 \$'000 | 2007 \$'000 |
|---|----------------|----------------|----------------|----------------|----------------|
| Present value of defined benefit obligation | 60,923 | 78,916 | 69,498 | 48,458 | 40,277 |
| Experience adjustments on plan liabilities | 104 | 7,773 | 4,210 | 2,111 | 293 |

27. Other liabilities

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Deposits and premiums received in advance | 80,703 | 67,914 |
| Amount due to reinsurers | 186,275 | 189,151 |
| Other payables | 564,213 | 501,770 |
| | <u>831,191</u> | <u>758,835</u> |

28. Net premium income

(a) Insurance premium income

| | | |
|---|------------------|------------------|
| Long-term insurance contracts with fixed and guaranteed terms | 1,616,550 | 1,626,972 |
| Short-term insurance contracts: | | |
| - premiums receivable | 2,390,589 | 1,939,917 |
| - change in unearned premium provision | (54,533) | 306,324 |
| | <u>3,952,606</u> | <u>3,873,213</u> |

(b) Insurance premium ceded to reinsurers

| | | |
|--|--------------------|------------------|
| Long-term reinsurance contracts | (87,162) | (74,296) |
| Short-term reinsurance contracts: | | |
| - premiums payable | (1,015,845) | (619,516) |
| - change in unearned premium provision | 35,261 | (2,917) |
| | <u>(1,067,746)</u> | <u>(696,729)</u> |

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29. Policy acquisition expenses

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| Commissions | 468,690 | 503,672 |
| Other expenses for the acquisition of insurance and investment contracts | 44,994 | 44,897 |
| | <u>513,684</u> | <u>548,569</u> |

30. Net insurance benefits and claims

| | | |
|---|------------------|------------------|
| Insurance benefits - gross | 1,498,845 | 1,481,824 |
| Insurance benefits - recovered from reinsurers | (32,678) | (21,417) |
| Insurance claims and loss adjustment expenses - gross | 855,686 | 1,268,747 |
| Insurance claims and loss adjustment expenses - recovered from reinsurers | (100,442) | (156,257) |
| | <u>2,221,411</u> | <u>2,572,897</u> |

| | 2011 | | |
|--|------------------|-----------------------|------------------|
| | Gross \$'000 | Reinsurance \$'000 | Net \$'000 |
| Insurance benefits | | | |
| Long-term insurance contracts with fixed and guaranteed terms and without DPf: | | | |
| - death, maturity and surrender benefits | 513,832 | (18,638) | 495,194 |
| - increase in liabilities | 367,803 | 522 | 368,325 |
| Long-term insurance contracts without fixed terms: | | | |
| - death, maturity and surrender benefits | 273,238 | (10,743) | 262,495 |
| - change in unit prices | 297,490 | - | 297,490 |
| Long-term insurance contracts with fixed and guaranteed terms and with DPf: | | | |
| - death, maturity and surrender benefits | 23,321 | - | 23,321 |
| - increase in liabilities | 1,665 | - | 1,665 |
| Short term insurance contracts - life | 21,496 | (3,819) | 17,677 |
| Total cost of policyholder benefits | <u>1,498,845</u> | <u>(32,678)</u> | <u>1,466,167</u> |

| | 2010 | | |
|--|------------------|-----------------------|------------------|
| | Gross \$'000 | Reinsurance \$'000 | Net \$'000 |
| Insurance benefits | | | |
| Long-term insurance contracts with fixed and guaranteed terms and without DPf: | | | |
| - death, maturity and surrender benefits | 423,604 | (13,674) | 409,930 |
| - increase in liabilities | 428,020 | 3,066 | 431,086 |
| Long-term insurance contracts without fixed terms: | | | |
| - death, maturity and surrender benefits | 254,188 | (10,727) | 243,461 |
| - change in unit prices | 345,909 | - | 345,909 |
| Long-term insurance contracts with fixed and guaranteed terms and with DPf: | | | |
| - death, maturity and surrender benefits | 21,934 | - | 21,934 |
| - increase in liabilities | (3,737) | - | (3,737) |
| Short term insurance contracts - life | 11,906 | (82) | 11,824 |
| Total cost of policyholder benefits | <u>1,481,824</u> | <u>(21,417)</u> | <u>1,460,407</u> |

31. Investment income

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| Fair value through profit or loss assets - interest income | 265,097 | 327,180 |
| Fair value through profit or loss assets - dividend income | 27,921 | 25,918 |
| Held-to-maturity assets - interest income | 453,769 | 392,450 |
| Loans and receivables - interest income | 68,215 | 75,610 |
| Cash and cash equivalents - interest income | 17,043 | 50,137 |
| | <u>832,045</u> | <u>871,295</u> |

