GUARDIAN HOLDINGS LIMITED

Guardian Holdings Limited
Annual Report 2012

Turning the Complexities of Life into Benefits
for the People of the Caribbean and Beyond

Turning the Complexities of Life into Benefits for the People of the Caribbean and Beyond

For more than 166 years, the member companies of Guardian Holdings Limited group of companies have been translating the complexities of life into benefits for our clients across the region by providing the best insurance and investment solutions in the Caribbean.

In 2012, we celebrated the 50th Anniversary of Independence with the people of Jamaica and of Trinidad and Tobago. At GHL, we too took this opportunity to reflect on the many successes we have enjoyed and challenges we have faced over the years.

As the largest indigenous insurance and financial services conglomerate in the region, it has been our privilege to play our part in building strong, independent societies for future generations in the twenty-two Caribbean countries in which we operate.

In an increasingly complex world, GHL harnesses the expertise and the energy of its management and staff to deliver ever-increasing benefits to its shareholders, customers, employees and to the nations of the Caribbean region and beyond.

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Guardian Holdings Limited
Head Office
1 Guardian Drive, Westmoorings
Trinidad
Tel: 1-868-632-5433
Fax: 1-868-632-5695

Email: shareholder@ghl.co.tt
Facebook: www.facebook.com/GuardianFinancial
Twitter: http://twitter.com/GHLtweets

Corporate Information

Directors:
Mr. Arthur Lok Jack (Chairman)
Mr. Peter Ganteaume (Deputy Chairman)
Mr. Jeffrey Mack (CEO)
Dr. Aleem Mohammed
Mr. Antony Lancaster
Mr. Douglas Camacho
Mr. David Davies
Mr. Imtiaz Ahamad
Mr. Jemal-ud-din Kassum
Mr. Philip Hamel-Smith
Mr. Selby Wilson

Secretary:
Mrs. Fé Lopez-Collymore

Registered Office:
1 Guardian Drive
Westmoorings
Trinidad and Tobago

Registrar & Transfer Office:
Guardian Holdings Limited
1 Guardian Drive
Westmoorings
Trinidad and Tobago

Auditors:
Ernst & Young
5-7 Sweet Briar Road
St. Clair, Trinidad

Principal Bankers:
RBC Royal Bank
19-21 Park Street, Port of Spain, Trinidad
Citibank (Trinidad & Tobago) Limited
12 Queen's Park West,
Port of Spain, Trinidad

Committees:

GHL AUDIT COMMITTEE
Mr. Selby Wilson (Chairman)
Mr. Arthur Lok Jack
Mr. David Davies
Mr. Imtiaz Ahamad
Mr. Peter Ganteaume

GHL RISK & COMPLIANCE COMMITTEE
Mr. Antony Lancaster (Chairman)
Mr. David Davies
Mr. Imtiaz Ahamad
Mr. Jeffrey Mack
Mr. Philip Hamel-Smith

GHL REMUNERATION COMMITTEE
Mr. Arthur Lok Jack (Chairman)
Mr. Antony Lancaster
Mr. Peter Ganteaume
Mr. Philip Hamel-Smith

GHL CORPORATE GOVERNANCE COMMITTEE
Mr. Philip Hamel-Smith (Chairman)
Mr. Antony Lancaster
Mr. Arthur Lok Jack
Mr. Peter Ganteaume

GHL ENTERPRISE INVESTMENT COMMITTEE
Mr. Arthur Lok Jack (Chairman)
Dr. Aleem Mohammed
Mr. Jeffrey Mack
Mr. Jemal-ud-din Kassum
Mr. Peter Ganteaume

GUARDIAN HOLDINGS LIMITED

Turning the Complexities of Future Planning into Benefits for Caribbean People

Insurance and investment are fundamental planning tools to generate wealth for individuals, families, businesses and nations as a whole.

In an increasingly complex and chaotic world, GHL provides integrated financial services with a focus on life, health, property and casualty insurance, pensions and asset management.

Nobody knows what the future will bring, but GHL is certain that through continued prudent investment and strategic management, GHL's shareholders and the people of the Caribbean will ultimately benefit.

Notice of Annual Meeting

Notice is hereby given that the Annual Meeting of Shareholders of Guardian Holdings Limited for 2013 will be held at The Atrium, Guardian Corporate Centre, 1 Guardian Drive, Westmoorings, on May 7, 2013 at 4:30 p.m. for the following purposes:

1. To review and consider the Consolidated Financial Statements of the Company for the year ended December 31, 2012 and the Reports of the Directors and Auditors thereon.
2. To elect directors for specified terms and for such purpose and (if thought fit) to pass the following resolutions:
   (a) That the Directors to be elected be elected en bloc;
   (b) That Messrs. Antony Lancaster, Selby Wilson, Peter Ganteaume and David Philip Hamel-Smith be and are hereby re-elected Directors of the Company for a term expiring at the close of the third Annual Meeting of the Company following this appointment subject to the provisions of Regulation 4.5 of By-law No. 1;
3. To appoint Auditors and to authorise the Directors to fix their remuneration for the ensuing year.

By Order of the Board

Fé Lopez-Collymore
Corporate Secretary

Date: March 13, 2013

Notes to the Notice of Annual Meeting

1. MEETING REQUIREMENTS

Members are asked to observe the following requirements of the By-Laws for attendance and voting at the Annual Meeting.

Proxies

Members of the company entitled to attend and vote at the Meeting are entitled to appoint one or more proxies to attend and vote instead of them. A proxy need not also be a member. Where a proxy is appointed by a corporate member, the form of proxy should be executed under seal or be signed by its attorney.

Members who return completed proxy forms are not precluded, if subsequently they so wish, from attending the Meeting instead of their proxies and voting in person.

Representatives of Corporations

Corporate members are entitled to attend and vote by a duly authorised representative who need not himself be a member. Such appointment must be by resolution of the Board of Directors of the corporate member.

Delivery to the Company

Any instrument appointing a proxy (including an instrument evidencing the authority pursuant to which it is executed) or evidencing the authority of a representative of a corporate member, must be completed and deposited with the Secretary at the Company's Registered Office, 1 Guardian Drive, Westmoorings, Trinidad, not less than 48 hours before the time for holding the meeting or adjourned meeting.

Proof of Identity

Members are also reminded that the By-Laws provide that the Directors may require that any member, proxy or duly authorised representative provide satisfactory proof of his identity before being admitted to the Annual Meeting.

Persons Entitled to Notice

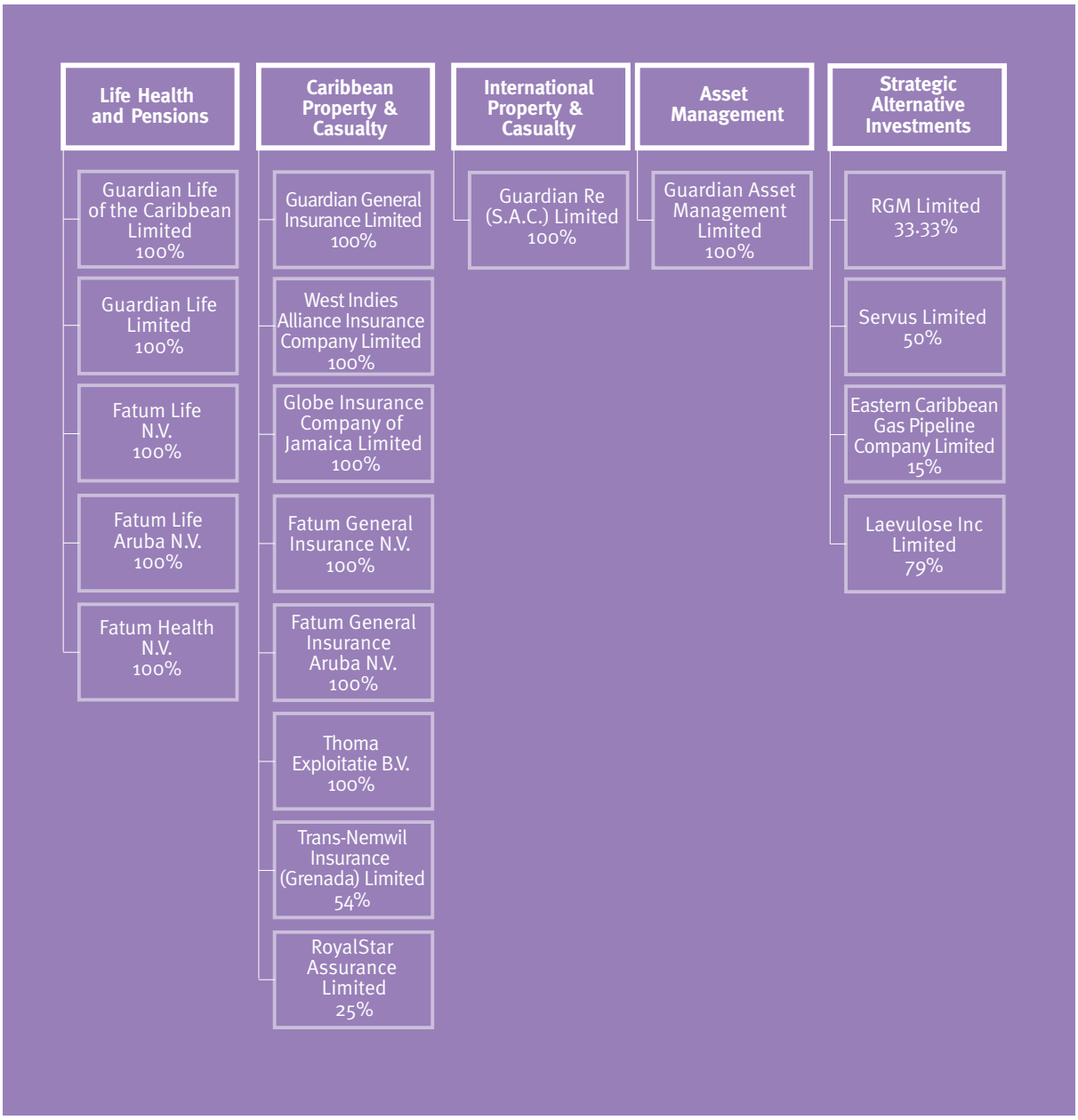
In accordance with section 110(2) of the Companies Act, Ch. 81:01 the Directors of the Company have fixed April 5, 2013 as the Record Date for the determination of shareholders who are entitled to receive Notice of the Annual Meeting. Only shareholders on record at the close of business on April 4, 2013 are therefore entitled to receive Notice of the Annual Meeting. A list of such shareholders will be available for examination by shareholders at the Company's Registered Office during usual business hours and at the Annual Meeting.

2. DIRECTORS' CONTRACTS

There are no contracts during or at the end of the year ended December 31, 2012 in which a director of the company is or was materially interested and which is or was significant in relation to the company's business.

There are no service contracts between a director and the company or any subsidiary company which has a term of 10 years or more and cannot be determined without payment of compensation.

Business Segments



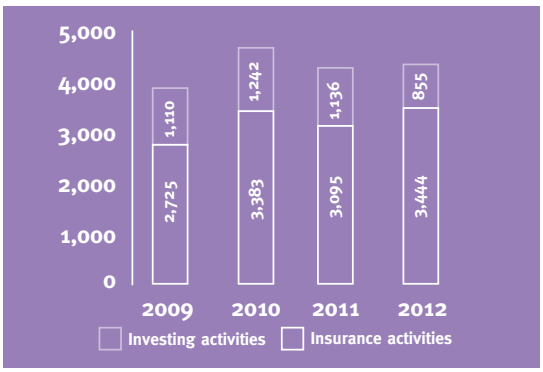
GUARDIAN HOLDINGS LIMITED

Consolidated Financial Highlights

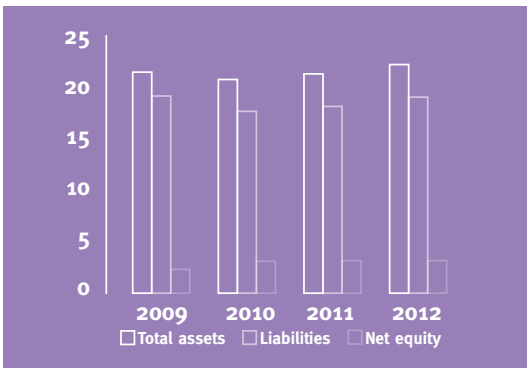
	2012	2011
Revenue		
Life business net premiums written	$2,438 million	$2,183 million
General business net premiums written	$702 million	$721 million
General business net premiums earned	$702 million	$714 million
Revenue from insurance operations	$3,444 million	$3,095 million
Revenue from investment activities	$855 million	$1,136 million
Total revenue	$4,299 million	$4,231 million
Results		
Profit for the year	$273 million	$246 million
Profit for the year from continuing operations	$291 million	$456 million
Earnings per ordinary share on continuing operations	$1.60	$2.04
Balance Sheet as at December 31		
Total capital & reserves	$3,198 million	$3,194 million
Shareholders' equity	$3,239 million	$3,155 million
Net asset value per share	13.97	13.60
Dividend		
Total dividend for the year per ordinary share on continuing operations	52 cents	52 cents
Dividend cover	3.08	3.92

	Average Rate 2012	Year-end Rate 2012
Conversion Rate		
Trinidad & Tobago dollar to one US Dollar	6.4034	6.4196
Trinidad & Tobago dollar to one British Pound	10.1615	10.3481
Trinidad & Tobago dollar to one Euro	8.1989	8.3908
Trinidad & Tobago dollar to one Jamaican Dollar	0.0710	0.0684
Trinidad & Tobago dollar to one Netherlands Antillean Guilder	3.5773	3.5863

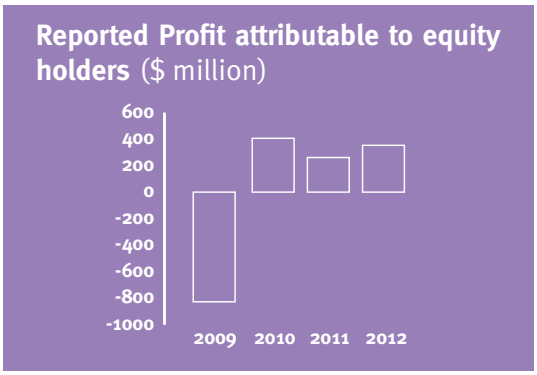
Total Revenue 2009-2012 ($ million)

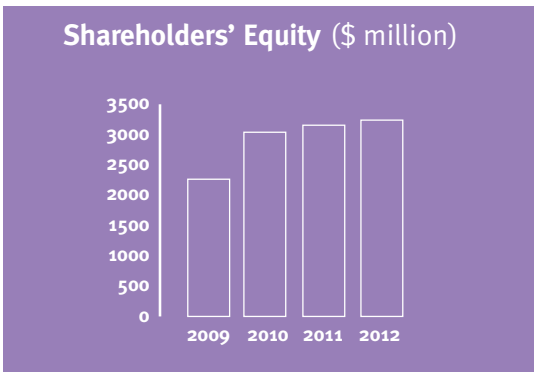


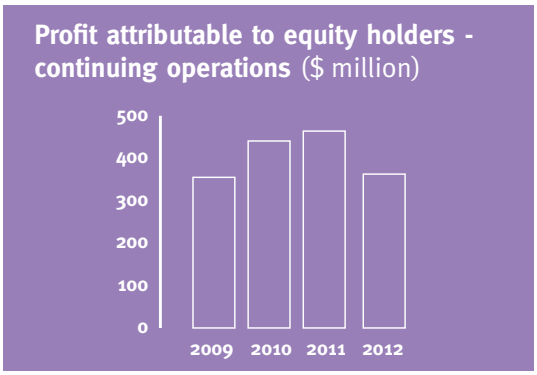
Balance Sheet 2009-2012 ($ billion)

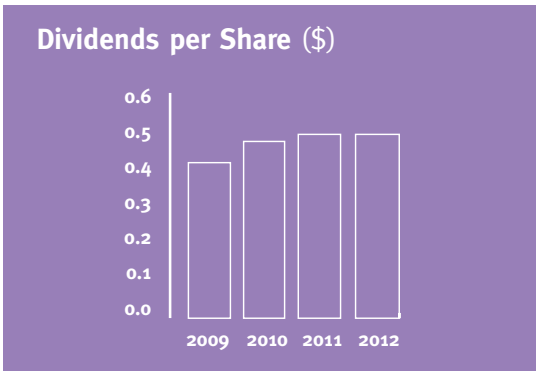


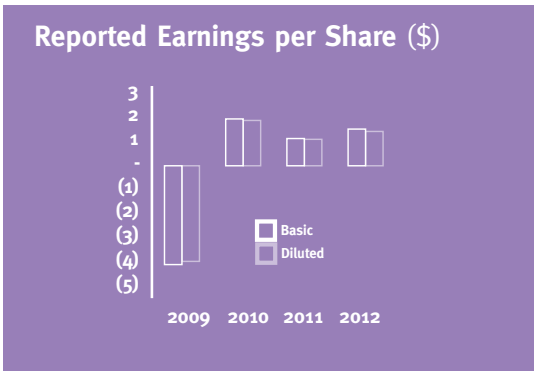
Key Performance Indicators 2009 -2012

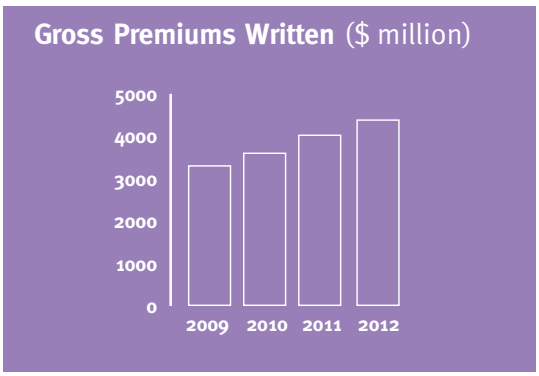


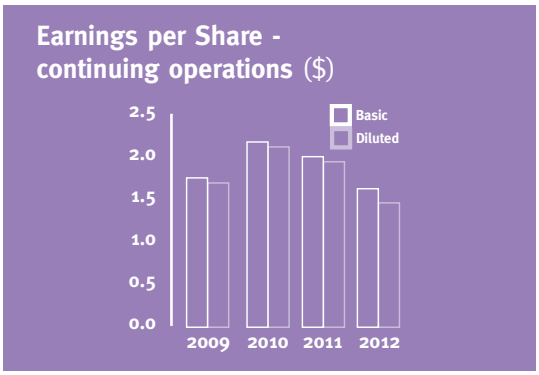


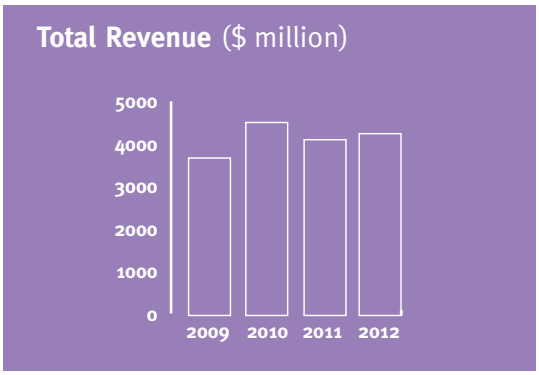












Report of the Directors

The Directors have pleasure in submitting their Report for the year ended December 31, 2012.

	2012 $'000	2011 $'000
Directors' Report		
Net income from insurance underwriting activities	528,993	360,208
Net income from investing activities	772,549	1,055,928
Net income from all activities	1,301,542	1,416,136
Operating profit	393,066	576,888
Share of profit/(loss) of associated companies	21,268	(25,005)
Profit before taxation	414,334	551,883
Taxation	(113,518)	(87,148)
Profit for the year from continuing operations	290,812	456,019
Profit for the year	272,870	246,110
Total assets	22,453,717	21,537,477
Insurance contract liabilities	12,525,872	11,610,115
Equity attributable to owners of the parent	3,239,461	3,154,603

Dividends

An interim dividend of fifteen (15) cents per share was paid in 2012. At their meeting on March 13, 2013 the Directors declared a final dividend of thirty-seven (37) cents per share which will be paid on April 19, 2013 to shareholders on the Register as at April 5, 2013. The total dividend for 2012 therefore amounts to fifty-two (52) cents per share.