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32. Net realized gains on financial instruments

| | 2011 | 2010 |
|---|---------------|----------------|
| | S'000 | S'000 |
| Equity securities | 5,359 | 23,821 |
| Debt securities | 4,531 | 5,092 |
| Loss on disposal of subsidiary (Note (a) below) | – | (65,750) |
| Gain on disposal of associated company (Note (a) below) | 73,982 | – |
| Gain on settlement of loan (Note (b) below) | – | 222,450 |
| Gain on IFC transaction (Note (c) below) | – | 59,390 |
| | <u>83,872</u> | <u>245,003</u> |

(a) Effective 31st August 2011, the Group disposed of its 39.1% shareholding in Jubilee Group Holdings Limited [JGHL], resulting in a gain of \$73,982,000 in 2011. The Group disposed of its 100% shareholding in Guardian Asset Management (Jamaica) Limited [GAMJA] on 17 August 2010. This sale accounted for the loss on disposal of \$65,750,000 in 2010.

| | 2011 | 2010 |
|---|-----------------|------------------|
| | S'000 | S'000 |
| | JGHL | GAMJA |
| Sales proceeds | 118,725 | 103,397 |
| Less: disposal expenses | <u>(1,888)</u> | <u>(9,711)</u> |
| Net proceeds | 116,837 | 93,686 |
| Less: | | |
| Goodwill | – | (2,894) |
| Net assets disposed of and realized foreign exchange losses | <u>(42,855)</u> | <u>(156,542)</u> |
| Loss on disposal | <u>73,982</u> | <u>(65,750)</u> |

(b) The Group negotiated settlement of a loan arrangement which resulted in a gain of \$222,450,000 in 2010.

(c) A fair value gain of \$59.39 million was recorded in 2010 on the settlement of the International Finance Corporation debt in exchange for shares in GHL.

33. Net fair value gains on financial instruments

| | 2011 | 2010 |
|---|---------------|----------------|
| | S'000 | S'000 |
| Net fair value gains on financial assets at fair value through profit or loss | 68,464 | 165,047 |
| Provision for impairment | 14,553 | (25,616) |
| Change in liability for mutual funds (Note 25) | (22,569) | (31,733) |
| Fair value gains / (losses) on investment properties (Note 6) | <u>23,088</u> | <u>(8,945)</u> |
| | <u>83,536</u> | <u>98,753</u> |

34. Fee income

| | | |
|--|---------------|---------------|
| Policy administration and asset management services: | | |
| - Insurance contracts | 4,226 | 2,513 |
| - Investment contracts without a discretionary participation feature | 23,486 | 22,180 |
| Surrender charges – insurance contracts | 10,948 | 6,074 |
| Other | <u>5,804</u> | <u>4,881</u> |
| | <u>44,464</u> | <u>35,648</u> |

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35. Other income/loss

| | 2011 | 2010 |
|---|---------------|----------------|
| | S'000 | S'000 |
| Rental income | 32,098 | 27,514 |
| Foreign exchange gains/(losses) | 13,964 | (44,682) |
| Net gain/(loss) for the year on pension plan assets (Note 12) | 14,583 | (14,578) |
| Other income | <u>31,363</u> | <u>23,439</u> |
| | <u>92,008</u> | <u>(8,307)</u> |

36. Operating expenses

| | | |
|-------------------------------|----------------|----------------|
| Staff cost | 372,839 | 376,280 |
| Depreciation and amortization | 49,316 | 51,282 |
| Auditors' remuneration | 10,386 | 8,166 |
| Directors' fees | 5,630 | 5,283 |
| Other expenses | <u>291,033</u> | <u>287,021</u> |
| | <u>729,204</u> | <u>728,032</u> |

Staff cost includes:

| | | |
|---|----------------|----------------|
| Wages, salaries and bonuses | 299,396 | 282,283 |
| Health and medical | 11,974 | 11,568 |
| Staff Training | 3,656 | 3,719 |
| National Insurance | 21,247 | 20,193 |
| Pension costs | 11,678 | 6,490 |
| Post retirement medical benefit obligations (Note 26) | (16,428) | 10,388 |
| Termination benefits | 2,074 | 3,917 |
| Other | <u>39,242</u> | <u>37,722</u> |
| | <u>372,839</u> | <u>376,280</u> |

Average number of employees

| | |
|--------------|--------------|
| <u>2,529</u> | <u>2,403</u> |
|--------------|--------------|

37. Finance charges

| | | |
|--|----------------|---------------|
| Interest on borrowings from financial institutions | <u>110,044</u> | <u>82,854</u> |
|--|----------------|---------------|