Directors

Messrs. Anthony Lancaster, Selby Wilson, Peter Ganteaume and David Philip Hamel-Smith having been elected for terms expiring at the close of this Annual Meeting retire and offer themselves for re-election.

Directors and Significant Interests

These are shown on page 10 and should be read as part of this report.

Auditors

The Auditors, Ernst & Young, retire and being eligible, offer themselves for re-appointment.

By Order of the Board

Fé Lopez-Collymore
Corporate Secretary

Date: March 13, 2013

Interests in Shares of the Company

Directors' and Senior Managers' Interests as at December 31, 2012

Name	Position	Ordinary Shares
Mr. Arthur Lok Jack	Director	14,581,947
Mr. Peter Ganteaume	Director	635,000
Mr. Jeffrey Mack	Director/Senior Manager	0
Mr. Imtiaz Ahamad	Director	4,813,763
Mr. Douglas Camacho	Director/Senior Manager	529,931
Mr. David Davies	Director	0
Mr. Philip Hamel-Smith	Director	291,497
Mr. Antony Lancaster	Director	3,517
Dr. Aleem Mohammed	Director	0
Mr. Jemal-ud-din Kassum	Director	0
Mr. Selby Wilson	Director	60,000
Mr. Brent Ford	Senior Manager	268,417
Mrs. Fé Lopez-Collymore	Senior Manager	258,828
Mr. Kerri Maharaj	Senior Manager	0
Mr. Keston Nancoo	Senior Manager	43,293
Mr. Larry Olton	Senior Manager	10,590
Mr. Neil Dingwall	Senior Manager	70,649
Mr. Paul Traboulay	Senior Manager	36,260
Ms. Prabha Siewrattan	Senior Manager	16,428
Mr. Ravi Tewari	Senior Manager	116,044
Mr. Richard Espinet	Senior Manager	56,657
Mr. Steven Martina	Senior Manager	0
Mr. Wendell Mitchell	Senior Manager	13,407

Top Ten Shareholders as at December 31, 2012

	Shareholder Name	Ordinary Shares	%
1	Tenetic Limited	35,841,859	15.46%
2	RBC Royal Bank (Trinidad & Tobago) Limited (formerly RBC Insurance Holdings Limited)	22,334,254	9.63%
3	International Finance Corp	22,271,485	9.60%
4	Arthur Lok Jack	14,581,947	6.29%
5	RBC Trust (Trinidad & Tobago) Limited	10,134,888	4.37%
6	IFC ALAC GHL Holding Co Ltd	7,423,828	3.20%
7	Trinidad and Tobago Unit Trust Corporation	7,297,044	3.14%
8	Republic Bank Limited	7,728,836	3.33%
9	RBC Nominee Services (Caribbean) Limited	5,783,053	2.54%
10	First Citizens Trust & Asset Management Limited	5,838,169	2.51%

(see notes on page 11)

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Substantial Shareholders as at December 31, 2012

Shareholder Name		Ordinary Shares	%
1	Tenetic Limited	35,841,859	15.46%

Note: Mr. A. Lok Jack has a beneficial interest in Tenetic Limited

Employee Share ownership Plan (ESOP)

	December 31, 2012	February 13, 2013
Ordinary Shares held	3,643,811	3,643,582

Notes:

Note 1: The interests of Directors/Senior Managers include the interests of "connected persons." Persons deemed to be connected with a director/senior manager are:

A. The Director's/Senior Manager's husband or wife.
B. The Director's/Senior Manager's minor children (these include step-children and adopted children) and dependents, and their spouses.
C. The Director's/Senior Manager's partners.
D. Bodies corporate of which the Director/Senior Manager and/or persons connected with him/her together have control. Control of a corporation is the holding of shares which carry 50% or more of the voting rights in the corporation.

Note 2: There are no non-beneficial interests held by the Directors /Senior Managers other than the interests of Mr. Selby Wilson, Mr. Douglas Camacho and Mr. Brent Ford as trustees of the Guardian Holdings Limited Employee Share Ownership Plan (ESOP). The holdings of the ESOP are shown above.

Note 3: There have been no changes to the Substantial Interests and Interests of Directors and Officers between the end of the Company's financial year end and February 13, 2013.

Note 4: A substantial interest means one-tenth or more of the issued share capital of the Company.

Chairman's and CEO's Statement

Arthur Lok Jack,
Group Chairman

Introduction The year 2012 has been a most satisfactory year for Guardian Holdings Limited (GHL).

We have successfully pursued our stated policy of ensuring that our Group is capable of producing sustainable, growth-oriented earnings and to this end, we have continued to take the tough decisions necessary to dispose of underperforming assets and businesses or diminish their residual effects. As a result, the Group is now stronger, more robust and better positioned to generate improved stakeholder benefits than it has been for a number of years.

From an earnings and revenue growth perspective, during 2012 we also invested in our core Caribbean insurance franchises through three attractive acquisitions. These purchases were the Group's first since 2005 and we will continue to explore and take advantage of the opportunities that we believe may emerge within the existing environment.

2012 Consolidated Results The efforts and policies to which the Group has steadfastly adhered have resulted in the achievement of $353 million in after tax profits for the year. This represents an increase of 35% over the $261 million realised in 2011. Earnings per share therefore increased to $1.52 from $1.13. Had the Group not adopted the prudent course of making a provision of $150 million with respect to possible impairment in value of the Pointe Simon Martinique Project, the Group's after tax profit would have totalled $421 million and earnings per share would have been $1.82.

Once more, we were able to produce excellent results from our insurance activities with profits from this sector growing to $529 million from $360 million, a 47% increase over the previous year.

We have maintained a trend of excellent performance despite persistent weak economic conditions in many neighbouring Caribbean countries. Since the onset of the world financial crisis in 2008, our gross premiums written, or our top line, on a continuing operations

GUARDIAN HOLDINGS LIMITED

basis, have delivered a 10% compounded annual growth rate and reached $4.4 billion in 2012.

Over 50% of revenue continues to be derived from Trinidad and Tobago, the sole investment grade rated country in the English speaking Caribbean. Jamaica and the Dutch Caribbean, our other major Caribbean markets, contribute 24% and 21% respectively.

Our investment activities represent the other major source from which our Group derives revenue and profit. Excluding the effects of the Pointe Simon impairment provision referred to above, net income from investments amounted to $922 million, a decline of 13% from the $1.1 billion in previous year. However, when the $74 million gain from the sale of our Lloyds business, Jubilee that was included in the 2011 result is taken into account, the decline was 6%. Much of this decrease is attributable to the low interest policies that have been applied universally by Central Banks in their endeavor to stimulate economic growth.

Our balance sheet shows that assets increased by $1 billion to $22.5 billion in 2012 from the $21.5 billion in 2011. Equity grew by $85 million and now stands at $3.2 billion. The health of our Group is further demonstrated by the fact that our subsidiaries, Guardian Life of the Caribbean and Guardian General, have had their A.M. Best rating of "A– (Excellent)" reaffirmed while all our insurance subsidiaries' capital and solvency positions continue to remain well above minimum requirements and "Solid as a Rock".

Strategic Acquisitions The performances of our subsidiaries are dealt with in detail in the Management Discussion and Analysis Section, so we now turn our attention to the recent acquisitions concluded in 2012.

Our Group's strategy has been and continues to be the achievement and maintenance of a dominant market position in the Caribbean countries in which we operate. Guardian Life of the Caribbean is the largest life insurer in Trinidad and Tobago and has been able to increase its

Jeffrey Mack,
Group Chief Executive Officer

share of new individual life sales from 40% to 65% over the last several years. Guardian General is the region's largest indigenous general insurance company and double the size of the next largest competitor. Fatum holds dominant positions in the Dutch Caribbean both in life, health and pensions and general insurance. During 2012, we were able to acquire three companies which will enhance this impressive portfolio.

In November GHL acquired the Globe Insurance Company of Jamaica Limited (Globe) for a consideration of US$38 million. The net assets acquired amount to $US30 million. Globe will add $US28 million to consolidated revenue and its earnings will be accretive to the Group's overall earnings in its first full year as a GHL subsidiary. It is our intention to combine our existing Jamaican general insurance company, West Indies Alliance, with Globe at the earliest practical opportunity. The merged entity will become the largest general insurance company in Jamaica with a scale that will allow us to improve our profit margins. This acquisition demonstrates our long-term commitment to Jamaica while at the same time, in the overall context of the GHL Group, our Jamaican exposure remains at a prudent 20% of our overall asset base.

In December we signed an agreement to purchase Royal & Sun Alliance Antilles (RSA) for US$18 million. This Dutch Caribbean based insurer was a joint venture between the Royal & Sun Alliance (the second largest general insurer in the U.K. and part of the FTSE 100 index) and Maduro and Curiel's Bank (MCB), the largest Bank in the Netherlands Antilles. We expect final regulatory approval in the second quarter of 2013. It is GHL's intention to merge RSA with Fatum General, the general insurance member of the Fatum Sub-Group. Post-merger, Fatum General will now occupy the number one position when measured by market share.

Our final acquisition also took place in December when we purchased a Dutch insurance broker, Thoma Exploitatie, B.V. (Thoma) for EUR$8.9 million. This acquisition reinforces Fatum's carefully managed expansion into the Netherlands general insurance market and will provide the GHL Group with fee income without posing additional underwriting risk. Thoma also possess e-business resources and skills that are valuable to the GHL Group.

Pointe Simon – Martinique Although this topic is dealt with in more detail in the Management Discussion & Analysis section of the Annual Report, given the size of this investment and the provision we made during 2012, we wish to address a few additional points.

Insurance companies and in particular life insurance companies are long-term investors and seek long-term assets to support their life and pension liabilities which can stretch 40 years or more. Real estate represents an attractive asset class for insurers given its cash flows and historic tendency to appreciate in value over time. Pointe Simon is one such investment for GHL and represents about 5% of our asset base. Despite the change in economic conditions which has been experienced throughout the world, given our long-term view and

expectations, GHL has remained committed to seeing this development project through to completion. Of the three buildings which make up this development, the 45 unit condominium building was completed in 2012. The 20 storey office tower and mixed use third building are expected to be finished during 2013. In the main, the $150 million non-cash provision we took in 2012 derives from a longer expected absorption period and lower than anticipated future revenue than we originally forecasted. During the construction phase GHL has realised little overall income from this project while the investment's opportunity cost has depressed our earnings. However, going forward, as commercialisation progresses the project is expected to make a positive contribution as its cash flows return to the Group.

Corporate Social Responsibility Guardian Life of the Caribbean, the GHL Group's flagship Life, Health and Pensions Underwriter, announced its exclusive partnership in Trinidad with the Pink Hibiscus Breast Health Specialists, the most technologically advanced breast health diagnostic center in the Caribbean, with a focus on the early detection and prevention in women, of breast cancer - among the top causes of fatal cancers in women in the Region.

The GHL Group took the unprecedented and bold initiative, to bring joy and good cheer to hundreds of disadvantaged and underprivileged children across the Caribbean by adopting the internationally known "Shoebox Project". Through its efforts and subsidiaries in Aruba, Barbados, Bonaire, Curacao, Jamaica, St. Maarten, and Trinidad & Tobago, GHL presented over 1000 boys and girls with 'shoeboxes' filled with delightful gifts to lift their spirits.

Future Prospects As described above, our insurance businesses have delivered most satisfactory results. We will continue to rely on the proven underwriting standards that are embedded in our businesses and on our marketing and sales capabilities. We see no reason why our performance trend should not be maintained.

We have reason to be less sanguine about the prospects for dramatic improvements in the results of our investment activities, because of factors already noted.

Returns on interest bearing securities are likely to remain close to historic lows. Other investment classes, including equities and real estate, remain volatile and we continue to approach these with caution. However, our investment managers have served us well in the past and we are confident of our ability to provide satisfactory returns to policy owners and shareholders over the medium term.

We face the future with confidence as we continue with the measures and policies that have brought us to the strong position in which the Group finds itself today.

We recognise the difficulties of doing business in a highly challenging investment environment but we are confident in the ability of our management team to meet these challenges and consequently, continue to deliver growth in both revenue and profits.

Acknowledgements We wish to thank the Board of Directors for their wise and astute guidance and sterling service to the Group, maintaining the course to sustainable growth and increased returns to our stakeholders. We also wish to thank all the non-executive directors of our various subsidiaries for their dedication and commitment to the continuing success of our subsidiaries.

We extend our sincere gratitude to all our customers and clients for their loyalty and support, essential ingredients in our successes and to recommit to our partnership in achieving our mutual goals and aspirations. And finally, we give thanks to our employees at every level whose competence, keen sense of responsibility and commitment contribute immensely to the successes we are able to achieve.

Arthur Lok Jack
Chairman of the Board

Jeffrey Mack
Chief Executive Officer

GUARDIAN HOLDINGS LIMITED

Turning the Complexities of Changing Times into Benefits for our Customers

The actual benefits to the customer of insurance, pensions and investment, are often many years in the future.

A customer who begins a pension plan at age 29 expects to receive that pension when he retires. Our customers therefore rely on us to be there for them when it matters, when they expect to derive the benefits of sound financial planning.

We therefore place strategic emphasis on prudent financial management, sound corporate governance, succession planning and business continuity. This ensures that we always increase our expertise and grow the financial strength on which our customers' benefits are built.

Board of Directors

Arthur Lok Jack
Group Chairman

Jeffrey Mack
Group Chief Executive Officer

Peter Ganteaume
Deputy Chairman

Fé Lopez-Collymore
Corporate Secretary

Imtiaz Ahamad

Douglas Camacho

David Davies

Philip Hamel-Smith

Jemal-ud-din Kassum

Antony Lancaster

Dr. Aleem Mohammed

Selby Wilson

For more information about our Board of Directors, please refer to:
http://www.guardianholdings.com/content/index.php/about/board-of-directors/

Management Discussion & Analysis 2012

This Management Discussion and Analysis contains detailed information important to understanding the Company's results and financial condition and should therefore be read in its entirety.

Forward looking statements – cautionary language

The report reviews the Company's financial condition and results of operations including its liquidity and capital resources. Historical information is presented and discussed. Where appropriate, factors that may affect future financial performance are also identified and discussed. Certain statements made in this report include "forward-looking statements". Forward-looking statements include any statement that may predict, forecast, indicate or imply future results, performance or achievements instead of historical facts and may contain words like "believe", "expect", "estimate", "project", "budget", "forecast", "anticipate", "plan", "will", "shall", "may" and other words, phrases or expressions with similar meaning. Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from the results contained in the forward-looking statements and the Company cannot give assurances that such statements will prove to be correct. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Overview

Guardian Holdings Limited (GHL) is a holding company formed in 1982 which became a publicly listed company in Trinidad & Tobago on June 18, 1996 and in Jamaica on September 20, 2000. GHL's subsidiaries provide financial services through the production, distribution, and administration of insurance and investment products. GHL's principal operations are conducted throughout the Caribbean. There are three main business segments: Life, Health and Pensions; Property and Casualty Insurance; and Asset Management. Services are primarily distributed and sold throughout the Caribbean, however reinsurance cover is selectively provided on a worldwide basis through the group's international property and casualty business segment.

Critical accounting policies and estimates

The group's accounting policies require the use of judgments relating to a variety of assumptions and estimates, in particular, expectations of current and future mortality, morbidity, persistency, expenses and interest rates. Because of the inherent uncertainty when using the assumptions and estimates, the effect of certain accounting policies under different conditions or assumptions could be materially different from those reported in the consolidated financial statements. A discussion of the most significant accounting policies is presented hereunder.

Value of inforce life insurance business The acquisition costs of writing new long-term insurance policies occur at the time that the policies are issued. However, the profits on this business are released gradually over the lifetime of the policies. There are a number of accounting treatments available to deal with the disparity between the timing of the acquisition expenses and the release of profits. The group uses the Achieved Profits Method which is referred to as Embedded Values accounting. An Embedded Value represents the present value of the future profits of the block of existing long-term business. The calculation of Embedded Values requires assumptions concerning future persistency, mortality, morbidity, expenses and investment yields. Under this method, the accounts reported profits are adjusted to reflect the increase or decrease in the future value of the inforce portfolio. The group's accounting policy in respect of accounting for value of inforce life insurance business is disclosed in Note 2.14 (e) with underlying details provided in Note 13 to the Consolidated Financial Statements.

As at December 31, 2012 the group recorded $879 million (2011: $742 million) in its books for the value to shareholders of inforce long-term business.

Deferred acquisition cost The group incurs significant brokerage costs in connection with the acquisition of its short-term insurance business through its intermediaries. These costs vary with and are integral to the procurement of ongoing insurance business and are amortised over the period during which premiums are earned. The group's accounting policy in respect of accounting for deferred acquisition costs is disclosed in Note 2.14 (f) with underlying details provided in Note 17 to the Consolidated Financial Statements.

As at December 31, 2012, the deferred acquisition costs remaining to be amortised totalled $79 million (2011: $73 million).

Financial assets The group has financial assets totalling $12.1 billion (2011: $11.3 billion) that are classified as either held to maturity or fair value through profit or loss. The group's accounting policies in respect of its invested assets are disclosed in Note 2.8 with the underlying analyses of invested assets provided in Note 9 to the Consolidated Financial Statements.

Intangible assets Included in the group's consolidated statement of financial position are intangible assets totalling $367 million (2011: $254 million); these represent trademarks and goodwill arising on the acquisition of subsidiaries and require an annual estimate of the future profitability of the respective cash generating units. Revisions to the estimates that result in the impairment of the carrying value of these assets result in the amounts being expensed in the reporting period in which the revisions are made. The group's accounting policy in respect of its intangible assets is disclosed in Note 2.7 with additional details provided in Note 7 to the Consolidated Financial Statements.

Liabilities related to insurance contracts Liabilities related to insurance contracts comprise the value of future benefits payable under contracts of insurance related to its life, health and pensions business and claims and unearned premium reserves related to the group's property and casualty business.

The establishment of adequate reserves to meet the group's obligations to its policyholders involve estimating liabilities for future policy benefits on life and health insurance products, and requires the use of assumptions such as those relative to future investment yields, mortality, morbidity, persistency and other appropriate assumptions based on historical experience modified as necessary to reflect anticipated trends and to include provisions for possible adverse deviation.

Determining liabilities for the group's property and casualty insurance products also requires the use of assumptions, including the projected levels of used vehicle prices,

the frequency and severity of claims and the effectiveness of internal processes designed to reduce the level of claims.

The group's accounting policy in respect of insurance benefits and claims is disclosed in Note 2.14 and specific details are provided in Note 23 to the Consolidated Financial Statements.

As at December 31, 2012 the group had established reserves for policy liabilities of $12.5 billion (2011: $11.6 billion).

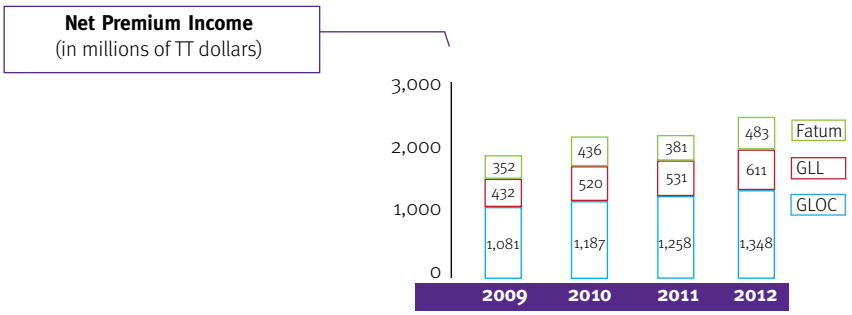
Pension obligations Determining the group's obligations to employees under its defined benefit pension plan and stock-based compensation plans requires the use of estimates. The calculation of the liability related to the group's defined benefit pension plan requires assumptions regarding the appropriate weighted average discount rate, estimated rate of increase in the compensation of its employees, projected changes in staffing levels and the expected long-term rate of return on the plan's assets. The group's accounting policy in respect of pension obligations is disclosed in Note 2.18 to the Consolidated Financial Statements.