38. Taxation

| | | |
|--------------------------------|----------------|----------------|
| Current tax | 89,006 | 103,294 |
| Business levy/green fund levy | 2,909 | 1,735 |
| Prior year taxation adjustment | 950 | (8,539) |
| Deferred tax (Note 14) | <u>(5,717)</u> | <u>40,308</u> |
| | <u>87,148</u> | <u>136,798</u> |

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38. Taxation (continued)

The tax on the profit before taxation differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

| | 2011 S'000 | 2010 S'000 |
|--|-----------------|----------------|
| Profit before taxation | <u>551,883</u> | <u>632,084</u> |
| Prima facie tax calculated at domestic corporation tax rate of 25% | 137,971 | 158,021 |
| Effect of different tax rate of life insurance companies | (19,446) | (26,357) |
| Effect of different tax rate in other countries | (1,901) | 29,730 |
| Income not subject to tax | (206,144) | (259,767) |
| Expenses not deductible for tax purposes | 182,395 | 222,128 |
| Net adjustment to recognized and unrecognized tax losses | (2,269) | 11 |
| Tax reliefs and deductions | (2,005) | (4,078) |
| Business levy/green fund levy | 2,909 | 1,735 |
| Prior year taxation adjustment | 950 | (8,045) |
| Tax on dividend | 7,348 | 10,036 |
| Other | <u>(12,660)</u> | <u>13,384</u> |
| Tax charge for the period | <u>87,148</u> | <u>136,798</u> |

39. Earnings per share

Basic earnings per share amounts are calculated by dividing the net profit for the year attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares outstanding at the consolidated statement of financial position date.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding during the year is adjusted for the weighted number of share options granted to the Executives.

| | 2011 S'000 | 2010 S'000 |
|--|--------------------------------|----------------|
| Net profit attributable to ordinary shareholders | 261,103 | 405,505 |
| Net profit attributable to ordinary shareholders from continuing operations | 471,012 | 461,089 |
| Net loss attributable to ordinary shareholders from discontinued operations | (209,909) | (55,584) |
| | Number of shares ('000) | |
| Weighted average number of ordinary shares in issue (thousands) | 231,097 | 209,332 |
| Effect of dilution: | | |
| Share options | <u>7,161</u> | <u>6,504</u> |
| Weighted average number of ordinary shares adjusted for the effect of dilution | <u>238,258</u> | <u>215,836</u> |
| Basic earnings per ordinary share | 1.13 | 1.94 |
| Diluted earnings per ordinary share | 1.10 | 1.88 |
| Basic earnings per ordinary share from continuing operations | 2.04 | 2.20 |
| Diluted earnings per ordinary share from continuing operations | 1.98 | 2.14 |
| Basic (loss) per ordinary share from discontinued operations | (0.91) | (0.27) |
| Diluted (loss) per ordinary share from discontinued operations | (0.88) | (0.26) |

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40. Dividends

| | 2011 \$'000 | 2010 \$'000 |
|---|----------------|----------------|
| Final dividend for 2010 - 33¢ per share (2009: 33¢ per share) | 76,248 | 66,728 |
| Interim dividend for 2011 - 15¢ per share (2010: 17¢ per share) | <u>34,658</u> | <u>39,170</u> |
| | <u>110,906</u> | <u>105,898</u> |

On 23 March 2012, the Board of Directors declared a final dividend of 37 cents per share (2010: 33 cents). These financial statements do not reflect the final dividend which will be accounted for as an appropriation of retained earnings in the year ending 31 December 2012.

41. Adjustment for non-cash items in operating profit

| | 2011 \$'000 | 2010 \$'000 |
|---|------------------|------------------|
| Share of loss/(profit) from associated companies (Note 8) | 25,005 | (23,026) |
| Increase in the value to shareholders of inforce long-term business (Note 13) | (70,272) | (75,808) |
| Net fair value gains on financial and other assets | (60,897) | (173,603) |
| Change in liability for interest in consolidated funds (Note 25) | 22,569 | 31,733 |
| Net realized gains on financial and other assets | (83,861) | (218,682) |
| Impairment of financial assets | 12,743 | 11,695 |
| Net (gain)/loss for the year on pension plan assets (Note 12) | (14,583) | 14,578 |
| Depreciation and amortization (Note 36) | 49,316 | 51,282 |
| Loss on disposal of property, plant and equipment | 935 | 5,311 |
| Change in fair value of investment property (Note 6) | (23,088) | 8,945 |
| Gain on disposal of investment property | 282 | - |
| Foreign exchange losses | 9,163 | 24,892 |
| Other non-cash expense | <u>(9,461)</u> | <u>2,882</u> |
| | <u>(142,149)</u> | <u>(339,801)</u> |

42. Fair values of financial instruments

The classification of financial instruments at fair value can be determined by reference to the source of inputs used to derive the fair value. The classification uses the following three-level hierarchy:

Level 1

Included in the Level 1 category are financial assets that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market 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.

Level 2

Included in the Level 2 category are financial assets that are measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions, and for which pricing is obtained via pricing services, but where prices have not been determined in an active market. This includes financial assets with fair values based on broker quotes, investments in mutual funds with published net asset values and evidence of trades and assets that are valued using the Group's own models whereby the majority of assumptions are market observable.

Level 3

Included in the Level 3 category are financial assets that are not quoted as there are no active markets to determine a price. These financial instruments are held at cost, being the fair value of the consideration paid on acquisition of the investment, and are regularly assessed for impairment. The main asset class in this category is unlisted equity instruments.

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42. Fair values of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of fair value hierarchy:

| 31 December 2011 | Level 1 S'000 | Level 2 S'000 | Level 3 S'000 | Total fair value S'000 |
|--|------------------|------------------|------------------|------------------------------|
| Financial assets at fair value through profit or loss | | | | |
| Equity securities | 1,184,309 | 2,779 | 40,506 | 1,227,594 |
| Debt securities | 2,929,307 | 887,842 | 214,999 | 4,032,148 |
| Other financial assets | 36,005 | 6,632 | 9,979 | 52,616 |
| | <u>4,149,621</u> | <u>897,253</u> | <u>265,484</u> | <u>5,312,358</u> |

Reconciliation of movements in Level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing recorded amount of Level 3 financial assets and liabilities which are recorded at fair value.

| | At 1 January 2011 S'000 | Exchange rate adjustment S'000 | Total gain/(loss) in income statement S'000 | Purchases S'000 | Sales S'000 | Transfers to Level 1 & 2 S'000 | At 31 December 2011 S'000 | Total gains or losses for the period included in income statement for assets held at 31 Dec 2011 S'000 |
|--|----------------------------------|---|---|--------------------|-----------------|--------------------------------------|------------------------------------|---|
| Financial assets at fair value through profit or loss | | | | | | | | |
| Equity securities | 49,467 | (3,086) | (4,162) | - | (13) | (1,700) | 40,506 | (4,163) |
| Debt securities | 247,820 | 184 | 1,384 | 27,451 | (76,147) | 14,307 | 214,999 | 221 |
| Other financial assets | 13,969 | 40 | (4,030) | - | - | - | 9,979 | (4,030) |
| | <u>311,256</u> | <u>(2,862)</u> | <u>(6,808)</u> | <u>27,451</u> | <u>(76,160)</u> | <u>12,607</u> | <u>265,484</u> | <u>(7,972)</u> |

Gains or losses (realised and unrealised) for the period are presented in the consolidated income statement as follows:

| | Realized gains S'000 | 2011 Fair value gains and losses S'000 | Total S'000 |
|---|----------------------------|--|----------------|
| Total gains or losses included in the consolidated income statement for the period | 1,232 | (8,040) | (6,808) |
| Total gains or losses included in the consolidated income statement for the period for assets held at the end of the year | 68 | (8,040) | (7,972) |

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42. Fair values of financial instruments (continued)

The following table shows an analysis of financial instruments recorded at fair value by level of fair value hierarchy:

| 31 December 2010 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total fair value \$'000 |
|--|-------------------|-------------------|-------------------|-------------------------------|
| Financial assets at fair value through profit or loss | | | | |
| Equity securities | 1,163,433 | 3,814 | 49,467 | 1,216,714 |
| Debt securities | 3,718,806 | 851,011 | 247,820 | 4,817,637 |
| Other financial assets | <u>28,603</u> | <u>4,851</u> | <u>13,969</u> | <u>47,423</u> |
| | <u>4,910,842</u> | <u>859,676</u> | <u>311,256</u> | <u>6,081,774</u> |

Reconciliation of movements in level 3 financial instruments measured at fair value

The following table shows a reconciliation of the opening and closing recorded amount of Level 3 financial assets and liabilities which are recorded at fair value.