Summary of Financial Performance

Life, Health & Pensions The group's Life, Health and Pensions business (the LHP group) provides insurance coverage and financial security solutions for customers throughout the English and Dutch-speaking Caribbean. It comprises Guardian Life of the Caribbean (GLOC) and Bancassurance Limited (BANC) domiciled in Trinidad, Guardian Life of the Caribbean (GLOC) branch in Barbados, Guardian Life Limited (GLL) domiciled in Jamaica and Fatum Life and Fatum Health (FATUM) domiciled in Curaçao and Aruba.

Profits in the LHP group continue be strong and show solid growth. It achieved an after-tax profit of $422 million, which surpassed prior year's profit by 34%. This excellent financial performance was driven by solid new business growth, increased operational efficiencies and high business retention due to greater customer satisfaction and loyalty.

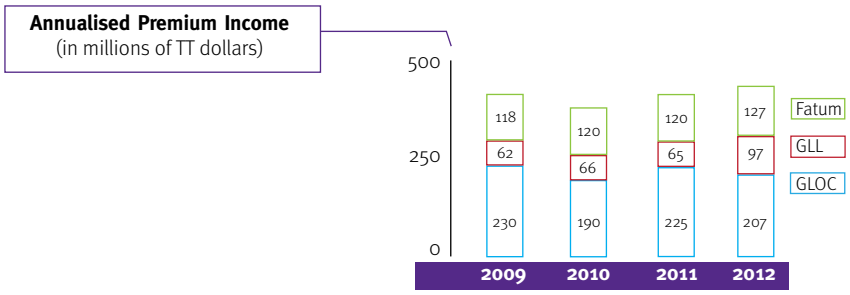
The LHP group overcame continued sluggish regional economic growth and achieved total revenue of $3.5 billion, which is 11% over prior year. Net premium income of $2.4 billion registered similar growth and contributed 70% of the total revenue of the LHP group. The Individual Life, Annuities and, to a lesser extent, Group Life lines drove the year on year increase over 2011 and contributed $1.8 billion of the net premium income. The growth trend in total net premium income is illustrated below.



Health premiums remained relatively flat over prior year results, based on a deliberate strategy to focus on bottom-line rather than top-line growth. This resulted in significant improvements in claims and combined ratios year over year and increased profitability.

Individual Life annualised premium income of $431 million registered a 5% growth over prior year. The Trinidad and Tobago companies contributed 48% of the annualised premium income of the LHP group and maintained their significant dominance of the Trinidad and Tobago insurance market, which is the largest insurance market in the Caribbean.

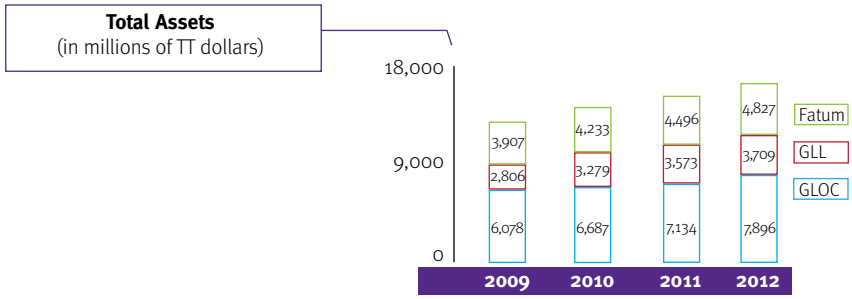
During 2012, GLL was a significant contributor to the overall growth in premium income, registering a 49% growth over 2011 followed by FATUM with a 6% growth. The following graph sets out the Individual Lines new business annual premium income by territory for the past four years.



The overall net result from insurance activities was $187 million, with all companies in the LHP group improving on their 2011 performance. The most significant improvement of 97% or $139 million was posted by Fatum and resulted from the 27% increase in net premium income, augmented by the 4% reduction in net claims incurred.

Despite a very challenging economic environment, there was a 3% increase in investment and other income over 2011 to $802 million before fair value gains. Net income from investing activities of $786 million, however, represented a decrease by 3% arising from the 39% reduction in net fair value gains. GLL recorded approximately $10 million in fair value losses, compared to fair value gains of $15 million in 2011. This reduction was largely attributed to the decline in the equities and bond markets in Jamaica due to the uncertainty surrounding that country's pending transaction with the International Monetary Fund as well as the impairment of the Government of Belize 2029 bond during the year.

The LHP group increased its asset base by 8% to close the year with assets totalling $16 billion. The main contributory factors are the 6% growth in financial assets to over $10 billion and the 19% increase in the value to shareholders of inforce long-term business.



In keeping with the group's fundamental philosophy of providing its customers with safety and security through our financial strength, the capital base of the LHP group remains strong, as operating companies ensure that the capital maintained is more than adequate to protect policyholders' benefits while maximising shareholders' returns.

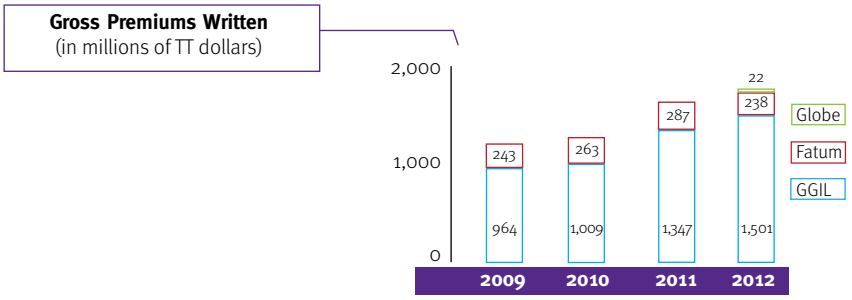
GLOC closed the year with a solvency margin of 20% in excess of its reserves. In addition, GLOC holds an A.M. Best rating of A-(Excellent). Fatum maintained a strong solvency position in 2012, remaining comfortably well in excess of the minimum solvency requirements of the regulator. The solvency of GLL is measured in terms of a Minimum Continuing Capital and Surplus Requirements (MCCSR) ratio. The ratio for GLL is 187% as at December 31, 2012, which is well above the regulatory requirement of 150%.

The LHP group's strategy is centred on customer service excellence, market leadership in sales and operational efficiency through cost containment, technological innovation, rationalisation of our IT infrastructure and consolidation across the LHP group. During 2012, significant progress was made in this regard and we will continue to deploy our proven strategy in 2013. We have already launched a state-of-the-art new business system in Trinidad and Tobago as well as in Barbados. This will be further deployed in Jamaica in 2013.

2013 is likely to be a challenging year for the Caribbean region, with the continued slow growth in the global and regional economies compounded by the recently implemented National Debt Exchange Offer (NDX) in Jamaica. However, we are confident that we have deployed strategies to continue to grow top-line and extract expense savings and thereby continue our pattern of strong profitable growth.

Caribbean Property & Casualty Three significant acquisitions were made in 2012 that are expected to increase revenue for the group by approximately $355 million and reinforce its position as the largest indigenous general insurer in the Caribbean region.

The first acquisition was Globe Insurance Company of Jamaica Limited, which, when combined with our fully owned subsidiary West Indies Alliance, will be the largest general insurance company in Jamaica.



The second acquisition, Royal & Sun Alliance (Antilles) N.V. (RSA), which is still subject to regulatory approval, when combined with Fatum General, will also create the largest General Insurance operation in the Dutch Caribbean. Concurrent with the RSA Antilles acquisition, Fatum has entered into a long-term distribution arrangement for its insurance products with the Maduro and Curiel's Bank (MCB).

The third acquisition is Thoma Exploitatie B.V. (Thoma), an insurance broker based in the Netherlands. This acquisition will expand Fatum's existing and successful "Dutch" business while providing the group with additional fee-based business that is free of insurance risk.

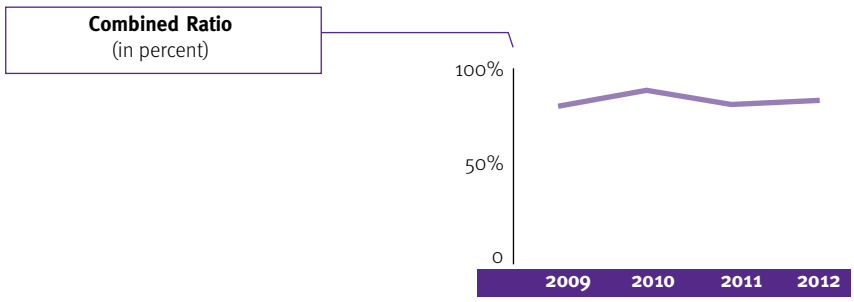
GHL's Caribbean Property and Casualty Business is serviced by five companies whose operations collectively span 21 countries regionally. These companies include West Indies Alliance and the recently acquired Globe, both operating in Jamaica. Guardian General Insurance Limited (GGIL) operates in Trinidad and Tobago, Barbados and several countries in the Eastern and wider Caribbean. Fatum General N.V., operates in the Dutch Caribbean and writes a small property portfolio in the Netherlands, which will be augmented by the Thoma acquisition.

GGIL's strong financial performance has surpassed prior year technical profits with both the local and overseas territories achieving solid financial performance ratios. The major contributing factors are the improved claims experience and income from multinational business. These favourable results affirm GGIL as the market leader in terms of size and profitability, in spite of the sustained softening of the premium rates particularly by new market entrants.

Guardian's risk capacity continues to be supported by its long established tradition of maintaining sound underwriting principles and guidelines backed by robust reinsurance programs. Additionally GGIL, with its proven regulatory compliance track record and supported by a strong internal structure, is in the best position to conform to any new and pending regional legislation.

The continued uncertainty for the regional economic outlook, the increased financial market volatility and downgrading of some regional territories by rating agencies have dampened consumer spending and weakened the demand for short-term insurance. This, coupled with new market entrants, resulted in the further softening of premium rates which have challenged us in underwriting adequately priced new business. However, our financial strength, customer service, excellent claims servicing standards as well as our alignment with global networking partners, resulted in premium income growth through multinational accounts.

The 2012 hurricane season is best described as one of high activity but with a lower than expected impact for such an active season. Similar to the last season, there were 19 named storms, of which 10 developed into hurricanes, one of which was classified as major. Hurricane Sandy provided the only impact on Guardian's Caribbean results with gross and net losses of $6.4 million and $3.2 million in the Bahamas. There were no major losses arising from earthquakes in the region.

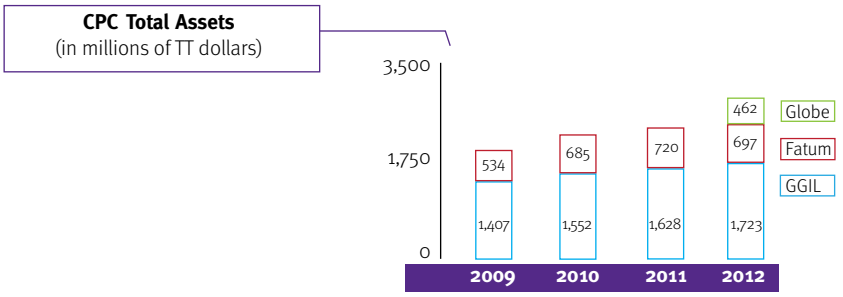


In spite of this challenging environment, Caribbean Property and Casualty was successful in growing its gross premiums by 7.8% to $1.761 billion, mainly through business generated from global network partners. Fatum's shedding of unprofitable and volatile business in the Netherlands resulted in the decline in their gross premiums.

Profit after tax of $127.1 million decreased by 13.4% from $146.8 million in 2012. This was due mainly to the intentional reduction in Fatum's gross premiums. Net claims ratio improved to 38.2% from the 2011 ratio of 40.9%; the overall combined ratio for claims, expenses and commissions increased slightly to 82.9% from 80.9%.

Total assets of $2.9 billion reflected an increase of 22.7% from $2.3 billion.

A.M. Best affirmed GGIL's rating of A-(Excellent) with a stable outlook in the Financial Size Category VII, which is the highest category and rating of any indigenous Caribbean Property and Casualty Underwriter.



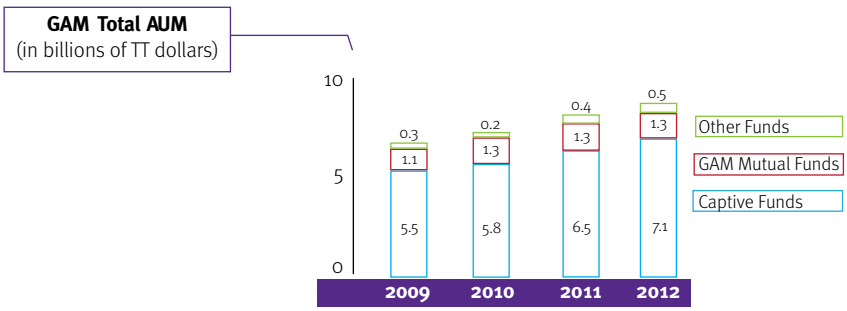
International Property & Casualty This segment of the group's business comprises the reinsurance underwriting activity undertaken by its wholly-owned subsidiary Guardian Re (SAC) Limited, a Bermuda registered Class 3A reinsurer for captive business and non-Caribbean business.

Since late 2011, following a strategic review, the group took a decision to exit its line of business for underwriting in Lloyd's international property market and ceased underwriting any new risks or offering renewal at natural expiry. As a result of these actions, the group reclassified and reported the residual interests in these treaties as a disposal group held for sale and as a discontinued operation.

Currently Guardian Re's business is primarily captive business, together with a small share of treaties from non-Caribbean third party cedants, and run-off liabilities from Zenith Insurance plc from the group's decision to exit this business in 2009.

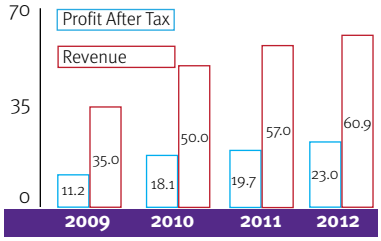
Asset Management 2012 was a record year for Guardian Asset Management Limited (GAM) despite the challenging investment environment. Interest rates both domestically and internationally continue to be at historic lows, while equity markets are still being viewed with skepticism post the 2008 financial crisis. Nevertheless, GAM has made great strides in meeting its stated mandate of providing financial peace of mind to its investors.

Total assets under management (AUM) increased by 7.33% to $8.8 billion. This growth was most visible in the captive portfolio, which increased from $6.5 billion to $7.1 billion. In particular, the Guardian Life of the Caribbean portfolio benefited from positive returns as well as net inflows. Growth in AUM was also aided by 32% growth in the recently launched Non-Discretionary Private Wealth Business, in which investors can direct their own trades within a very competitive fee structure.



Impressive returns and growth in AUM translated into a milestone financial performance for Guardian Asset Management. Total revenue crossed the $60 million mark due to commensurate growth in management fees from the captive portfolio. Revenue was also supported by stable flows from the company's primary revenue earner – management fees on the GAM suite of mutual funds. This top line performance was complemented by strong cost control that saw more efficient use and management of marketing and other fee expenses. In total, the company achieved a profit after tax of $23 million, which represented a 17% growth year on year.

GAM Financial Performance
(in millions of TT dollars)



Looking ahead, the separation of the asset management and trust services functions should be completed in 2013. As previously mentioned, this change is being made to improve the transparency for investors, as there will be a clear demarcation of investment management from trustee oversight. In addition, it will create a renewed focus on the offering on trustee services, a business line that has been largely untapped by the group.

In 2012, all GAM mutual funds produced attractive, positive returns. The best performer was the GAM European Equity Fund, which returned 20.90% for the year. This was due to favourable selection decisions against the backdrop of an increased level of comfort among international investors that Germany and the other more wealthy European nations would continue to support distressed nations and avoid a breakup of the Eurozone and collapse of the Euro. The Global Fund Solutions – the Conservative, Moderate and Aggressive Funds – generated returns of 3.47%, 5.83% and 10.67% respectively, which is consistent with what is required from these investment styles. In addition to attractive absolute returns, the funds also produced attractive returns relative to benchmarks, local competitors and international competitors. The two income funds – the TT and US Monthly Income Funds – were also able to maintain competitive payout rates throughout the entire year.

The three top performing mutual funds for 2012 were:

- European Equity Fund: 20.90%
- Asia Pacific Rim Equity Fund: 14.82%
- New Economy Equity Fund: 11.67%

Alternative Investments

Pointe Simon Project Guardian Holdings Limited has had a long tradition of success in the development of several major first class real estate development projects over the years. Initially under Guardian Properties Ltd., these included premium residential space like The Towers, La Fontaine, Spanish Court and Marine Villas. Through its partnership in RGM, the group successfully developed commercial space, including Albion Plaza Energy Centre, Princes Court and Newtown Centre, to name a few.

Pointe Simon - View from the harbour and office block/hotel elevation (artist renderings)

Building on this successful tradition, and seeking to leverage our balance sheet capacity for projects with attractive long-term returns and value for our shareholders, GHL took the decision to partner with other major shareholders to develop Pointe Simon, a mixed-use major development in downtown Fort de France, Martinique. The Pointe Simon project, on which construction began in 2008, was originally jointly owned by GHL, RBTT and other minority investors, all of whom invested as a consortium through Laevulose Inc. Limited. After RBTT was acquired by Royal Bank of Canada, their corporate strategy changed and they opted to dispose of their shares in Laevulose. GHL acquired the shares of RBTT/RBC. This made GHL the largest single shareholder in the consortium. Since inception, GHL has honoured its commitment and pursued its vision for the project over the period, providing substantial capital and strategic direction as well as nurturing the relationships in Martinique and France to successfully promote the premium commercial and residential space that is being constructed.

During the course of 2012, the physical structures of two of the three edifices of the project – the office tower and the condominium block – were completed. The office block/hotel is still under construction, and is expected to be completed by the end of 2013. In June 2012, a ceremonial "key hand over" event took place, signalling the commencement of the commercialisation phase of the project and the availability of space for lease and purchase, especially in the office tower and condominium blocks. The event featured a model condominium, completely outfitted, as a show-room for the hundreds of guests and potential investors who took the opportunity to tour the facility. This included a tour of the office tower as well.

The Chairman of the Region and the Mayor of Fort de France, who have both been in full support of the project from inception, welcomed the completion of this phase of the project, which they see as key to stimulating and diversifying the economy of Martinique.

Now that two of the physical structures of the project have been completed, and the third is at an advanced stage of construction, the focus for 2013 is on the commercialisation of the various types of space available. However, in spite of the significant progress made in the project, especially over the last 18 months, in bringing it to a stage of final completion, the weak economic conditions in the Caribbean, more specifically in Martinique, and the very challenging economic conditions in the Eurozone, including in France, whence much of the demand for this space is expected to come, have contrived to stymie our ability to secure sale contracts as anticipated. As such, our projections for commercialisation and sale or lease of the space have not been realised at the scale which we anticipated at this stage. We continue to pursue the several strategies that are planned to crystallise the revenues anticipated from this investment, and we are very encouraged by the discussions we have had with prospective investors in Martinique, the potential hotel operator as well as the French authorities on the mainland, in this regard.