| | At 1 January 2010 \$'000 | Exchange rate adjustment \$'000 | Total gain/(loss) in income statement \$'000 | Purchases \$'000 | Sales \$'000 | Transfers to Level 1 & 2 \$'000 | At 31 December 2010 \$'000 | Total gains or losses for the period included in income statement for assets held at 31 Dec 2010 \$'000 |
|--|-----------------------------------|--|--|---------------------|-----------------|---------------------------------------|-------------------------------------|--|
| Financial assets at fair value through profit or loss | | | | | | | | |
| Equity securities | 50,240 | (3,771) | 1,775 | 1,223 | - | - | 49,467 | 1,774 |
| Debt securities | 264,731 | (15,767) | 6,883 | 112,665 | (50,800) | (69,892) | 247,820 | 7,988 |
| Other financial assets | <u>13,946</u> | <u>(18)</u> | <u>41</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>13,969</u> | <u>41</u> |
| | <u>328,917</u> | <u>(19,556)</u> | <u>8,699</u> | <u>113,888</u> | <u>(50,800)</u> | <u>(69,892)</u> | <u>311,256</u> | <u>9,803</u> |

Gains or losses (realized and unrealized) for the period are presented in the consolidated income statement as follows:

| | Realized gains \$'000 | 2010 Fair value gains and losses \$'000 | Total \$'000 |
|---|-----------------------------|---|-----------------|
| Total gains or losses included in the consolidated income statement for the period | <u>(1,123)</u> | <u>9,822</u> | <u>8,699</u> |
| Total gains or losses included in the consolidated income statement for the period for assets held at the end of the year | <u>(147)</u> | <u>9,950</u> | <u>9,803</u> |

The Group does not regard that any reasonable change in the valuation assumptions of Level 3 financial instruments will have any significant impact on the financial statements.

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43. Segment information

The segment results for the year ended 31 December 2011 are as follows:

| | Life, health and pension business S'000 | Property and casualty business S'000 | Asset management S'000 | Other companies S'000 | Consolidation adjustments S'000 | Group S'000 |
|--|--|---|------------------------------|-----------------------------|---------------------------------------|--------------------|
| Year ended 31 December 2011 | | | | | | |
| Insurance activities | | | | | | |
| Insurance premium income | 2,289,367 | 1,663,239 | - | - | - | 3,952,606 |
| Insurance premium ceded to reinsurers | (118,991) | (948,755) | - | - | - | (1,067,746) |
| Commission income | 13,653 | 126,518 | - | - | - | 140,171 |
| | <u>2,184,029</u> | <u>841,002</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,025,031</u> |
| Change in "Value of inforce life insurance policies" | 70,272 | - | - | - | - | 70,272 |
| | <u>2,254,301</u> | <u>841,002</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>3,095,303</u> |
| Net underwriting revenue | | | | | | |
| Policy acquisition expenses | (315,043) | (198,641) | - | - | - | (513,684) |
| Net insurance benefits and claims | (1,933,057) | (288,354) | - | - | - | (2,221,411) |
| | <u>(2,248,100)</u> | <u>(486,995)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(2,735,095)</u> |
| Underwriting expenses | | | | | | |
| | <u>6,201</u> | <u>354,007</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>360,208</u> |
| Net result from underwriting activities | | | | | | |
| Investing activities | | | | | | |
| Investment income | 697,553 | 106,804 | 80,237 | 771,619 | (824,168) | 832,045 |
| Net realised gains/(losses) on financial instruments | 5,850 | 73,279 | 3,929 | (10,166) | 10,980 | 83,872 |
| Net fair value gains/(losses) on financial instruments | 109,251 | (2,464) | (39,485) | (40,409) | 56,643 | 83,536 |
| Fee income | 26,398 | 2,043 | 19,891 | 130,816 | (134,684) | 44,464 |
| Other income/(loss) | 58,798 | 2,750 | 883 | (4,845) | 34,422 | 92,008 |
| Investment contract benefits | (79,997) | - | - | - | - | (79,997) |
| | <u>817,853</u> | <u>182,412</u> | <u>65,455</u> | <u>847,015</u> | <u>(856,807)</u> | <u>1,055,928</u> |
| Net income/(loss) from investing activities | | | | | | |
| Net income/(loss) from all activities | | | | | | |
| Operating expenses | (428,924) | (199,755) | (34,921) | (249,274) | 183,670 | (729,204) |
| Finance charges | (5,323) | (19,346) | (3,041) | (136,773) | 54,439 | (110,044) |
| | <u>389,807</u> | <u>317,318</u> | <u>27,493</u> | <u>460,968</u> | <u>(618,698)</u> | <u>576,888</u> |
| Operating profit/(loss) | | | | | | |
| Share of (loss)/profit of associated companies | (16,273) | (16,544) | - | 4,259 | 3,553 | (25,005) |
| | <u>373,534</u> | <u>300,774</u> | <u>27,493</u> | <u>465,227</u> | <u>(615,145)</u> | <u>551,883</u> |
| Profit/(loss) before taxation | | | | | | |
| Taxation | (41,729) | (43,231) | (4,500) | 2,312 | - | (87,148) |
| | <u>331,805</u> | <u>257,543</u> | <u>22,993</u> | <u>467,539</u> | <u>(615,145)</u> | <u>464,735</u> |
| Profit/(loss) after taxation | | | | | | |
| Amount attributable to participating policyholders | (8,716) | - | - | - | - | (8,716) |
| | <u>323,089</u> | <u>257,543</u> | <u>22,993</u> | <u>467,539</u> | <u>(615,145)</u> | <u>456,019</u> |
| Profit/(loss) from continuing operations | | | | | | |