RGM RGM Limited (RGM) is a joint venture of equal equity ownership among RBC Merchant Bank (Caribbean) Limited, Guardian Holdings Limited and Sagicor Life Inc, which began trading in 1996. The GHL balance sheet carrying value is $145 million,

and profit attributable to GHL in 2012 is $15 million. The company's primary product is premium office space, which is leased over the medium to long term, and fully serviced by RGM. With over 500,000 sq.ft. of space comprising seven (7) buildings under management currently, RGM provides facilities to a wide range of organisations. Its clients include multi-national corporations occupying in excess of 100,000 sq.ft. across multiple locations, to small professional and service-oriented firms, occupying as little as 5,000 sq.ft.

In addition to the commercial buildings on its portfolio, in 1999, RGM also constructed four stadia and renovated the existing Hasely Crawford stadium for the Government of Trinidad & Tobago (GORTT) at a cost of $370 million. These projects were financed by a 15 yr. bond. GORTT leased the stadia for 15 years with an option to purchase the facilities at the end of the lease. The stadia were completed within budget in June of 2001.

RGM continues to enjoy full tenancy in all of its buildings. During the year, the company received a number of requests for the provision of additional Grade A accommodation. This has led to its decision to construct another A grade commercial building on land it owns on the eastern side of the Queen's Park Savannah. This building is expected to be completed by the beginning of the third quarter of 2014.

The building, which will comprise approximately 63,000 sq.ft., will be the first design in Trinidad and Tobago to have a reduced environmental footprint with a LEED bronze certification.

Eastern Caribbean Gas Pipeline Company (ECGPC) This company is a joint venture among Bigwater Limited (itself a joint venture between Beowulf Energy LLC and First Reserve Energy Infrastructure), which owns 60%; The Trinidad and Tobago Unit Trust Corporation - 15%; Guardian Holdings Limited - 15% and the National Gas Company of Trinidad and Tobago - 10%. This represents a total share capital of approximately US$20 million.

Work continues apace on the three fundamental elements to complete the pipeline, which include:

- Government agreements
- Technical feasibility
- Financing.

The Inter-Government Agreement between the Governments of Trinidad & Tobago and Barbados reflect a 20-year gas export term. This was signed-off in May of 2012. The Host Governments Agreements for Trinidad & Tobago and Barbados are expected to be completed before the end of the third quarter of 2013.

The underwater seabed and geotechnical surveys are expected to begin at the start of the third quarter of 2013 during the favourable weather window. The Underwater Survey Contractor has been selected. The contracts are expected to be signed at the beginning of the second quarter of 2013.

Detailed project planning workshops were conducted with the stakeholders from the government of Barbados in May of 2012. Coordination with all the stakeholders in the process continued throughout the year.

The Natural Gas to Liquids (NGL) plant design has been progressing well and detailed discussions are on-going with the National Gas Company of Trinidad and Tobago (NGC) and Phoenix Park Gas Processors Limited (PPGPL). NGC is in the final stages of analysing the various solutions for NGLs.

A detailed review of the project was done by DORIS Engineering, a leading company in the field of gas transportation financing. The results demonstrated that the pipeline system could result in reducing fuel costs by 25-40%.

The international development financial institutions such as the International Financial Corporation (IFC), the Inter-American Development Bank (IADB) and the European Investment Bank (EIB) all view the project as transforming regional, economic, environmental and political dynamics. As a consequence, they are considering an investment in the pipeline.

ECGPC has also had discussions with international commercial banks to discuss and analyse financing structures for the project. Based on these discussions, it is the intention to mandate a lead bank for this purpose by the third quarter of 2013.

Human Resources

The best way to inspire people to a superior performance is to convince them by everything you do and by everyday attitude that you are wholeheartedly supporting them.

~ Harold S. Geneen

HR Strategy

"Creating Competitive Advantage through People"

Enabling and Enhancing Performance Excellence

As the Guardian Holdings Limited group of companies continues to focus on its strategy of becoming the Regional Wealth Management and Protection Champion, a critical success factor for HR is the achievement of alignment between HR Strategy and Business Strategy. It is no secret that successful businesses are built around the quality, capability and capacity of its people. Quality, innovative and creative People are the drivers of operational excellence.

Understanding that people are the organisation's most important asset and a key competitive differentiator, our value add includes supporting and adding value for customers, employees, shareholders and the communities in which we operate. We also need to play a key and active role in supporting the group's leadership, business unit heads and staff in the achievement of personal, strategic and business goals. Group HR further aims to achieve this by aligning our talent management strategy with business unit strategy to continuously drive performance.

HR's primary objectives are to:

- continue the process of developing organisational capabilities that support business unit strategies and deliver outcomes for creating a clear "line of sight" between individual behaviour and key strategies and goals.
- capture and distribute the organisation's intellectual capital and expert knowledge.
- develop teams and networks that can share and leverage expertise.
- create, distribute and support HR products and services that support employees and the business.
- continue the process of reviewing processes and procedures to drive improvements and operational efficiencies.
- maximise the robustness of the performance management and reward system to increase productivity and growth opportunities for each employee.
- generate, monitor and track key performance metrics that would allow us to predict organisational performance and drive business outcomes.

The HR strategy is built around four key pillars: talent management, business leadership, metrics and measurement and strategic value-add. The Group Vice President - Human Resource Services leads the human resource team in ensuring initiatives are built around delivering on the strategy.

Talent Management

HR objectives in this area are to:

- adopt varying hiring strategies aligned to meet business demands and significantly improve the group's ability to attract, recruit and retain top quality talent.
- develop Competency Management strategies that target both team and individual growth and development.
- continue the process of succession planning and leadership development.
- build requisite bench strength that will allow GHL to fill the leadership pipeline in a timely manner.
- develop a framework for parallel career paths at all levels in the organisation.
- develop deep functional expertise for key roles.
- ensure all roles must be business critical.

Business Leadership HR will continue to work with the line to develop their people management competencies so as to be able to better fulfill their obligations for this role. This also provides an excellent opportunity for employees within the HR division to have a greater level of appreciation and understanding of the business needs and its aspirations.

Metrics and Measurement HR metrics will be tracked, analysed and disseminated to allow group companies to better predict organisational performance so as to drive business outcomes that meet stakeholder expectations. In this way, we will continue to build on our principle of meritocracy based upon measured performance.

Adding Strategic Value to the Business Appropriate solutions can only be delivered through proactive partnering, focused problem solving and action. Group HR commits to providing service excellence—respect and fair treatment for all—and offering innovative people strategies that ensure overall business success. It will demonstrate leadership talent and capabilities that develop high performing teams and a rewarding and inclusive work environment.

GHL believes that people are its competitive advantage. The right people in the right jobs will mean effective and efficient processes which will only redound to the ultimate customer experience and consequently sustainable, profitable businesses.

Corporate Social Responsibility

In 2012, the GHL group of companies honed its strategic focus on an ethos of one group, one team, one vision. This meant that throughout the Caribbean, each of the business units, that together provide the group's full range of insurance, investment and retirement products and services, began to position itself in the market as members of one group. Part of this process involved redefining our vision, mission and core values to represent a single and comprehensive value proposition to our customers, regardless of whether their relationship with us is based on life, health and pension protection, general insurance or on investments, or indeed, on all of these services.

One of the significant drivers of this uniformed approach to our market positioning is our Corporate Social Responsibility (CSR) programme. This therefore meant that as one group, there was the need to re-examine Guardian's role as a socially conscious business group and to make a more meaningful difference in the communities in which we operate and which we serve. As a customer-centered company, Guardian's focus became even more defined by trust, integrity and quality in the delivery of service to the people of the Caribbean.

Harvard Business School in a 2012 working paper entitled 'Why every company needs CSR and How to build it' articulated the position "regardless of the label, for now the dominant paradigm underlying corporate social responsibility or CSR is centred in the idea of creating 'shared value'." Shareholders expect businesses to create value for them. However, based on the principle of shared value, businesses like Guardian in turn create value for the society, thereby establishing a win-win proposition. Guardian transitioned its approach to CSR to a place that allowed for shared value and actively encouraged individual and societal development by supporting efforts to improve wellbeing and realise human potential in the communities and territories where members of the group operate.

This approach to shared value and direct improvement in wellbeing was articulated in 2012 within the framework of:

1. Partnership to support education and leadership development
2. Focus on the youth
3. Support for the work of various non-governmental organisations
4. Health and wellness
5. Staff volunteerism

Education and Leadership In 1998, Guardian Life of the Caribbean first signed a memorandum of agreement (MOA) with the University of the West Indies (UWI) to underwrite a Premium Teaching Awards, initially for the St. Augustine Campus. Since the first Premium Teaching Awards were presented in 2000, twenty-seven lecturers from all five faculties have been honoured for their excellence in teaching. In 2001, another MOA was singed to underwrite the Premium Open Lecture Series to alternate with the Teaching Awards. Given its tremendous success, the UWI/Guardian Life Premium Teaching Awards and Open Lecture Series were first presented at Mona Campus Jamaica in 2004 and Cave Hill Barbados in 2005. In 2012, the 13th year of this partnership with UWI, four lecturers from the St. Augustine and Mona Campuses were awarded.

Guardian also continues to provide UWI students with incentives for excellence in academics through its award for the Best Year II Performance in Mathematics, which in 2012 was awarded to Mr. Jeron Johnson. Students at the St. Augustine Campus also benefit from the guidance and counsel of the group's Human Resource expertise at UWI's annual World of Work programme. In addition, an annual internship agreement with the College of Science, Technology and the Arts of Trinidad & Tobago (COSTATT), continues to provide one final year public relations student with hands-on exposure to the day to day activities in a marketing and communication working environment. The outcome of these partnerships in education and leadership development have been immediate and direct for beneficiaries as they are better equipped emotionally, financially and intellectually to advance their academic and professional careers.

Focus on Youth Across the region, children continue to be a vulnerable sector of our societies, in need of support, protection and care as they represent the most valuable resource we have. In this regard, Guardian has partnered with and continues to support the work of the Just Because Foundation in Trinidad and Tobago. The Foundation provides emotional, practical, educational and social support for families of children with cancer at absolutely no cost and is the only facility of its kind in the English-

speaking Caribbean. Several other non-governmental organisations benefited from support in relation to their initiatives for children, including the Cotton Tree Foundation, the Rotary Club and the Lions.

For the sixth year running, one of our major partnerships is that of the Trinidad and Tobago Olympic Committee (TTOC) and its Shape the Community Sports Development Programme. This sponsorship has provided the opportunity for elementary school children and retired persons to benefit from recreation, educational and physical activities, especially in rural areas throughout the country. The programme facilitates an environment for a healthy lifestyle by these two target groups and builds capacity through the training of coaches and sport administrators. In Barbados, the focus on encouraging an active lifestyle, particularly in youth, is seen through Guardian General Insurance Limited (GGIL) title sponsorship of Guardian General Herman Griffith Primary Schools Competition and the Pride of Villa Netball tournament.

Guardian General Insurance Limited (GGIL), Trinidad and Tobago, continued its partnership with Arrive Alive to increase awareness of safe driving practices as part of the recognition of the UN Decade for Action. In 2012, GGIL in collaboration with other business entities, sponsored an Art and Essay Competition, themed "Be Road Wise", for primary and secondary school students. Students were asked to depict basic road safety practices in the form of a poster or essay.

Health & Wellness Adults were not neglected either as Guardian Life of the Caribbean Barbados partnered with the University of the West Indies Staff Sporting Association of Cave Hill to host the 13th Biennial Staff Inter-Campus Games from August 10-20, 2012. In the Dutch Caribbean, Fatum Holding N.V. hosted Fatum Loop, the largest fun run and walk marathon in the Dutch Caribbean, which attracts over 5,000 participants.

Since 2010 Guardian Life Limited (GLL) in Jamaica made a commitment to the Jamaica Cancer Society to donate a portion of revenue generated from the sales of its newest critical illness plan – Ultimate Provider – to assist with the screening for cervical cancer. In 2012, in addition to GLL's continued financial support to this screening programme and to the 10th staging of the Jamaica Cancer Society annual marathon, Relay for Life, the staff gave its support in overwhelming fashion with their participation in the annual event.

In Trinidad and Tobago, Guardian Life of the Caribbean (GLOC) has been for years a strident supporter of breast cancer awareness. In 2012, GLOC deepened this commitment through a business partnership which facilitated the launch of the Pink Hibiscus Breast Health Specialists Centre (PHBHS) in Trinidad. The PHBHS is the only centre in the Caribbean specialised in and solely dedicated to the early detection of breast cancer in women. It boasts international expertise, latest technology and a comprehensive screening process in a modern, friendly and comfortable environment.

Staff Volunteerism Staff volunteerism is a deeply rooted culture across the Guardian Holdings Limited group of companies. Guardian Asset Management's staff initiative known as "Mission GAMpossible", through employee involvement, donates time and financial support to various causes. Through LifePulse, staff at all the Trinidad and Tobago offices continue to raise awareness for health and wellness through the hosting of health promotion month, participation in Carifin and coordination of subsidised aerobics classes. Community Caravan, a staff volunteerism initiative of Guardian General Insurance Limited, provides assistance and financial support to communities across Trinidad & Tobago.

The Guardian Holdings Limited group culminated 2012 with a group-wide initiative that highlighted our staff's spirit of giving and serving others. Over the holiday season, employees brought joy and good cheer to hundreds of disadvantaged and underprivileged children across the Caribbean by adopting the internationally known "Shoebox Project". Through subsidiaries in Aruba, Barbados, Jamaica, Bonaire, Curaçao, Jamaica, St. Maarten and Trinidad and Tobago, our Guardians presented over 1,000 boys and girls with 'shoeboxes' filled with toys to lift their spirits.

CSR strategy, according the Harvard Business School paper, should unite the diverse range of a company's philanthropic giving, supply chain, 'cause marketing' and system level initiatives all under one umbrella and it does not mean a complete alignment with the core business strategy of the company. As such, as the group continues to position its CSR programme as a shared value to its customers, the community, key partners and staff, there is the need to narrow the focus to ensure the greatest benefit is achieved. The 2012, redefinition and restructuring of the group's CSR will ultimately result in more effective and impactful benefits to those who matter most, i.e. those we serve.

Corporate Governance Report 2012

Independent Directors

It is provided in Regulation 4.1 of By-Law No. 1 of the Company that at least thirty per cent (30%) of the Board be comprised of Directors who satisfy the following criteria for independence contained in Regulation lA):

"Independent Director" means a Director who has no direct or indirect material relationship with the Company other than membership on the Board and who:

i) is not, and has not been in the past five (5) years, employed by the Company or its affiliates;

ii) does not have, and has not had in the past five (5) years, a material business relationship with the Company or its affiliates (either directly or as a partner, shareholder (other than to the extent to which shares are held by such Director pursuant to a requirement of applicable law to which the Company is subject relating to Directors generally), and is not a director, officer or senior employee of a person that has or had such a relationship);

iii) is not affiliated with any non-profit organisation that receives significant funding from the Company or its affiliates;

iv) does not receive and has not received in the past five (5) years any additional remuneration from the Company or its affiliates other than his or her director's fee and such director's fee does not constitute a significant portion of his or her annual income;

v) is not employed as an executive officer of another company where any of the Company's executives serve on that company's board of directors;

vi) is not, nor has been at any time during the past three (3) years, affiliated with or employed by a present or former auditor of the Company or any of its affiliates;

vii) does not hold a material interest in the Company or its affiliates (either directly or as a partner, shareholder, director, officer or senior employee of a person that holds such an interest);

viii) is not a member of the immediate family (and is not the executor, administrator or personal representative of any such person who is deceased or legally incompetent) of any individual who would not meet any of the tests set out in (i) to (vi) (were he or she a director of the Company);

ix) is identified in the annual report of the Company distributed to the shareholders of the Company as an independent director.

For purposes of this definition, "material interest" shall mean a direct or indirect ownership of voting shares representing at least three percent (3%) of the outstanding voting power or equity of the Company or any of its affiliates.

The Board has identified the following persons as meeting such independence criteria:

- Mr. Philip Hamel-Smith
- Dr. Aleem Mohammed
- Mr. Antony Lancaster
- Mr. David Davies and
- Mr. Selby Wilson

The Board comprises a total of eleven (11) Directors, of whom five (5) or forty five percent (45%) meet the independence criteria.

Committee Reports In accordance with the recognised Principles of Corporate Governance, the Board of Directors of Guardian Holdings Limited has established several Committees to assist the Board in the discharge of its responsibilities.

These Committees are:

- Audit Committee
- Risk and Compliance Committee
- Remuneration Committee
- Corporate Governance Committee
- Enterprise Investment Committee

Each Committee is governed by a Charter that sets out its responsibilities. The composition of each Committee is reviewed on an annual basis by the Corporate Governance Committee, which makes recommendations to the Board. Each Charter is reviewed annually by the Board and each Committee makes an annual report to the Board of Directors.

REPORT OF THE AUDIT COMMITTEE

The Guardian Holdings Limited Audit Committee (the Committee) is comprised of five (5) Non-Executive Directors.

- Mr. Selby Wilson (Chairman)
- Mr. Arthur Lok Jack
- Mr. Peter Ganteaume
- Mr. Imtiaz Ahamad
- Mr. David Davies

The Committee is governed by a Charter that sets out its responsibilities in respect of the financial statements, internal controls, the internal audit function and external audit.

The Charter of the Audit Committee was last reviewed and adopted by the GHL Board on May 4, 2011. Responsibility for Risk and Compliance matters, which had previously been included in the mandate of this Committee, was transferred to the newly established Risk & Compliance Committee.

The report of the GHL Audit Committee for 2012 follows.

Meetings The Committee held eight (8) meetings in 2012 to discharge its responsibilities.

Structure of Internal Audit The appointed Group Head Internal Audit is responsible for overall Group Internal Audit Function. Under the co-sourcing arrangement, PricewaterhouseCoopers was engaged to work alongside GHL's own Internal Audit Department with the objective of providing the group with access to international best practices in internal audit and expanded training opportunities. Internal Audit has unfettered access to the GHL Audit Committee. The Group Internal Head Internal Audit reports administratively to the Group Chief Executive Officer.

Independence of Internal Audit The Committee is satisfied that the Internal Audit function has been discharged in an objective and transparent manner. Further, the Committee has satisfied itself that the performance of the function is not subject to management's undue influence.

Internal Control and the Internal Audit Function The ongoing assessment of the adequacy and effectiveness of the group's internal control systems is the primary responsibility of Internal Audit. During the year under review, weaknesses in internal

controls noted by the internal auditors and management's risk-corrective actions were presented to the Committee at its quarterly meetings. The Committee members have satisfied themselves that approved risk corrective actions were adequately addressed by management to remedy the weaknesses in internal controls that were highlighted in the internal audit reports.

External Audit The Committee has reviewed and approved the external auditor's approach to and scope of their examination of the financial statements for the 2012 financial year. The members are satisfied that Ernst & Young has planned the audit to obtain reasonable assurance that the financial statements are free of material misstatement and present a fair view of the financial position of the group as at December 31, 2012 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Financial Statements During 2012, the interim unaudited financial statements were presented to the Committee at its quarterly meetings for review and recommendation for adoption by the Board. The Committee is satisfied that the audited financial statements contained in this Annual Report are complete, consistent with information known to its members and in conformity with appropriate accounting principles that have been consistently applied.

REPORT OF THE RISK & COMPLIANCE COMMITTEE

The GHL Risk & Compliance Committee (the Committee) is comprised of five (5) Directors, of whom four (4) are Non-Executive Directors.

- Mr. Antony Lancaster (Chairman)
- Mr. Philip Hamel-Smith
- Mr. Jeffrey Mack
- Mr. Imtiaz Ahamad
- Mr. David Davies

The Committee is governed by a Charter that sets out its responsibilities in respect of compliance and risk matters and is a key element of the group's corporate governance framework. The Committee acts in a review and advisory capacity to the Board of Directors by providing leadership, direction and oversight of the group's management of risk and compliance.