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43. Segment information (continued)

The segment results for the year ended 31 December 2010 are as follows:

| | Life, health and pension business S'000 | Property and casualty business S'000 | Asset management S'000 | Other companies S'000 | Consolidation adjustments S'000 | Group S'000 |
|--|--|---|------------------------------|-----------------------------|---------------------------------------|--------------------|
| Year ended 31 December 2010 | | | | | | |
| Insurance activities | | | | | | |
| Insurance premium income | 2,246,949 | 1,626,264 | – | – | – | 3,873,213 |
| Insurance premium ceded to reinsurers | (104,402) | (592,327) | – | – | – | (696,729) |
| Commission income | 14,086 | 116,365 | – | – | – | 130,451 |
| | 2,156,633 | 1,150,302 | – | – | – | 3,306,935 |
| Change in "Value of inforce life insurance policies" | 75,808 | – | – | – | – | 75,808 |
| Net underwriting revenue | 2,232,441 | 1,150,302 | – | – | – | 3,382,743 |
| Policy acquisition expenses | (295,183) | (253,386) | – | – | – | (548,569) |
| Net insurance benefits and claims | (1,885,133) | (687,764) | – | – | – | (2,572,897) |
| Underwriting expenses | (2,180,316) | (941,150) | – | – | – | (3,121,466) |
| Net result from underwriting activities | 52,125 | 209,152 | – | – | – | 261,277 |
| Investing activities | | | | | | |
| Investment income | 683,135 | 112,606 | 105,124 | 338,760 | (368,330) | 871,295 |
| Net realised gains/(losses) on financial instruments | 23,067 | 92 | (134,609) | 356,453 | – | 245,003 |
| Net fair value gains/(losses) on financial instruments | 97,477 | (4,744) | 56,528 | (52,467) | 1,959 | 98,753 |
| Fee income | 13,306 | 2,834 | 23,318 | 84,606 | (88,416) | 35,648 |
| Other income/(loss) | 30,710 | 5,429 | (2,208) | (37,130) | (5,108) | (8,307) |
| Investment contract benefits | (83,725) | – | – | – | – | (83,725) |
| Net income/(loss) from investing activities | 763,970 | 116,217 | 48,153 | 690,222 | (459,895) | 1,158,667 |
| Net income/(loss) from all activities | 816,095 | 325,369 | 48,153 | 690,222 | (459,895) | 1,419,944 |
| Operating expenses | (421,649) | (191,296) | (51,704) | (160,436) | 97,053 | (728,032) |
| Finance charges | (1,135) | (16,117) | (4,478) | (105,167) | 44,043 | (82,854) |
| Operating profit/(loss) | 393,311 | 117,956 | (8,029) | 424,619 | (318,799) | 609,058 |
| Share of (loss)/profit of associated companies | 331 | 14,367 | – | 8,328 | – | 23,026 |
| Profit/(loss) before taxation | 393,642 | 132,323 | (8,029) | 432,947 | (318,799) | 632,084 |
| Taxation | (76,133) | (35,807) | (28,325) | 3,467 | – | (136,798) |
| Profit/(loss) after taxation | 317,509 | 96,516 | (36,354) | 436,414 | (318,799) | 495,286 |
| Amount attributable to participating policyholders | (14,359) | – | – | – | – | (14,359) |
| Profit/(loss) from continuing operations | 303,150 | 96,516 | (36,354) | 436,414 | (318,799) | 480,927 |

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43. Segment information (continued)

The segment assets and liabilities and capital expenditure are as follows:

| | Life, health and pension business S'000 | Property and casualty business S'000 | Asset management S'000 | Other companies S'000 | Consolidation adjustments S'000 | Group S'000 |
|---|--|---|------------------------------|-----------------------------|---------------------------------------|-------------------|
| Year ended 31 December 2011 | | | | | | |
| Assets | | | | | | |
| Intangible assets | 138,147 | – | – | – | 116,131 | 254,278 |
| Investment in associated companies | 132,095 | 54,360 | – | 475 | 15,080 | 202,010 |
| Financial assets | 9,767,533 | 1,537,298 | 90,095 | 20,515 | (158,398) | 11,257,043 |
| Financial assets of mutual fund unit holders | 60,097 | – | 1,236,339 | – | (131,453) | 1,164,983 |
| Loans and receivables | 1,213,025 | 188,882 | 24,501 | 99,665 | (15,321) | 1,510,752 |
| Lands for development and sale | – | – | – | 391,048 | – | 391,048 |
| Reinsurance assets | 73,319 | 606,954 | – | – | – | 680,273 |
| Segregated fund assets of life insurance policyholders | 499,502 | – | – | – | – | 499,502 |
| Value of inforce life insurance policies | 738,338 | – | – | – | 3,705 | 742,043 |
| Deferred acquisition costs | 1,816 | 70,841 | – | – | – | 72,657 |
| Cash and cash equivalents of mutual fund unit holders | 244,791 | 8,693 | 161,055 | – | (253,489) | 161,050 |
| Other assets | 1,871,423 | 1,682,395 | 71,064 | 907,438 | 34,658 | 4,566,978 |
| Total assets | 14,740,086 | 4,149,423 | 1,583,054 | 1,419,141 | (389,087) | 21,502,617 |
| Liabilities | | | | | | |
| Insurance liabilities | 9,859,340 | 1,766,248 | – | – | (15,473) | 11,610,115 |
| Segregated fund liabilities of life insurance policyholders | 499,502 | – | – | – | – | 499,502 |
| Other liabilities | 2,064,838 | 1,279,022 | 1,124,730 | 1,810,300 | (80,161) | 6,198,729 |
| Total liabilities | 12,423,680 | 3,045,270 | 1,124,730 | 1,810,300 | (95,634) | 18,308,346 |
| Year ended 31 December 2010 | | | | | | |
| Intangible assets | 138,097 | – | – | – | 115,387 | 253,484 |
| Investment in associated companies | 144,467 | 113,675 | – | 475 | 18,230 | 276,847 |
| Financial assets | 8,952,218 | 2,227,859 | 106,303 | 61,404 | (164,446) | 11,183,338 |
| Financial assets of mutual fund unit holders | 73,128 | – | 1,296,213 | – | (124,434) | 1,244,907 |
| Loans and receivables | 1,284,915 | 784,048 | 29,292 | 69,286 | (19,414) | 2,148,127 |
| Lands for development and sale | – | – | – | 305,382 | – | 305,382 |
| Reinsurance assets | 72,080 | 689,534 | – | – | – | 761,614 |
| Segregated fund assets of life insurance policyholders | 459,937 | – | – | – | – | 459,937 |
| Value of inforce life insurance policies | 673,474 | – | – | – | – | 673,474 |
| Deferred acquisition costs | 931 | 368,692 | – | – | – | 369,623 |
| Cash and cash equivalents of mutual fund unit holders | 188,994 | 63,354 | 150,718 | – | (252,549) | 150,517 |
| Other assets | 1,772,584 | 611,913 | 32,796 | 743,012 | 240 | 3,160,545 |
| Total assets | 13,760,825 | 4,859,075 | 1,615,322 | 1,179,559 | (426,986) | 20,987,795 |
| Liabilities | | | | | | |
| Insurance liabilities | 9,099,336 | 3,366,778 | – | – | (12,351) | 12,453,763 |
| Segregated fund liabilities of life insurance policyholders | 459,937 | – | – | – | – | 459,937 |
| Other liabilities | 1,963,085 | 286,211 | 1,113,123 | 1,597,460 | (16,108) | 4,943,771 |
| Total liabilities | 11,522,358 | 3,652,989 | 1,113,123 | 1,597,460 | (28,459) | 17,857,471 |

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44. Contingent liabilities

Legal

Group companies are defendants in various legal actions. In the opinion of the directors, after taking appropriate legal advice, the outcome of such actions will not give rise to any significant loss.

Purchase

As at 31 December 2008, one of the Group's subsidiaries entered into a preliminary agreement to purchase land. The agreement allows the company 40 months to complete the purchase. Should the company decide not to complete the purchase, the impact of the financial loss to the Group will be \$2,355,082.