The Committee met on four (4) occasions in 2012. The Group Chief Risk Officer and the Group Head Compliance attend all meetings of the Committee and provide comprehensive reports on all aspects of risk management and compliance and their impact on both the financial and non-financial objectives of the group. The Chairman of the Group Audit Committee normally attends all meetings of the Committee by invitation to ensure that risk-related issues are considered in decisions of that Committee.

Risk Management The primary objectives of the Enterprise Risk Management function is to provide value to our shareholders by:-

- maintaining a comprehensive perspective on risk reduction as it relates to the erosion of critical sources of shareholder value through our focus on earnings volatility reduction and the avoidance of earnings related surprises
- optimising risk and increasing the efficiency and effectiveness through which capital and other resources are allocated by robust assessment of the risk and reward trade-off
- building and sustaining our competitive advantage through increasing our knowledge of the risk environments in which we operate and assuring an adequate pricing of risk

- increasing our resistance to financial contagion and resilience to the impact of external events

During the year, the Committee focused on the following areas:

Strengthening Risk Management across the group: the Committee approved a comprehensive Risk Plan that outlined the further steps needed to embed the ERM framework and leading standards of Risk Management at all levels of the business. The group's risk appetite has been thoroughly reviewed by the Committee and the Board has approved a group risk appetite statement that is cascaded throughout the group. The Chief Risk Officer has overall responsibility for the Plan and reports regularly to the Committee on progress against the Plan.

Risk monitoring: the Committee received regular reports on key risk exposures, the drivers of risk in the group, emerging and potential risks, and actions taken to mitigate any risks that were out of appetite. The Committee also monitored the adequacy of the group control framework in collaboration with the Audit Committee. In particular, the Committee focused on assessing the group's capital and liquidity positions against risk appetite and emerging regulatory based risk-based capital models, and the drivers of financial and insurance risks.

Operational risks: the Committee continued its focus on business continuity and IT security risks as well as assessment of strategic and business risks associated with the group's strategic initiatives and projects.

Regulatory risks and relationships: the Committee received regular reports on regulatory and other public policy developments. In particular, it monitored the actions being taken by management in response to risk-based insurance supervisory enquiries as well as overall readiness for the passage of new legislation.

Compliance The remit of the Group Compliance Unit is to provide assurance to the Board that the GHL group of companies complies with all applicable laws, regulations and internal policies, codes of conduct and standards of good practice in those jurisdictions in which the group's businesses operate. The unit is vested with the authority to formulate and establish procedures to facilitate the implementation and enforcement of the Group's Anti-Money Laundering Compliance Policy and the Group Compliance Policy adopted by the Board of Guardian Holdings Limited in 2004.

The unit has established a compliance reporting framework throughout the group and receives periodic compliance reports from the business units on compliance with applicable laws and regulations, regulatory developments and compliance issues. During the year under review, the unit reported to the Committee on the status of each business unit's compliance with applicable laws and regulations, regulatory developments and the follow up and resolution of compliance issues. The Committee is satisfied that compliance issues raised during the year have been properly followed up and resolved and that there are no material issues remaining unresolved at the year end.

REPORT OF THE REMUNERATION COMMITTEE

The Remuneration Committee (the Committee) comprises four (4) Non-Executive Directors. The Committee is responsible for making recommendations to the Board pertaining to:

- the remuneration packages of the Chairman and members of the Boards of Directors of all GHL group companies
- the remuneration, performance and incentive awards of senior executives of all GHL group companies as identified from time to time by the Committee

- the recruitment, engagement and promotion of senior executives of the GHL group as identified from time to time by the Committee.

The members of the Committee are:

- Mr. Arthur Lok Jack (Chairman)
- Mr. Peter Ganteaume
- Mr. Philip Hamel-Smith
- Mr. Antony Lancaster

During 2012, the Committee held three (3) meetings to discharge the responsibilities outlined in its Charter. In the course of these, the Committee considered the following matters on which it made recommendations to the GHL Board:

- review and approval of EVA result and grant of Executive Incentive Awards
- review of CEO performance and setting of 2012 targets
- review of executive remuneration
- proposal of a Performance Option Plan (POP) to replace the SOPE Long Term Incentive Plan for Group Executives which was approved by the shareholders at the Company's annual meeting on May 10, 2011
- proposals for long term incentives for past performance not included in POP
- approval of Group Mortgage Subsidy arrangements

REPORT OF THE CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee (the Committee) was established in November 2006 and is comprised of four (4) Non-Executive Directors.

The members of this Committee are:

- Mr. Philip Hamel-Smith (Chairman)
- Mr. Arthur Lok Jack
- Mr. Peter Ganteaume
- Mr. Antony Lancaster

The Committee is governed by a Charter that was last reviewed and adopted by the GHL Board on March 23, 2011. The objectives of the Corporate Governance Committee are to develop, implement and periodically review guidelines for appropriate corporate governance of the GHL group of companies. The Committee's responsibilities include:

1) making recommendations to the Board of Directors of GHL on the composition of the Board and its Committees
2) identifying and nominating, for the approval of the GHL Board, suitable candidates to fill vacancies on the boards of directors and board committees of GHL and its major operating subsidiaries
3) developing and implementing processes to assess Board and Committee effectiveness
4) fostering a system to prevent any improper influence, or the perception of any improper influence, on the decision-making of the directors, officers and employees of the GHL group by outside interests, including those of related parties.

The Committee held three (3) meetings during 2012 to discharge the responsibilities outlined in its Charter. In the course of these meetings, the following was accomplished by the Committee:

- review of schedule of rotation of directors and recommendation on presentation of candidates for appointment at annual shareholders meeting

- continuing review the structure of Boards and Committees across the GHL group
- review of the Committee's Charter and the Group's Securities Trading (formerly Insider Trading) and Disclosure Policies
- considered and recommended to the Board the adoption of formal Corporate Governance Principles and a Board performance evaluation tool

REPORT OF THE ENTERPRISE INVESTMENT COMMITTEE

The Enterprise Investment Committee (the Committee), which was formed in 2010, was given a mandate to consolidate the supervision of the investment-related functions within Guardian Holdings Limited and its member companies. The Committee comprises five (5) members:

- Mr. Arthur Lok Jack
- Mr. Peter Ganteaume
- Mr. Jemal-ud-din Kassum
- Mr. Jeffrey Mack
- Dr. Aleem Mohammed

The purpose of the Committee is to assist the Board of GHL and its group member companies with oversight of the operation and administration of the GHL investment portfolio.

The Committee will, among other things, do the following:

- oversee investment policies and guidelines
- establish investment benchmarks
- review investment performance
- review significant investment transactions
- formulate strategic investment philosophy
- oversee investment risk management exposure policies and guidelines

The Committee held three (3) meetings during the year and reviewed various presentations and investment reports, including the alternative investment holdings, and satisfied itself on the composition and direction of movement of the investment portfolio. Initiatives were embarked upon to move the group's portfolios towards a targeted asset mix. The greatest challenge has been in acquiring long-term interest bearing assets denominated in TT dollars. The market remained extremely liquid with only a few new issues coming to market.

The work of the Committee during the year included the following:

- considered interest rate stress testing
- confirmed the move toward an established efficient frontier and target portfolio for the individual companies
- strengthened governance and parameters for subsidiary companies
- considered recommendation for improvement in modeling capabilities and establishment of common practice across the group

GUARDIAN HOLDINGS LIMITED

Turning the Complexities of CSR into Benefits for People and Societies

GHL's most important asset is without doubt our people. Our people are nurtured and shaped in the societies in which we live and work. As such, we take great care to ensure that our employees are treated fairly and with respect and that life in the communities in which we operate improves.

In the year under review, GHL's member companies have undertaken a record number of initiatives to improve community life. From educational awards to health and wellness programmes, to youth sports programmes and staff volunteerism—we consider corporate social responsibility as a major factor in GHL's future sustainability.

GUARDIAN HOLDINGS LIMITED

Group Executive Officers





Jeffrey Mack – Group Chief Executive Officer
Ravi Tewari – Group President, Life, Health & Pension
Douglas Camacho – Executive Director/Group President, Strategic Investments & Projects
Richard Espinet – Group President, Caribbean Property & Casualty
Prabha Siewrattan – Group Head, Compliance





Brent Ford - Group Chief Investment Officer/ Group President Asset Management
Paul Traboulay – Group Chief Risk Officer
Kerri Maharaj - Group Chief Financial Officer
Steven Martina – Chief Administration Officer, Insurance Administration Services
Fé Lopez-Collymore – General Counsel & Company Secretary




Neil Dingwall – Group Actuary/Chief Performance Officer
Keston Nancoo – Group Vice President, Human Resource Services
Wendell Mitchell – Group Chief Information Officer
Larry Olton – Group Vice President, Integrated Marketing Communications

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 2012 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 for 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 2012, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst + Young

Port of Spain

TRINIDAD:

15 March 2013

Consolidated Statement of Financial Position

Expressed in Trinidad & Tobago Dollars • as at December 31, 2012

	Notes	2012 $'000	2011 $'000
Assets			
Property, plant and equipment	5	489,886	501,275
Investment properties	6	1,056,466	1,120,431
Intangible assets	7	367,001	254,278
Investment in associated companies	8	206,235	202,010
Financial assets	9	12,067,365	11,257,043
Financial assets of mutual fund unit holders	9	1,175,694	1,164,983
Loans and receivables	10	1,568,015	1,510,752
Properties for development and sale	11	448,728	391,048
Pension plan assets	12	80,918	80,687
Value of inforce life insurance business	13	879,080	742,043
Deferred tax assets	14	18,218	21,490
Reinsurance assets	15	711,236	680,273
Segregated fund assets of life insurance policyholders	16	466,424	499,502
Deferred acquisition costs	17	79,354	72,657
Taxation recoverable		118,820	138,205
Cash and cash equivalents	18	1,901,435	1,739,394
Cash and cash equivalents of mutual fund unit holders	18	124,326	161,050
Assets held for sale	19	694,516	1,000,356
Total assets		22,453,717	21,537,477
Equity and liabilities			
Share capital	20	2,036,381	2,008,338
Reserves	21	(344,604)	(264,360)
Retained earnings		1,547,684	1,410,625
Equity attributable to owners of the parent		3,239,461	3,154,603
Non-controlling interests in subsidiaries	22	(41,204)	39,668
Total equity		3,198,257	3,194,271
Liabilities			
Insurance contracts	23	12,525,872	11,610,115
Financial liabilities	24	1,762,481	1,426,580
Investment contract liabilities	25	1,609,081	1,538,945
Third party interests in mutual funds	26	1,051,040	1,085,343
Pension plan liabilities	12	110,749	34,860
Segregated fund liabilities of life insurance policyholders	16	466,424	499,502
Post retirement medical benefit obligations	27	98,869	60,923
Deferred tax liabilities	14	193,752	198,928
Provision for taxation		63,061	56,463
Other liabilities	28	688,320	831,191
Liabilities related to assets held for sale	19	685,811	1,000,356
Total liabilities		19,255,460	18,343,206
Total equity and liabilities		22,453,717	21,537,477

The accompanying notes form an integral part of these consolidated financial statements. On 15 March 2013, the Board of Directors of Guardian Holdings Limited authorised these financial statements for issue.

Director **Director**

GUARDIAN HOLDINGS LIMITED

Consolidated Statement of Income

Expressed in Trinidad & Tobago Dollars • For the year ended December 31, 2012

	Notes	2012 $'000	2011 $'000
Insurance activities			
Insurance premium income	29 (a)	4,354,178	3,952,606
Insurance premium ceded to reinsurers	29 (b)	(1,210,306)	(1,067,746)
Reinsurance commission income		141,700	140,171
		3,285,572	3,025,031
Change in "Value of inforce life insurance business"	13	158,266	70,272
Net underwriting revenue		3,443,838	3,095,303
Policy acquisition expenses	30	(523,333)	(513,684)
Net insurance benefits and claims	31	(2,391,512)	(2,221,411)
Underwriting expenses		(2,914,845)	(2,735,095)
Net result from insurance activities		528,993	360,208
Investing activities			
Investment income	32	838,542	832,045
Net realised gains on financial instruments	33	7,347	83,872
Net fair value gains	34	44,994	83,536
Fair value adjustment on Pointe Simon investment	34	(149,752)	–
Fee income	35	41,340	44,464
Other income	36	72,276	92,008
Investment contract benefits		(82,198)	(79,997)
Net income from investing activities		772,549	1,055,928
Net income from all activities		1,301,542	1,416,136
Operating expenses	37	(789,016)	(729,204)
Finance charges	38	(119,460)	(110,044)
Operating profit		393,066	576,888
Share of profit/(loss) of associated companies	8	21,268	(25,005)
Profit before taxation		414,334	551,883
Taxation	39	(113,518)	(87,148)
Profit after taxation		300,816	464,735
Amount attributable to participating policyholders	23.1(d)	(10,004)	(8,716)
Profit from continuing operations		290,812	456,019
Net loss on discontinued operations	19	(17,942)	(209,909)
Profit for the year		272,870	246,110
Loss attributable to non-controlling interests		79,662	14,993
Profit attributable to equity holders of the parent		352,532	261,103
Earnings per share			
- Basic - for profit attributable to ordinary equity holders of the parent	40	$ 1.52	$ 1.13
- Diluted - for profit attributable to ordinary equity holders of the parent	40	$ 1.42	$ 1.10
Earnings per share for continuing operations			
- Basic - for profit attributable to ordinary equity holders of the parent	40	$ 1.60	$ 2.04
- Diluted - for profit attributable to ordinary equity holders of the parent	40	$ 1.49	$ 1.98

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

Consolidated Statement of Comprehensive Income

Expressed in Trinidad & Tobago Dollars • For the year ended December 31, 2012

	2012 $'000	2011 $'000
Profit for the year	272,870	246,110
Other comprehensive income/(loss)		
Exchange differences on translating foreign operations	(78,161)	(17,036)
Gains on property revaluation	4,501	1,926
Actuarial losses on post employment benefits	(98,995)	(60,743)
Other reserve movements	(4,519)	934
Income tax credit/(charge) relating to components of other comprehensive income	1,915	(580)
Other comprehensive loss for the period, net of tax	(175,259)	(75,499)
Total comprehensive income for the period, net of tax	97,611	170,611
Comprehensive loss attributable to non controlling interests	79,792	50,186
Comprehensive income attributable to equity holders of the parent	177,403	220,797

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

GUARDIAN HOLDINGS LIMITED

Consolidated Statement of Changes in Equity

Expressed in Trinidad & Tobago Dollars • For the year ended December 31, 2012

	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 2012	2,008,338	(264,360)	1,410,625	3,154,603	39,668	3,194,271
Unallocated shares movement (Note 20)	15,006	–	–	15,006	–	15,006
Total comprehensive income/(loss)	–	(72,224)	249,627	177,403	(79,792)	97,611
Transfer to/from retained earnings	–	(8,020)	8,020	–	–	–
Share option scheme						
- value of services provided (Note 20)	13,037	–	–	13,037	–	13,037
Dividends (Note 41)	–	–	(120,588)	(120,588)	(1,080)	(121,668)
Balance at 31 December 2012	2,036,381	(344,604)	1,547,684	3,239,461	(41,204)	3,198,257
At 1 January 2011	2,003,470	(249,587)	1,285,362	3,039,245	91,079	3,130,324
Unallocated shares movement (Note 20)	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 41)	–	–	(110,906)	(110,906)	(1,225)	(112,131)
Balance at 31 December 2011	2,008,338	(264,360)	1,410,625	3,154,603	39,668	3,194,271

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

Consolidated Statement of Cash Flows

Expressed in Trinidad & Tobago Dollars • For the year ended December 31, 2012

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Profit before taxation from continuing operations		414,334	551,883
Loss before taxation from discontinued operations	19	(17,942)	(209,909)
Adjustment for specific items included on the accruals basis:			
- Finance charges		119,460	110,044
- Investment income		(838,542)	(857,053)
Adjustment for non-cash items	42	81,256	(158,577)
Interest received		774,736	808,095
Dividends received		31,258	36,133
Operating profit before changes in operating assets/liabilities		564,560	280,616
Net increase in insurance liabilities		712,637	155,142
Net increase in reinsurance assets		32,980	11,941
Net increase in investment contracts		70,136	83,765
Purchase of financial assets		(2,283,509)	(3,088,106)
Proceeds from sale of other financial assets		1,791,175	2,887,594
Purchase of / additions to investment properties		(84,265)	(201,376)
Proceeds from sale of investment property		1,153	1,184
Net (increase)/decrease in loans and receivables		(98,866)	41,873
Net (increase)/decrease in other operating assets/liabilities		(198,926)	180,736
Cash provided by operating activities		507,075	353,369
Interest paid		(141,559)	(108,045)
Net taxation paid		(86,054)	(120,251)
Net cash provided by operating activities		279,462	125,073
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired		(313,963)	–
Additional investment in associated company		–	(4,688)
Proceeds on sale of associated companies		–	116,851
Purchase of property, plant and equipment	5	(39,904)	(32,609)
Proceeds on sale of property, plant and equipment		704	363
Purchase of intangible assets		(294)	(1,846)
Net cash (used in)/provided by investing activities		(353,457)	78,071
Cash flows from financing activities			
Proceeds from borrowings		562,332	1,309,355
Repayments of borrowings		(263,092)	(1,169,174)
Dividends paid to equity holders of the parent	41	(120,588)	(110,906)
Dividends paid to non-controlling interests		(1,080)	(1,225)
Redemptions from mutual funds		(420,363)	(689,041)
Subscriptions to mutual funds		428,516	756,457
Net cash provided by financing activities		185,725	95,466
Net increase in cash and cash equivalents	18	111,730	298,610

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

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.

2.1 Basis of preparation

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.

(a) New standards and amendments/revisions to published standards and interpretations effective in 2012

The following amendments to published standards are mandatory for the Group's accounting periods beginning on or after 1 January 2012:

IFRS 7 Financial Instruments: Disclosures (Amendment)

The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets, when:

- Financial assets are derecognised in their entirety, but the entity has a continuing involvement in them (e.g., options or guarantees on the transferred assets)
- Financial assets are not derecognised in their entirety

The amendment promotes transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. The amendment did not have any impact on the financial position, performance or disclosures of the Group.

IAS 12 Income taxes (Amendment) - Deferred Taxes : Recovery of Underlying Assets

The amendment to IAS 12 introduces a rebuttable presumption that deferred tax on investment properties measured at fair value will be recognised on a sale basis, unless an entity has a business model that would indicate the investment property will be consumed in the business. If consumed, an own use basis must be adopted. The amendment also introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis. As a result of this amendment, SIC-21 Income Taxes - Recovery of Revalued Non-Depreciable Assets has been withdrawn. The amendment did not have any impact on the financial position or performance of the Group.

2. Significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) New standards and amendments/revisions to published standards and interpretations effective in 2012 but not applicable to the Group

The following new and revised IFRS that has been issued does not apply to the Group:

- 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

(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 2012 or 1 January 2013. These changes are currently being evaluated by Management.

- 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 1 Government Loans - Amendments to IFRS 1 - Effective 1 January 2013
- IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 - Effective 1 January 2013
- IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements - Effective 1 January 2013
- IFRS 11 Joint Arrangements, IAS 28 Investments and 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
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine - Effective 1 January 2013
- Annual Improvements to IFRSs 2009 - 2011 cycle - Effective 1 January 2013:
  - IFRS 1 First-time Adoption of International Financial Reporting Standards - Repeated application of IFRS 1 and borrowing costs
  - IAS 1 Presentation of Financial Statements - Clarification of requirements for comparative information
  - IAS 16 Property Plant and Equipment - Classification of servicing equipment
  - IAS 32 Financial Instruments, Presentation - Tax effect of distributions to holders of equity instruments
  - IAS 34 Interim Financial Reporting - Interim financial reporting and segment information for total assets and liabilities
- IAS 32 Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 - Effective 1 January 2014
- IFRS 9 Financial Instruments - Classification and Measurement - Effective 1 January 2015

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.