45. Commitments

Capital commitments

As at the year end, a development contract and a loan agreement have been entered into in respect of a property project. The commitments not provided for in these financial statements are as follows:

| | 2011 \$'000 | 2010 \$'000 |
|--|----------------|----------------|
| Investment properties | — | 14,074 |
| Operating lease commitments – where a Group company is the lessee | | |
| The future aggregate minimum lease payments under operating leases are as follows: | | |
| Not later than one year | 24,199 | 22,637 |
| Later than one year and no later than five years | 73,898 | 85,487 |
| | <u>98,097</u> | <u>108,124</u> |

Rental expense under these leases amounted to \$22,867,000 for the year ended 31 December 2011 (2010: \$20,244,000).

46. Related party disclosures

The financial statements include the financial statements of GHL and its' subsidiaries and associated companies listed in the following table:

| Name | Country of Incorporation | Percentage of interest held |
|--|-------------------------------|--------------------------------|
| Guardian General Insurance Limited | Republic of Trinidad & Tobago | 100.0 |
| Guardian Life of the Caribbean Limited | Republic of Trinidad & Tobago | 100.0 |
| Fatum Holding NV | Netherlands Antilles | 100.0 |
| Guardian Life Limited | Jamaica | 100.0 |
| Guardian Asset Management Limited | Republic of Trinidad & Tobago | 100.0 |
| Bancassurance Caribbean Limited | Republic of Trinidad & Tobago | 100.0 |
| Laevulose Inc. Limited | Republic of Trinidad & Tobago | 79.2 |
| Guardian Re (SAC) Limited | Bermuda | 100.0 |
| West Indies Alliance Insurance Limited | Jamaica | 100.0 |
| Appleclaim Investment Holdings Limited | United Kingdom | 39.2 |
| Royal Star Assurance (Bahamas) Limited | Bahamas | 25.0 |
| Ocho Rios Beach Resorts Limited | Jamaica | 24.0 |
| RGM Limited | Republic of Trinidad & Tobago | 33.3 |
| Servus Limited | Republic of Trinidad & Tobago | 50.0 |

A number of transactions are entered into with related parties in the normal course of business. These transactions are carried out on commercial terms and conditions at market rates.

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46. Related party disclosures (continued)

The following transactions were carried out with related parties:

| | 2011 | 2010 |
|--|---------------|---------------|
| | S'000 | S'000 |
| (a) Sales of insurance contracts and other services: | | |
| - Key management personnel | 2,283 | 1,074 |
| (b) Interest income from: | | |
| - Key associates | 11,054 | 13,363 |
| (c) Financial assets of: | | |
| - Key associates | 233,212 | 234,025 |
| (d) Key management personnel compensation: | | |
| - Salaries and other short-term employee benefits | 72,302 | 64,902 |
| - Termination benefits | 777 | 1,427 |
| - Post-employment benefits | 395 | 377 |
| - Other long-term benefits | - | - |
| - Share-based payments | 9,507 | 2,783 |
| (e) Year end balances arising from sales / purchases of products and services: | | |
| - Key management personnel | - | 3,356 |
| (f) Loans to related parties: | | |
| <i>Loans to key management of the Group:</i> | | |
| Balance at beginning of year | 42,704 | 43,982 |
| Difference on retranslation of opening balance | 11 | 47 |
| Loans advanced during the year | 5,482 | 4,241 |
| Loan repayments received | (7,297) | (5,632) |
| Interest charged | 1,868 | 2,146 |
| Interest received | (1,868) | (2,080) |
| | <u>40,900</u> | <u>42,704</u> |
| <i>Loans to key associates:</i> | | |
| Balance at beginning of year | 5,175 | 1,657 |
| Loans advanced during the year | 4,688 | 3,518 |
| | <u>9,863</u> | <u>5,175</u> |

There was no provision for doubtful debts at the reporting date and no bad debt expense in the year (2010: Nil)

47. Assets under management

Assets under management, which are not beneficially owned by the Group, but which are managed by them on behalf of investors are listed below:

| | 2011 | 2010 |
|---|------------------|------------------|
| | Carrying amount | Carrying amount |
| | S'000 | S'000 |
| Amounts not included in the consolidated statement of financial position | | |
| Cash and short-term investments | 511,907 | 323,851 |
| Investments | 1,443,642 | 1,158,460 |
| Interest and other receivables | <u>109,812</u> | <u>64,905</u> |
| | <u>2,065,361</u> | <u>1,547,216</u> |

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48. Pledged assets

The Group had deposited certain assets with the regulatory authorities in the countries in which it is authorized to conduct business as security for its policyholders. The type and values of these assets are in accordance with the legal requirements of the countries concerned. The carrying value of pledged assets is:

| | 2011 \$'000 | 2010 \$'000 |
|-----------|------------------|------------------|
| Statutory | <u>6,367,550</u> | <u>5,730,075</u> |