2. Significant accounting policies (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

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 recognised 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 48.

(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 amortised. The consolidated income statement reflects the share of the results of operations of the associates. When there has been a change recognised directly in the equity of the associates, the Group recognises 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 recognise 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 recognises the amount in the consolidated income statement. A listing of the Group's associates is set out in Note 48.

(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 Limited, in which it also has a beneficial ownership interest. These funds have been consolidated in these financial statements in accordance with IAS 27.

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 organised 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. Significant accounting policies (continued)

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 recognised in the consolidated income statement.

(c) Group companies

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 recognised 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 recognised 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.

Subsequent costs are included in the asset's carrying amount or recognised 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 recognised 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

2. Significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

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 valuators. Investment properties are not subject to depreciation. Any appreciation or diminution in value is recognised 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 recognised in equity as a revaluation of property. However, if a fair value gain reverses a previous impairment loss, the gain is recognised 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 properties for development and sale. These balances are carried at the lower of cost and net realisable values.

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 amortisation. Amortisation 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.

2. Significant accounting policies (continued)

2.7 Intangible assets (continued)

(c) Computer software and website development costs

Acquired computer software licenses and website development costs are capitalised 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 recognised as intangible assets. These costs are amortised over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised 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 recognised 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 recognising 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.

  These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are remeasured at fair value. Fair value adjustments and realised gain and loss are recognised 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 recognised 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 amortised cost, using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process.

2. Significant accounting policies (continued)

2.8 Financial assets (continued)

(d) Loans and receivables

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 recognised 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 amortised cost, using the effective interest rate method. Gains and losses are recognised in the consolidated income statement when the investments are derecognised or impaired, as well as through the amortisation process.

(e) Properties for development and sale

Properties under construction that are intended for sale, are classified as properties for development and sale. These balances are carried at the lower of cost and net realisable 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 derecognised 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 recognised 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.

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. Significant accounting policies (continued)

2.9 Impairment of assets

(a) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on assets carried at amortised 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 recognised 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, recognised 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 recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised 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 recognised 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 recognised 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 recognised. 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 recognised for the asset in prior years. Such reversal is recognised 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 realised and unrealised gains and losses accrue directly to the policyholders.

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 realised 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. Significant accounting policies (continued)

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 recognised amounts and there is an intention to settle on a net basis, or to realise 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) realised and/or unrealised 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.

(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.

2. Significant accounting policies (continued)

2.14 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(i) Short-term insurance contracts (continued)

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 on 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 recognised 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 recognised 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 recognised as revenue when they become payable by the policyholder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when incurred.

A liability for policyholders' benefits that are expected to be incurred in the future is recorded when the premiums are recognised. 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.

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)

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

Interest sensitive insurance contracts

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 recognised as an expense in the consolidated income statement.

(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.

2. Significant accounting policies (continued)

2.14 Insurance and investment contracts (continued)

(b) Recognition and measurement (continued)

(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 recognised 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 recognised 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 recognised in the financial statements in the year in which they have been notified.

Differences between the estimated claims and subsequent settlements are recognised 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 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 recognised as expenses when incurred.

(g) Liability adequacy test

At each consolidated statement of financial position date, the Group assesses whether its recognised 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 recognised in the consolidated income statement and the amount of the relevant insurance liabilities is increased.

2. Significant accounting policies (continued)

2.14 Insurance and investment contracts (continued)

(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 recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well 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 recognised 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 recognises that impairment loss in the consolidated income statement.

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

Receivables and payables are recognised 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 recognises 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 recognised 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.

2.16 Derivative financial instruments

Derivatives are initially recognised 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. Realised and unrealised gains and losses on trading derivatives are reflected in income and recognised as trading gains or losses.

2. Significant accounting policies (continued)

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 realised.

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 or liability recognised 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 unrecognised 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 recognised immediately through other comprehensive income 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 subsidiaries in Trinidad and 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 recognised immediately through other comprehensive income in the consolidated statement of comprehensive income. Independent qualified actuaries carry out a valuation of these obligations.

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 recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. 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 recognises 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 recognises an expense within staff costs when bonuses are awarded.

(e) Profit sharing and bonus plans

The Group recognises 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 recognises a provision where contractually obligated or where there is a past practice that has created a constructive obligation.

2.19 Provisions

Provisions are recognised 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 recognised 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 recognised 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 recognised as follows:

(a) Premium income

Premium income is recognised 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 recognised using the effective interest method. Rental income is recognised in the consolidated income statement on the accrual basis. Dividend income is recognised when the right to receive payment is established. Realised and unrealised investment gains and losses are recognised in the consolidated income statement in the period in which they arise.

(c) Commission income

Commissions are recognised 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 recognised in the period in which the services are rendered.

2. Significant accounting policies (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 recognised 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 recognised 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 recognised 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 recognised as an expense in the period in which they are incurred except to the extent that they are capitalised 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

(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.

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	Negative effect on consolidated income	
		2012	2011
		$'000	$'000
For the Trinidadian life insurance subsidiaries:			
Variable			
Worsening of mortality	+ 1.0%	8,373	4,854
Improvement of annuitant mortality	+ 0.5%	5,299	6,771
Lowering of investment returns	- 1.0%	74,552	45,247
Worsening of base renewal expense level	+ 5.0%	18,714	15,933
Worsening of expense inflation rate	+ 1.0%	22,966	26,881
For the Jamaican life insurance subsidiary:			
Variable			
Worsening of mortality	+ 10.0%	7,214	7,423
Lowering of investment returns	- 2.0%	131,682	132,338
Worsening of base renewal expense level	+ 5.0%	4,604	4,266
Worsening of expense inflation rate	+ 1.0%	22,167	20,439

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			
	2012		2011	
	$'000	$'000	$'000	$'000
For the Trinidadian subsidiaries:				
Decrease/(increase) in market yields (+/- 1%)	(215,445)	236,502	(199,969)	216,470

(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 recognised 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 recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(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 not amortised cost. If the entire class of held to maturity investments is tainted, the carrying value would increase by $670 million as at 31 December 2012 (2011: increase of $567 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) Post employment benefits

In conducting valuation exercises to measure the effect of all post employment benefit plans throughout the Group, the company's independent actuaries use judgement and assumptions in determining discount rates, salary increases, pension increases, health care costs and rates of return on the assets of the Plans. These are detailed in Note 12 and Note 27.

4. Management of insurance and financial risk

The Group issues contracts that transfer insurance risk or financial risk or both. This section summarises 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.

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)

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.

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.

4. Management of insurance and financial risk (continued)

4.1.2 Short duration life insurance contracts (continued)

(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 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.

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 analysed separately for subsidence and non-subsidence claims. The development of large losses/catastrophes is analysed 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 minimise its exposure to mortality risk.

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 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.

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:

	2012 - Total benefits insured			
	Before reinsurance		After reinsurance	
Benefits assured per life $'000	**TT$'000**	**%**	**TT$'000**	**%**
J$1,000 - 5,000 (TT$70 - TT$350)	11,928,033	87.3%	11,843,451	92.1%
J$5,001 - 10,000 (TT$350 - TT$699)	1,030,742	7.5%	792,149	6.2%
J$10,001 - 15,000 (TT$699- TT$1,049)	238,518	1.7%	114,325	0.9%
J$15,001 - 20,000 (TT$1,049 - TT$1,398)	162,544	1.2%	54,523	0.4%
J$20,001 and over (TT$1,398 and over)	316,790	2.3%	52,050	0.4%
Total	13,676,627	100.0%	12,856,498	100.0%

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

	2011 - Total benefits insured			
	Before reinsurance		After reinsurance	
Benefits assured per life $'000	**TT$'000**	**%**	**TT$'000**	**%**
J$1,000 - 5,000 (TT$70 - TT$350)	11,984,753	87.2%	11,889,745	92.3%
J$5,001 - 10,000 (TT$350 - TT$699)	1,028,007	7.5%	780,066	6.1%
J$10,001 - 15,000 (TT$699- TT$1,049)	234,304	1.7%	107,977	0.8%
J$15,001 - 20,000 (TT$1,049 - TT$1,398)	163,556	1.2%	54,520	0.4%
J$20,001 and over (TT$1,398 and over)	330,028	2.4%	53,760	0.4%
Total	13,740,648	100.0%	12,886,068	100.0%

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:

	2012 - Total benefits insured			
	Before reinsurance		After reinsurance	
Benefits assured per life $'000	**TT$'000**	**%**	**TT$'000**	**%**
0 - 250 (TT$)	12,044,979	30.2%	11,448,118	45.6%
250-500 (TT$)	4,145,729	10.4%	3,467,767	13.8%
500 -1,000 (TT$)	11,604,652	29.2%	7,315,492	29.1%
1,000 - 3,000 (TT$)	9,497,467	23.9%	2,686,869	10.7%
More than 3,000 (TT$)	2,501,658	6.3%	204,479	0.8%
Total	39,794,485	100.0%	25,122,725	100.0%

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

	2011 - Total benefits insured			
	Before reinsurance		After reinsurance	
Benefits assured per life $'000	**TT$'000**	**%**	**TT$'000**	**%**
0 - 250 (TT$)	11,874,939	32.2%	11,259,232	43.3%
250 - 500 (TT$)	3,890,398	10.5%	3,231,386	12.5%
500 -1,000 (TT$)	10,403,168	28.2%	7,158,911	27.6%
1,000 - 3,000 (TT$)	8,435,437	22.9%	3,595,373	13.9%
More than 3,000 (TT$)	2,284,152	6.2%	688,364	2.7%
Total	36,888,094	100.0%	25,933,266	100.0%

For the Dutch Caribbean life insurance subsidiaries:

	2012 - Total benefits insured			
	Before reinsurance		After reinsurance	
Benefits assured per life $'000	**TT$'000**	**%**	**TT$'000**	**%**
NAF$0 - 500 (TT$0 - TT$1,769)	2,612,659	88.3%	2,484,816	97.6%
NAF$501 - 1,000 (TT$1,769 - TT$3,538)	219,932	7.4%	51,539	2.0%
NAF$1,001 - 1,500 (TT$3,538 - TT$5,307)	83,586	2.8%	9,165	0.4%
NAF$1,501 - 2,000 (TT$5,307 - TT$7,075)	16,293	0.6%	–	0.0%
More than NAF$2,000 (TT$7,075)	25,956	0.9%	–	0.0%
Total	2,958,426	100.0%	2,545,520	100.0%

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

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 Dutch Caribbean life insurance subsidiaries: (continued)

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

For the Jamaican life insurance subsidiary:

	Total annuities payable per annum			
	2012		2011	
Annuity payable per annum per life $'000	TT$'000	%	TT$'000	%
J$ 0 - 200,000 (TT$0 - TT$13,980)	47,560	29.7%	41,897	30.3%
J$200,001 - 300,000 (TT$13,980 - TT$20,970)	17,851	11.2%	17,209	12.4%
J$300,001 - 400,000 (TT$20,970 - TT$27,960)	13,330	8.3%	11,048	8.0%
J$400,001 - 500,000 (TT$27,960 - TT$34,950)	10,388	6.5%	9,336	6.7%
More than J$500,000 (More than TT$34,950)	70,862	44.3%	59,050	42.6%
Total	159,991	100.0%	138,540	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			
	2012		2011	
Annuity payable per annum per life $'000	TT$'000	%	TT$'000	%
0 - 5,000 (TT$)	6,590	7.1%	6,136	7.3%
5,001 - 10,000 (TT$)	13,631	14.8%	20,926	25.0%
10,001 - 20,000 (TT$)	22,788	24.7%	12,399	14.8%
More than 20,000 (TT$)	49,190	53.4%	44,310	52.9%
Total	92,199	100.0%	83,771	100.0%

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

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 Dutch Caribbean life insurance subsidiaries:

	Total annuities payable per annum			
	2012		2011	
	TT$'000	%	TT$'000	%
Annuity payable per annum per life				
$'000				
NAF$0 - 10 (TT$0 - TT$35)	1,833	11.4%	1,573	12.0%
NAF$11 - 20 (TT$35 - TT$71)	3,986	24.9%	2,993	22.8%
NAF$21 - 30 (TT$71 - TT$106)	2,559	16.0%	2,208	16.9%
NAF$31 - 40 (TT$106 - TT$142)	2,656	16.6%	2,538	19.4%
NAF$41 - 50 (TT$142 - TT$177)	2,085	13.0%	1,294	9.9%
More than NAF$50 (More than TT$177)	2,907	18.1%	2,484	19.0%
Total	16,026	100.0%	13,090	100.0%

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

(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 resides. 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.

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

	2012 $'000	2011 $'000
Determination of liabilites		
For the Jamaican life insurance subsidiary:		
Changes in expense assumptions	2,164	1,633
Changes in lapse assumptions	16,608	2,228
Changes in investment returns	18,591	(8,051)
Other assumptions	(2,917)	(30,794)

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 2012	Change in liability 2012 $'000	Change in variable 2011	Change in liability 2011 $'000
For the Jamaican life insurance subsidiary:				
Worsening of mortality	+ 10.0%	71,696	+ 10.0%	66,995
Lowering of investment returns	- 2.0%	435,413	- 2.0%	446,471
Worsening of base renewal expense level	+ 5.0%	28,950	+ 5.0%	25,528
Worsening of expense inflation rate	+ 1.0%	86,442	+ 1.0%	75,320
For the Trinidadian life insurance subsidiaries:				
Worsening of mortality	+ 1.0%	1,513	+ 1.0%	1,343
Improvement of annuitant mortality	+ 0.5%	18,132	+ 0.5%	16,032
Lowering of investment returns	- 1.0%	76,782	- 1.0%	73,607
Worsening of base renewal expense level	+ 5.0%	395	+ 5.0%	314
Worsening of expense inflation rate	+ 1.0%	1,278	+ 1.0%	980
For the Dutch Caribbean life insurance subsidiaries:				
Worsening of mortality	+ 10.0%	52,486	+ 10.0%	46,475
Improvement of annuitant mortality	+ 10.0%	4,883	+ 10.0%	4,441
For the Jamaican life insurance subsidiary:				
Worsening of mortality	+ 10.0%	174	+ 10.0%	260
Lowering of investment returns	- 2.0%	3,717	- 2.0%	3,095
Worsening of base renewal expense level	+ 5.0%	652	+ 5.0%	665
Worsening of expense inflation rate	+ 1.0%	960	+ 1.0%	991
For the Dutch Caribbean life insurance subsidiaries:				
Worsening of mortality	+ 10.0%	13,330	+ 10.0%	12,036

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. Management of insurance and financial risk (continued)

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 summarises 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 categorised by currency positions expressed in TT$ equivalents.

	TT	US	NAF	JMD	GBP	Euro	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 31 December 2012								
Total assets	7,373,397	4,315,889	3,424,147	4,074,395	1,201,652	1,211,547	852,690	22,453,717
Total liabilities	8,733,717	1,597,279	3,879,973	3,163,408	1,087,497	241,599	551,987	19,255,460
	(1,360,320)	2,718,610	(455,826)	910,987	114,155	969,948	300,703	3,198,257
As at 31 December 2011								
Total assets	6,617,032	4,216,295	3,304,850	3,662,354	1,598,106	1,271,883	866,957	21,537,477
Total liabilities	7,787,512	1,583,979	3,675,127	2,797,383	1,597,386	329,018	572,801	18,343,206
	(1,170,480)	2,632,316	(370,277)	864,971	720	942,865	294,156	3,194,271

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.

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.1 Market risk (continued)

(a) Currency risk (continued)

Change in variables	US	NAF	JMD	GBP	Euro	Other
2012	0.3%	0.3%	2.4%	1.4%	7.5%	-4.0% to 5.2%
2011	-0.2%	-0.2%	0.9%	16.0%	6.6%	-6.8% to 1.8%

	US $'000	NAF $'000	JMD $'000	GBP $'000	Euro $'000	Other $'000	Total $'000
Impact on income statement							
2012	514	(2,004)	885	(171)	(2,691)	(6,496)	(9,963)
2011	3,112	–	64	(12,122)	51,213	90	42,357
Impact on equity							
2012	8,489	3,400	29,731	1,720	72,281	(321)	115,300
2011	11,691	(537)	8,687	14,793	8,298	(2,995)	39,937

(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 2012 for the Trinidad market (2011 - 1%), a 3% movement was used for 2012 for the Jamaica market (2011 - 2%) and a 0.75% movement for 2012 was used for the Dutch Caribbean (2011 - 0.1%). The effect of an increase in the above rates would result in a decrease in the consolidated income statement and equity of $239,953,000 for 2012 (2011: decrease of $187,594,000). The effect of a decrease in the above rates would result in an increase in the consolidated income statement and equity of $237,585,000 for 2012 (2011: increase of $187,610,000).

(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.

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, a 5% movement in prices of local equities was used for 2012 for the Trinidad market (2011 - 8%), a 10% movement in prices of local equities was used for 2012 for the Jamaica market (2011 - 10%) and a 0.09% movement for 2012 was used for Dutch Caribbean (2011 - 0.6%). The effect of an increase / decrease in the above rates would result in an increase / decrease in the consolidated income statement and equity of $79,268,000 for 2012 (2011: $86,544,000).

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

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 analyse the reinsurance and financial assets and 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.

			Undiscounted cash flows		
As at 31 December 2012	**Carrying amount $'000**	**No stated maturity $'000**	**Less than one year $'000**	**One - five years $'000**	**Over five years $'000**
Reinsurance and financial assets					
Financial assets at fair value through profit and loss	5,236,280	1,300,877	996,372	1,028,906	1,910,125
Held to maturity financial assets	6,831,085	27,603	1,084,707	1,889,190	3,829,585
Financial assets of mutual fund unit holders	1,175,694	115,117	194,801	302,160	563,616
Loans and receivables	1,568,015	168,813	875,414	136,783	387,005
Long-term reinsurance assets	56,925	26,606	2,909	–	27,410
Short-term reinsurance assets	654,311	30,068	467,592	148,444	8,207
Cash and cash equivalents	1,901,435	–	1,901,435	–	–
Cash and cash equivalents of mutual fund unit holders	124,326	–	124,326	–	–
Segregated funds' assets	466,424	70,388	97,290	130,591	168,155
Total undiscounted assets	18,014,495	1,739,472	5,744,846	3,636,074	6,894,103
Insurance and financial liabilities					
Long-term insurance contracts	10,410,727	1,746,729	532,210	2,533,710	16,014,810
Short-term insurance contracts	2,115,145	31,541	1,609,873	428,855	44,876
Investment contracts	1,609,081	1,583,778	25,303	–	–
Medium term borrowings	1,389,867	–	158,254	906,264	1,090,499
Short-term borrowings	305,355	–	315,478	–	–
Derivative financial instruments	32,233	–	–	32,233	–
Mutual funds holders liabilities	1,051,040	1,051,040	–	–	–
Interest payable	35,026	–	35,026	–	–
Other liabilities	688,320	64,723	620,548	3,049	–
Segregated funds' liabilities	466,424	362,596	6,914	12,263	84,651
Total undiscounted liabilities	18,103,218	4,840,407	3,303,606	3,916,374	17,234,836
Liquidity gap	(88,723)		2,441,240	(280,300)	(10,340,733)

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.2 Liquidity risk (continued)

			Undiscounted cash flows		
As at 31 December 2011	**Carrying amount $'000**	**No stated maturity $'000**	**Less than one year $'000**	**One - five years $'000**	**Over five years $'000**
Reinsurance and financial assets					
Financial assets at fair value through profit and loss	4,777,184	1,147,083	749,650	976,938	1,903,513
Held to maturity financial assets	6,479,859	23,731	598,327	1,723,243	4,134,558
Financial assets of mutual fund unit holders	1,164,983	106,076	205,257	319,890	533,760
Loans and receivables	1,510,752	185,494	840,138	84,576	400,544
Long-term reinsurance assets	54,470	24,264	2,874	–	27,332
Short-term reinsurance assets	625,803	38,185	407,812	175,718	4,088
Cash and cash equivalents	1,739,394	–	1,739,394	–	–
Cash and cash equivalents of mutual fund unit holders	161,050	–	161,050	–	–
Segregated funds' assets	499,502	96,045	97,653	115,381	190,423
Total undiscounted assets	17,012,997	1,620,878	4,802,155	3,395,746	7,194,218
As at 31 December 2011					
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	–
Mutual fund holders liabilities	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 undiscounted liabilities	16,991,676	4,754,811	2,730,619	3,899,691	16,225,580
Liquidity gap	21,321		2,071,536	(503,945)	(9,031,362)

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

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.

As at 31 December 2012	Neither past due nor impaired $'000	Past due but not impaired $'000	Impaired $'000	Total $'000
Debt securities	9,112,845	62,948	8,451	9,184,244
Financial assets of mutual fund unit holders	1,056,893	–	3,795	1,060,688
Deposits with financial institutions (more than 90 days)	1,424,743	1,575	2,526	1,428,844
Other financial assets	60,164	–	–	60,164
Interest receivable	275,704	631	–	276,335
Loans and receivables	1,362,699	45,505	57,045	1,465,249
Reinsurance assets	711,236	–	–	711,236
Deferred acquisition costs	79,354	–	–	79,354
Cash and cash equivalents	2,025,353	408	–	2,025,761
	16,108,991	111,067	71,817	16,291,875
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

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.3 Credit risk (continued)

(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 issued credit rating.

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 BBB

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.

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.3 Credit risk (continued)

(b) Credit quality of financial assets (continued)

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

As at 31 December 2012	AAA $'000	AA $'000	A $'000	BBB $'000	Below BBB $'000	Not Rated $'000	Total 2012 $'000
Debt securities	55,486	364,779	5,385,984	600,115	2,428,257	278,224	9,112,845
Financial assets of mutual fund unit holders	5,799	–	613,906	253,767	172,140	11,281	1,056,893
Deposits with financial institutions (more than 90 days)	–	–	978,527	185,334	197,627	63,255	1,424,743
Other financial assets	–	5,085	12,835	8,614	–	33,630	60,164
Interest receivable	1,315	500	186,622	10,161	71,517	5,589	275,704
Loans and receivables	–	51	695,371	14,858	1,784	650,635	1,362,699
Reinsurance assets	–	6,156	480,033	267	–	224,780	711,236
Deferred acquisition costs	–	–	20,884	–	–	58,470	79,354
Cash and cash equivalents	–	110,954	665,384	617,214	83,184	548,617	2,025,353
	62,600	487,525	9,039,546	1,690,330	2,954,509	1,874,481	16,108,991
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 unit holders	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	15,037	608,559	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
	984,361	288,127	8,225,695	1,513,367	2,871,902	1,358,997	15,242,449

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

	Carrying value $'000				
As at 31 December 2012	**Less than 3 months**	**Between 3 and 6 months**	**Between 6 and 9 months**	**Between 9 and 12 months**	**More than 12 months**
Debt securities	61,879	652	–	–	417
Deposits with financial institutions (more than 90 days)	1,552	–	–	–	23
Interest receivable	608	–	–	–	23
Loans and receivables	21,373	14,975	7,405	1,951	(199)
Cash and cash equivalents	408	–	–	–	–
	85,820	15,627	7,405	1,951	264
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	–	–	–	–
	68,463	9,616	5,139	617	1,637

(d) Collateral held in respect of assets that are past due but not impaired

	Fair value of collateral held	
	2012 $'000	**2011 $'000**
Loans and receivables	1,430	1,430
	1,430	1,430

(e) Financial assets that are impaired

	Carrying value	
	2012 $'000	**2011 $'000**
Debt securities	8,451	1,911
Deposits with financial institutions (more than 90 days)	2,526	2,548
Loans and receivables	57,045	57,633
Financial assets of mutual fund unit holders	3,795	6,250
	71,817	68,342

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.3 Credit risk (continued)

(f) Allowance for impairment

	Premiums and reinsurance receivables $'000	Other loans and receivables $'000	Financial assets $'000	Total $'000
Balance at 1 January 2012	33,474	826	3,404	37,704
Exchange differences	(21)	–	(22)	(43)
Provision for loan impairment	171	–	–	171
Amounts written off during the year as uncollectible	(12,947)	(185)	(590)	(13,722)
Balance at 31 December 2012	20,677	641	2,792	24,110
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	33,474	826	3,404	37,704

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

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

As at 31 December 2012	Financial institutions $'000	Manu-facturing $'000	Real estate $'000	Wholesale & retail trade $'000	Public sector $'000	Other industries $'000	Individuals $'000	Total $'000
Debt securities	684,224	50,899	639	48,960	7,431,404	967,803	315	9,184,244
Financial assets of mutual fund unit holders	350,972	–	21,585	16,135	612,571	59,425	–	1,060,688
Deposits with financial institutions	1,419,784	–	–	–	829	8,231	–	1,428,844
Other financial assets	10,225	–	–	–	3,056	46,883	–	60,164
Interest receivable	121,590	116	–	15	143,413	11,200	1	276,335
Loans and receivables	12,052	–	159,439	–	29,230	926,491	338,037	1,465,249
Reinsurance assets	–	–	–	–	–	711,236	–	711,236
Deferred acquisition costs	–	–	–	–	–	79,354	–	79,354
Cash and cash equivalents	2,021,112	–	–	–	2,734	1,915	–	2,025,761
	4,619,959	51,015	181,663	65,110	8,223,237	2,812,538	338,353	16,291,875
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 unit holders	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	1,800,398	–	–	–	100,043	3	–	1,900,444
	4,195,801	41,223	256,162	33,692	7,768,641	2,761,289	339,455	15,396,263

4. Management of insurance and financial risk (continued)

4.2 Financial risk (continued)

4.2.4 Capital management

The Group's capital includes share capital, reserves and retained earnings.

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 summarises 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	Trans-Nemwil Insurance Grenada Ltd $'000	Guardian General Insurance Ltd $'000	Jamaica general insurance companies $'000	Jamaica life insurance company $'000	Trinidad life insurance companies $'000	Dutch Caribbean insurance companies $'000	Group $'000
2012								
Minimum regulatory capital	99,542	11,639	73,572	178,107	211,106	698,470	201,315	1,473,751
2011								
Minimum regulatory capital	119,714	11,743	71,842	39,285	204,783	621,144	189,685	1,258,196

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

Year ended 31 December 2012	Freehold and leasehold properties $'000	Office furniture and equipment $'000	Motor vehicles $'000	Work in progress $'000	Total $'000
Opening net book amount	398,606	90,477	10,534	1,658	501,275
Exchange rate adjustments	(7,301)	(1,153)	(363)	(18)	(8,835)
Revaluation surplus	4,958	–	–	–	4,958
Additions	9,275	24,639	3,433	2,557	39,904
Assets on acquisition of subsidiary	698	3,380	612	–	4,690
Disposals and adjustments	(1,415)	(1,090)	(745)	(33)	(3,283)
Transfers	(124)	124	–	–	–
Depreciation charge	(11,476)	(33,788)	(3,559)	–	(48,823)
Closing net book amount	393,221	82,589	9,912	4,164	489,886
At 31 December 2012					
Cost or valuation	444,134	409,961	21,716	4,164	879,975
Accumulated depreciation	(50,913)	(327,372)	(11,804)	–	(390,089)
Closing net book amount	393,221	82,589	9,912	4,164	489,886
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)
Transfers	–	–	–	–	–
Transfer from investment property	4,414	–	–	–	4,414
Depreciation charge	(12,028)	(32,614)	(3,633)	–	(48,275)
Closing net book amount	398,606	90,477	10,534	1,658	501,275
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	398,606	90,477	10,534	1,658	501,275

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	-	September 2012
Bancassurance Caribbean Limited	-	September 2012
Guardian Life Limited	-	December 2012
Fatum Holding N.V.	-	November 2012
Guardian General Insurance Limited	-	October 2012
Guardian Shared Services Limited	-	September 2012

Valuations were made on the basis of open market value by external independent valuators. All valuators are accredited in the territory that they serve, specialising in the valuation of commercial, residential and mixed use properties. The valuations performed by the valuer are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property.

Depreciation expense of $48,823,000 (2011 - $48,275,000) has been charged in other operating expenses.

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

	2012 $'000	2011 $'000
Cost	363,648	329,923
Accumulated depreciation	(55,638)	(48,010)
Net book amount	308,010	281,913

6. Investment properties

Balance at beginning of year	1,120,431	905,507
Exchange rate adjustments	(21,080)	(160)
Additions	84,265	201,376
Fair value adjustment on Pointe Simon (Note 34)	(133,354)	–
Fair value gains on other investment properties (Note 34)	7,780	23,088
Disposals	(1,526)	(1,466)
Re-classification to fixed assets	–	(4,414)
Fair value adjustments directly related to the unit linked funds	(50)	(3,500)
Balance at end of year	1,056,466	1,120,431
Rental income	23,698	29,805
Direct operating expenses incurred in respect of investment property that generated rental income during the period	2,945	2,974
Direct operating expenses incurred in respect of investment property that did not generate rental income during the period	262	375

6. Investment properties (continued)

The Group has both commercial and residential investment properties in the following territories: Jamaica, Barbados, Trinidad & Tobago, Grenada and Martinique.

Valuations are conducted by external independent valuators. All valuators are accredited in the territory that they serve specialising in the valuation of commercial, residential and mixed use properties.

Residential Properties are mainly revalued using the comparable sales approach which estimates the fair value based on sale prices of properties of similar nature or in similar locations with price adjustments being made for any notable differences between the sample and subject properties.

Commercial Properties are primarily valued using the income and sales comparison approaches which involves determining the value of the properties by applying an appropriate valuation model to convert the expected future cash flows into present values. Discount rates applied to the model throughout the Group range from 7.0% to 9.0% (2011: 8.8% to 9.5%) as deemed most appropriate by the valuators in the respective territories.

No investment property in the group is subject to any liens or mortgages and the Group has no curtailments with regard to the transfer, resale or other use of its investment properties. The Group is not under any contractual obligation with regard to significant development, enhancement, repair or maintenance of any investment properties .

Included in investment properties is $527,321,000 (2011:$612,426,000) relating to Pointe Simon which is currently under construction.

7. Intangible assets

	Goodwill $'000	Other $'000	Total $'000
Year ended 31 December 2012			
Balance at beginning of year	251,436	2,842	254,278
Exchange rate adjustments	–	(149)	(149)
Acquisition of subsidiary companies (Note 47)	109,868	3,772	113,640
Additions	–	294	294
Amortisation	–	(1,062)	(1,062)
Balance at end of year	361,304	5,697	367,001
At 31 December 2012			
Cost	361,304	19,314	380,618
Accumulated amortisation	–	(13,617)	(13,617)
Net book value	361,304	5,697	367,001
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
Amortisation	–	(1,041)	(1,041)
Balance at end of year	251,436	2,842	254,278
At 31 December 2011			
Cost	251,436	16,329	267,765
Accumulated amortisation	–	(13,487)	(13,487)
Net book value	251,436	2,842	254,278

7. Intangible assets (continued)

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 were based on financial budgets approved by senior management with a growth assumption applied covering a five year period.

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

	2012 $'000	2011 $'000
Guardian General Insurance Limited	97,459	97,459
Guardian Insurance Limited	153,977	153,977
Globe Holdings Limited (Note 47)	33,723	–
Thoma Exploitatie B.V. (Note 47)	76,145	–
	361,304	251,436

For Guardian Insurance Limited, discount rates of 11.7% and 15.5% were used for the Trinidad based (Guardian Life of the Caribbean Limited) and Jamaica based (Guardian Life Limited) subsidiaries respectively. Management's estimated growth rates used in the cash flow projections were 5% for Trinidad and 3% for Jamaica.

For Guardian General Insurance Limited a discount rate of 11.9% was used and management's estimated growth rate is 3%.

Based on the results of the above review, no impairment expense was required for goodwill.

Globe Holdings Limited and Thoma Exploitatie B.V. were acquired during the year and based on management's review, no impairment expense was required for the goodwill.

8. Investment in associated companies

	2012 $'000	2011 $'000
Balance at beginning of year	202,010	276,847
Exchange rate adjustments	40	3,958
Transfer to assets held for sale	(8,705)	–
Impairment of associated company	(3,285)	–
Loans to associates	202	–
Share of profit/(loss) after tax	21,268	(25,005)
Dividends received	(5,760)	(15,740)
Reserve and other movements	465	450
Book value of associated company disposed of	–	(38,500)
Balance at end of year	206,235	202,010

None of the Group's associated companies are publicly quoted.

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 profit/(loss) after tax $'000	Interest held %
RoyalStar Assurance (Bahamas) Limited	101,981	44,481	103,841	5,509	25.0
Ocho Rios Beach Resorts Limited	–	–	–	(315)	24.0
RGM Limited	300,867	156,190	50,769	15,284	33.3
Servus Limited	8,244	4,186	25,601	790	50.0
Total at the end of 2012	411,092	204,857	180,211	21,268	
Name					
Jubilee Group Holdings Limited	–	–	–	(22,218)	0.0
RoyalStar Assurance (Bahamas) Limited	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	33.0
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)	

Effective 31 August 2011, the Group disposed of its 39.1% holding in Jubilee Group Holdings Limited (Note 33).

In January 2013, the Group accepted an offer to sell its investment in Ocho Rios Beach Resorts Limited and on this basis has reclassified its interest as held for sale (Note 19).

9. Financial assets

	2012		2011	
	Carrying value $'000	Fair value $'000	Carrying value $'000	Fair value $'000
Financial assets	12,067,365	12,737,560	11,257,043	11,823,878
Financial assets of mutual fund unit holders	1,175,694	1,175,694	1,164,983	1,164,983
	13,243,059	13,913,254	12,422,026	12,988,861
Financial assets at fair value through profit or loss	6,411,974	6,411,974	5,942,167	5,942,167
Held to maturity financial assets	6,831,085	7,501,280	6,479,859	7,046,694
Total financial assets	13,243,059	13,913,254	12,422,026	12,988,861

9. Financial assets (continued)

	Carrying value	
	2012	2011
Financial assets at fair value through profit or loss	**$'000**	**$'000**
Equity securities:		
- Listed	1,312,658	1,187,088
- Unlisted	47,003	40,506
	1,359,661	1,227,594
Debt securities:		
- Government securities	2,767,702	2,359,867
- Debentures and corporate bonds	1,552,915	1,672,281
	4,320,617	4,032,148
Deposits with financial institutions (more than 90 days)	570,698	535,340
Other	60,164	52,616
	630,862	587,956
	6,311,140	5,847,698
Interest receivable	100,834	94,469
	6,411,974	5,942,167
Current	2,235,923	1,971,991
Non-current	4,176,051	3,970,176
	6,411,974	5,942,167

The carrying amount of financial assets above that were pledged as collateral for liabilities was $4,585,419,000 (2011: $4,403,759,000).

	2012		2011	
Held-to-maturity financial assets	**Carrying value $'000**	**Fair value $'000**	**Carrying value $'000**	**Fair value $'000**
Debt securities:				
- Government securities	5,203,622	5,842,202	5,121,861	5,672,964
- Debentures and corporate bonds	451,006	482,622	405,567	421,299
	5,654,628	6,324,824	5,527,428	6,094,263
Deposits with financial institutions (more than 90 days)	966,770	966,770	762,734	762,734
	6,621,398	7,291,594	6,290,162	6,856,997
Interest receivable	209,687	209,687	189,697	189,697
	6,831,085	7,501,281	6,479,859	7,046,694

	Carrying value	
	2012	2011
	$'000	**$'000**
Current	1,118,180	663,396
Non-current	5,712,905	5,816,463
	6,831,085	6,479,859

9. Financial assets (continued)

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 $'000	Held to maturity financial assets $'000	Total $'000
At beginning of 2012	5,847,698	6,290,162	12,137,860
Exchange differences	(12,097)	(77,524)	(89,621)
Additions	1,794,815	909,057	2,703,872
Disposals/maturities	(1,844,710)	(500,333)	(2,345,043)
Fair value net gains	217,130	36	217,166
Assets on acquisition of subsidiary companies	308,304	–	308,304
At the end of 2012	6,311,140	6,621,398	12,932,538
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 from assets held for sale	(218,219)	–	(218,219)
At the end of 2011	5,847,698	6,290,162	12,137,860

10. Loans and receivables

	2012		2011	
	Carrying value $'000	Fair value $'000	Carrying value $'000	Fair value $'000
Loans and receivables	1,568,015	1,568,015	1,510,752	1,510,752

10. Loans and receivables (continued)

	Carrying value	
	2012 $'000	**2011 $'000**
Debt securities:		
- Government securities	31,493	38,753
- Debentures and corporate bonds	92,591	101,260
	124,084	140,013
Premiums receivable	299,600	667,280
Due from reinsurers	108,933	147,233
Provision for impairment of premium and reinsurance receivables	(20,677)	(33,474)
Mortgages	395,407	418,097
Policy loans	62,868	67,102
Other loans and receivables	575,615	612,031
Provision for impairment of other loans and receivables	(641)	(826)
Transfer to assets held for sale	–	(531,129)
	1,421,105	1,346,314
Interest receivable	22,826	24,425
	1,568,015	1,510,752
Current	824,144	259,569
Non-current	743,871	1,251,183
	1,568,015	1,510,752

The carrying amount of loans and receivables above that was pledged as collateral for liabilities was $199,739,000 (2011: $228,216,000).

11. Properties for development and sale

	2012 $'000	**2011 $'000**
Balance at beginning of year	391,048	305,382
Exchange rate adjustments	4,713	(4,107)
Additions and other provisions	69,365	89,773
Provisions on properties for development and sale (Note 34)	(16,398)	–
	448,728	391,048

11. Properties for development and sale (continued)

Properties for development and sale comprise the Group's investment in one component of a mixed use commercial and residential urban re-development project in Fort De France, Martinique which is for sale. This is accounted for at the lower of cost or net realisable value. During the year the Group established a provision of $16,398,000 (2011: nil).

12. Pension plan assets/liabilities

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

	Pension plan asset		Pension plan liability		Net pension plan liability/asset	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Fair value of pension plan assets	347,630	313,994	353,515	312,958	701,145	626,952
Less: Present value of funded obligations	(266,712)	(233,307)	(463,262)	(346,764)	(729,974)	(580,071)
	80,918	80,687	(109,747)	(33,806)	(28,829)	46,881
Less: Present value of unfunded obligations	–	–	(1,002)	(1,054)	(1,002)	(1,054)
IAS 19 Consolidated statement of financial position assets/ (liabilities)	80,918	80,687	(110,749)	(34,860)	(29,831)	45,827

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

	2012 $'000	2011 $'000
Expected return on plan assets	38,547	38,465
Interest cost	(34,576)	(32,963)
Current service cost	(19,079)	(12,651)
Adjustment in value of recognisable assets	7,420	–
Effect of any curtailment or settlement	–	21,732
Net (loss)/gain for the year (Note 36)	(7,688)	14,583

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

Balance at beginning of year	626,952	577,197
Exchange rate adjustments	339	875
Expected return on plan assets	38,547	38,465
Benefit payments	(21,675)	(15,513)
Company contributions	8,111	5,036
Contributions by plan participants	950	769
Actuarial losses	47,921	20,123
Balance at end of year	701,145	626,952

12. Pension plan assets/liabilities (continued)

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

	2012 $'000	2011 $'000
Balance at beginning of year	581,125	490,469
Exchange rate adjustments	269	650
Current service cost	19,079	12,651
Interest cost	34,576	32,963
Past service cost	118	–
Contributions by plan participants	599	769
Actuarial losses	116,885	80,902
Curtailments	–	(21,766)
Benefits paid	(21,675)	(15,513)
Balance at end of year	730,976	581,125

The principal actuarial assumptions used for accounting purposes were:

	2012	2011
Discount rates	4.1% - 9.0%	4.5% - 6.0%
Future salary increases	2.5% - 6.0%	2.5% - 3.5%
Expected return on plan assets	4.1% - 6.0%	4.5% - 7.5%
Post retirement mortality	GAM 94/ US table GAM 83 GBM/GBV9500	PA90 ultimate/ US table GAM 83 GBM/GBV9095
Pre-retirement mortality	GAM 94	GAM 94
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 $43,662,000 (2011: $49,178,000)

	2012		2011	
	$'000	%	$'000	%
Pension plan assets are comprised as follows:				
Equity securities	463,843	66.2%	432,767	69.0%
Debt securities	105,373	15.0%	85,751	13.7%
Property	15,000	2.1%	14,000	2.2%
Other	116,929	16.7%	94,434	15.1%
	701,145	100.0%	626,952	100.0%

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.

12. Pension plan assets/liabilities (continued)

Expected contributions to post-employment benefit plans for the year ending 31 December 2013 are $23,561,000

As at 31 December	2012 $'000	2011 $'000	2010 $'000	2009 $'000	2008 $'000
Present value of defined benefit obligation	(729,974)	(580,071)	(489,572)	(449,930)	(373,255)
Fair value of plan assets	701,145	626,952	577,197	552,607	520,776
(Deficit)/surplus	(28,829)	46,881	87,625	102,677	147,521
Experience adjustments on plan liabilities	93,527	57,254	2,278	40,506	20,848
Experience adjustments on plan assets	39,082	20,123	(12,591)	(9,239)	(10,597)

13. Value of inforce life insurance business

	2012 $'000	2011 $'000
Balance at beginning of year	742,043	673,473
Exchange rate adjustments	(21,229)	(1,702)
Increase for the year (Note 42)	158,266	70,272
Balance at end of year	879,080	742,043
Changes in assumptions during the year:		
For the Jamaican life insurance subsidiary:		
Changes in expense assumptions	421	878
Changes in lapse assumptions	4,983	426
Changes in investment returns	5,658	(6,486)
Changes in other assumptions	(3,116)	6,906
Total change	7,946	1,724
For the Trinidad life insurance subsidiaries:		
Changes in expense assumptions	–	13,330
Changes in other assumptions	67,392	–
Total change	67,392	13,330

There were no changes in the assumptions used for the life insurance subsidiaries in the Dutch Caribbean (Fatum Holding N.V.).

14. Deferred taxation

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

	2012 $'000	2011 $'000
Deferred tax assets:		
- To be recovered after more than 12 months	14,128	15,183
- To be recovered within 12 months	4,090	6,307
	18,218	21,490
Deferred tax liabilities		
- Crystallising after more than 12 months	(192,791)	(186,878)
- Crystallising within 12 months	(961)	(12,050)
	(193,752)	(198,928)
Net deferred tax liability	(175,534)	(177,438)

14. Deferred taxation (continued)

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

The movement on the net deferred tax account is as follows:	2012 $'000	2011 $'000
Balance at beginning of year	(177,438)	(182,837)
Exchange rate adjustments	1,802	260
(Charge)/credit for the year (Note 39)	(4,362)	5,717
Tax charged to equity in respect of revaluation of properties	(395)	(579)
Acquisition of subsidiary	2,551	–
Other movements	2,308	1
Balance at end of year	(175,534)	(177,438)

The movement in the net 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	Acquisition of subsidiary $'000	Balance at Dec 2012 $'000
Future distributions	(135,672)	863	4,681	–	(2)	–	(130,130)
Zero coupon bonds	(13,567)	–	590	–	–	–	(12,977)
Pension plan assets	2,883	(7)	3	–	370	720	3,969
Accelerated tax depreciation	(17,458)	202	3,804	–	–	(11)	(13,463)
Tax losses carried forward	17,676	(107)	(9,209)	–	–	3,493	11,853
Investments at fair value through profit or loss	(3,256)	390	(3,502)	–	69	(1,652)	(7,951)
Revaluation of properties	(10,600)	461	66	(394)	–	–	(10,467)
Post retirement medical benefit obligation	–	–	154	–	1,871	–	2,025
Catastrophe reserve	(17,444)	–	(949)	–	–	–	(18,393)
	(177,438)	1,802	(4,362)	(394)	2,308	2,550	(175,534)

	Balance at beginning of year $'000	Exchange rate adjustment $'000	Credit/ (charge) for the year $'000	Revaluation of properties $'000	Other movements $'000	Acquisition of subsidiary $'000	Balance at Dec 2011 $'000
Future distributions	(143,763)	102	7,988	–	1	–	(135,672)
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)
	(182,837)	260	5,717	(579)	1	–	(177,438)

14. Deferred taxation (continued)

There are tax losses relating to overseas subsidiaries that are available for set off against future chargeable profits of $38,083,000 (2011 - $31,638,000). These tax losses expire over varying periods of up to nine years. For these balances, no deferred tax asset has been recognised 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

	2012 $'000	2011 $'000
This represents the Group's net contractual rights under reinsurance contracts:		
Long term insurance contracts:		
With fixed and guaranteed terms	35,993	35,663
Without fixed terms	20,932	18,807
	56,925	54,470
Short term insurance contracts:		
Claims reported and loss adjustment expenses (Note 23.1(e))	320,021	398,740
Claims incurred but not reported (Note 23.1(e))	30,686	41,662
Unearned premiums (Note 23.1(f))	303,604	254,800
Transfer to assets held for sale	–	(69,399)
	654,311	625,803
Total reinsurers' share of insurance liabilities	711,236	680,273
Current	418,812	363,202
Non-current	292,424	317,071
Total reinsurers' share of insurance liabilities	711,236	680,273

16. Segregated funds of life insurance policyholders

(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 Stabilisation 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.

	2012 $'000	2011 $'000
Investments:		
Government of Jamaica securities	291,921	324,484
Equity securities	67,017	92,888
Securities purchased under resale agreements	40,955	26,277
Unit trust	355	364
Investment properties	2,597	2,708
	402,845	446,721
Other assets	63,579	52,781
	466,424	499,502
Current	104,533	79,058
Non-current	361,891	420,444
	466,424	499,502

16. Segregated funds of life insurance policyholders (continued)

	2012 $'000	2011 $'000
(a) Assets of the segregated funds (continued)		
The related segregated funds' liability is disclosed as follows:		
Current	104,533	79,058
Non-current	361,891	420,444
	466,424	499,502
(b) Income from segregated funds' investments		
Government of Jamaica securities	18,654	42,762
Equity securities	2,224	20,668
Securities purchased under resale agreements	2,399	2,276
	23,277	65,706

17. Deferred acquisition costs

Short-term insurance contracts:		
Balance at beginning of year	72,657	369,624
Acquisition of subsidiary	6,166	–
Net exchange differences	(701)	(72,521)
Increase in the year	73,597	321,960
Release in the year	(72,365)	(370,007)
Transfer to assets held for sale	–	(176,399)
Balance at end of year	79,354	72,657
Current	79,354	72,657
Non-current	–	–
	79,354	72,657

18. Cash and cash equivalents

Cash and cash equivalents	1,901,435	1,739,394
Cash and cash equivalents in mutual funds	124,326	161,050
	2,025,761	1,900,444
Cash at bank and in hand	1,075,442	913,403
Short term deposits (90 days or less)	825,993	825,991
	1,901,435	1,739,394
Cash and cash equivalents in mutual funds	124,326	161,050
Bank overdraft (Note 24)	–	(568)
Net cash and cash equivalents	2,025,761	1,899,876
At beginning of year	1,899,876	1,625,938
Difference on retranslation of opening balance	(4,949)	(24,672)
Acquisition of subsidiary companies	19,104	–
	1,914,031	1,601,266
At end of year	2,025,761	1,899,876
Net increase in cash used in cash flow	111,730	298,610

18. Cash and cash equivalents (continued)

The interest rate on short term bank deposits held by subsidiaries ranged from 1.00% - 6.17% (2011: 0.79% – 9%).

The carrying amount of cash and cash equivalents pledged as collateral for financial liabilities was $22,835,000 as at 31 December 2012 (2011: $28,157,000).

19. Assets and liabilities held for sale

Assets and liabilities held for sale

In accordance with the requirements of IFRS 5, the Group classified its investment in Ocho Rios Beach Resorts Limited and its Lloyd's syndicate operations as "Assets held for sale" and "Liabilities related to assets held for sale". Details are as follows:

Ocho Rios Beach Resorts Limited

Under the terms of a Shareholders' Agreement dated 30 October 2000, the company invested US$2 million in the associated company, Ocho Rios Beach Resorts Limited (ORBL), representing the cost of 25,000 shares at US$1.00 each, issued at a premium of US$79.00 each. The associated company commenced operations in March 2002 and is unlisted.

At 30 June 2012, the Group made an impairment provision of 25% of the net asset value of its associate, ORBL based on the continued decline in revenue and share of profit due to the declining occupancy levels, debt servicing issues and a recent purchase offer made to the minority shareholders of US$60 per share. This offer was accepted on 8 January 2013 and on this basis the investment has been reclassified as held for sale in the consolidated statement of financial position.

Lloyd's Syndicates

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 2011 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. These results are presented below:

	2012 $'000	2011 $'000
Revenue	328,869	585,047
Expenses	(346,811)	(762,034)
Net loss on AIHL for the year	–	(20,213)
Impairment of AIHL	–	(12,709)
Net loss on discontinued operations	(17,942)	(209,909)

19. Assets and liabilities held for sale (continued)

The major classes of assets and liabilities classified as held for sale at 31 December 2012 are as follows:

	2012 $'000	2011 $'000
Assets held for sale		
Financial assets	221,436	218,219
Financial assets - interest receivable	3,566	5,210
Reinsurance assets	53,352	69,399
Deferred acquisition cost	123,074	176,399
Investment in associated company	8,705	–
Other assets	284,383	531,129
	694,516	1,000,356
Liabilities related to assets held for sale		
Short term insurance contracts	685,811	1,000,356
Net assets directly associated with disposal group held for sale	8,705	–
The net cash flows incurred by the disposal group are as follows:		
Operating	–	195,923
Investing	–	–
Net cash inflow	–	195,923

20. Share capital

Authorised

An unlimited number of ordinary shares of no par value
An unlimited number of preferred shares of no par value

Issued and fully paid		
231,899,986 ordinary shares of no par value (2011: 231,899,986 ordinary shares)	2,036,381	2,008,338

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 2012	231,055	1,952,550	55,788	2,008,338
Movement in unallocated shares	842	15,006	–	15,006
Executive share option plan: - value of services provided	–	–	13,037	13,037
Balance at 31 December 2012	231,897	1,967,556	68,825	2,036,381
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	231,055	1,952,550	55,788	2,008,338

20. Share capital (continued)

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):

	2012	2011
Total shares allocated to the plan	33,890	33,890
Issued pursuant to exercise of options	(9,586)	(9,586)
Outstanding options	(18,907)	(11,389)
Remaining shares allocated to plan in respect of which options have not been granted	5,397	12,915

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

	2012 Average exercise price	2012 Options (thousands)	2011 Average exercise price	2011 Options (thousands)
At beginning of year	$ 23.06	11,389	$ 27.10	6,386
Granted	$ 18.00	7,518	$ 18.00	5,085
Lapsed	–	–	$ 23.92	(82)
At end of year	$21.06	18,907	$23.06	11,389

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 and 2012 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 eighth 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) 2012	2011
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	1,398
2 Apr 2019	$19.99	1,511	1,511
31 Mar 2020	$24.51	1,694	1,694
5 Sep 2021	$18.00	5,085	5,085
12 Apr 2022	$18.00	7,518	–
		18,907	11,389

21. Reserves

	Property revaluation reserve $'000	Statutory reserves $'000	Translation reserves $'000	Total $'000
Balance at 1 January 2012	93,845	10,260	(368,465)	(264,360)
Other comprehensive income/(loss)	4,177	–	(76,401)	(72,224)
Transfer to/from retained earnings	–	2,304	(10,324)	(8,020)
Balance at 31 December 2012	98,022	12,564	(455,190)	(344,604)
Balance at 1 January 2011	92,498	8,655	(350,740)	(249,587)
Other comprehensive income/(loss)	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)

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 recognised in equity under the heading of revaluation surplus. However, the increase is recognised in the consolidated income statement to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised 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 recognised 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 recognised 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

	2012 $'000	2011 $'000
Long term insurance contracts:		
With fixed and guaranteed terms and without DPF (Note 23.1(a))	6,149,370	5,791,328
With fixed and guaranteed terms and with DPF (Note 23.1 (b))	58,015	65,372
Without fixed terms (Note 23.1(c))	3,740,578	3,251,544
	9,947,963	9,108,244
Participating policyholders' share of the surplus from long-term insurance business (Note 23.1(d))	462,764	455,666
	10,410,727	9,563,910
Short term insurance contracts:		
Claims reported and loss adjustment expenses (Note 23.1(e))	1,129,693	1,193,975
Claims incurred but not reported (Note 23.1(e))	152,551	107,763
Unearned premiums (Note 23.1(f))	832,901	744,467
	2,115,145	2,046,205
Total gross insurance liabilities	12,525,872	11,610,115
Current	1,587,851	1,434,361
Non-current	10,938,021	10,175,754
	12,525,872	11,610,115

23.1 Movements in insurance liabilities and reinsurance assets

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

At beginning of year	5,791,328	5,422,839
Valuation premiums received	310,026	253,267
Liabilities released for payments on death, surrender and other terminations in the year	(244,627)	(234,242)
Accretion of interest	202,899	190,855
Cash paid for claims settled in the year	(133,840)	(240,662)
Increase in liabilities	139,483	248,307
Other movements	166,526	153,326
Net exchange differences	(82,425)	(2,362)
At end of year	6,149,370	5,791,328

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

At beginning of year	65,372	69,488
Net exchange differences	(4,331)	(2,475)
Change in lapse rates	3	–
Change in interest rates	(770)	1,346
Change in expenses	39	(7)
Normal decrease due to the passage of time	(2,298)	(2,980)
At end of year	58,015	65,372

23. Insurance contracts (continued)

23.1 Movements in insurance liabilities and reinsurance assets (continued)

(c) Long term insurance contracts without fixed terms

	2012 $'000	2011 $'000
At beginning of year	3,251,544	2,850,935
Premiums received	743,050	630,120
Fees deducted from account balances	(245,511)	(206,397)
Liabilities released for payments on death, surrender and other terminations in the year	(269,506)	(309,244)
Changes in unit prices	239,320	250,586
Cash paid for claims settled in the year	(294,436)	(273,934)
Increase in liabilities	312,980	295,591
Other movements	2,876	13,849
Net exchange differences	261	38
At end of year	3,740,578	3,251,544

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

	2012 $'000	2011 $'000
At beginning of year	455,666	459,277
Surplus arising from operations	10,004	8,716
Translation reserve	(2,906)	(12,327)
At end of year	462,764	455,666

Short term insurance contracts:

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

	2012			2011		
Year ended 31 December	**Gross $'000**	**Reinsurance $'000**	**Net $'000**	**Gross $'000**	**Reinsurance $'000**	**Net $'000**
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
Total at beginning of year	1,301,738	(381,005)	920,733	2,347,945	(484,929)	1,863,016
Acquisition of subsidiary	112,322	(13,658)	98,664	–	–	–
Cash paid for claims settled in the year	(980,797)	107,349	(873,448)	(1,651,992)	142,862	(1,509,130)
Increase in liabilities	831,253	(55,916)	775,337	1,291,184	(104,135)	1,187,049
Net exchange differences	17,728	(7,477)	10,251	(45,176)	5,801	(39,375)
Transfer (to)/from liabilities held for sale	–	–	–	(640,223)	59,396	(580,827)
Total at end of year	1,282,244	(350,707)	931,537	1,301,738	(381,005)	920,733
Notified claims	1,129,693	(320,021)	809,672	1,193,975	(348,801)	845,174
Incurred but not reported	152,551	(30,686)	121,865	107,763	(32,204)	75,559
	1,282,244	(350,707)	931,537	1,301,738	(381,005)	920,733

23. Insurance contracts (continued)

23.1 Movements in insurance liabilities and reinsurance assets (continued)

(f) Provisions for unearned premiums

	2012			2011		
Year ended 31 December	**Gross $'000**	**Reinsurance $'000**	**Net $'000**	**Gross $'000**	**Reinsurance $'000**	**Net $'000**
Total at beginning of year	744,467	(244,798)	499,669	1,303,279	(225,481)	1,077,798
Acquisition of subsidiary	83,914	(50,285)	33,629	–	–	–
Increase in the period	753,412	(257,481)	495,931	1,223,224	(253,483)	969,741
Release in the period	(742,464)	242,953	(499,511)	(1,304,126)	225,393	(1,078,733)
Net exchange differences	(6,428)	6,007	(421)	(117,777)	(1,230)	(119,007)
Transfer (to)/from liabilities held for sale	–	–	–	(360,133)	10,003	(350,130)
Total at end of year	832,901	(303,604)	529,297	744,467	(244,798)	499,669

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 international property and casualty 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.

	Total $'000
Insurance claims - gross	
- By accident year	845,827
- By underwriting year	436,417
Total liability (Note 23.1 (e))	1,282,244
Insurance claims - net	
- By accident year	676,083
- By underwriting year	255,454
Total liability (Note 23.1 (e))	931,537

Insurance claims - gross

Accident year	**2008 $'000**	**2009 $'000**	**2010 $'000**	**2011 $'000**	**2012 $'000**	**Total $'000**
Estimate of ultimate claims costs:						
- at end of accident year	792,747	787,169	991,484	910,722	954,532	–
- one year later	735,241	737,815	945,450	881,503	–	–
- two years later	752,124	713,662	923,952	–	–	–
- three years later	748,377	707,755	–	–	–	–
- four years later	744,056	–	–	–	–	–
Current estimate of cumulative claims	744,056	707,755	923,952	881,503	954,532	4,211,798
Cumulative payments to date	(703,565)	(657,866)	(851,214)	(761,309)	(525,145)	(3,499,099)
Liability recognised in the consolidated statement of financial position	40,491	49,889	72,738	120,194	429,387	712,699
Liability in respect of prior years						133,128
Total liability						845,827

23. Insurance Contracts (continued)

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

Insurance claims - gross

Underwriting year	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	Total $'000
Estimate of ultimate claims costs:						
- at end of underwriting year	368,364	370,646	39,357	35,575	10,597	–
- one year later	661,708	721,559	48,408	43,604	–	–
- two years later	635,119	711,921	49,274	–	–	–
- three years later	628,870	701,222	–	–	–	–
- four years later	634,838	–	–	–	–	–
Current estimate of cumulative claims	634,838	701,222	49,274	43,604	10,597	1,439,535
Cumulative payments to date	(576,191)	(548,531)	(34,088)	(22,447)	(421)	(1,181,678)
Liability recognised in the consolidated statement of financial position	58,647	152,691	15,186	21,157	10,176	257,857
Liability in respect of prior years						178,560
Total liability						436,417

Insurance claims - net

Accident year

Estimate of ultimate claims costs:						
- at end of accident year	654,308	712,505	844,089	855,277	812,061	–
- one year later	616,230	677,497	776,727	748,209	–	–
- two years later	639,826	653,879	764,456	–	–	–
- three years later	634,321	639,838	–	–	–	–
- four years later	623,628	–	–	–	–	–
Current estimate of cumulative claims	623,628	639,838	764,456	748,209	812,061	3,588,192
Cumulative payments to date	(585,723)	(591,513)	(698,913)	(658,738)	(471,527)	(3,006,414)
Liability recognised in the consolidated statement of financial position	37,905	48,325	65,543	89,471	340,534	581,778
Liability in respect of prior years						94,305
Total liability						676,083

Insurance claims - net

Underwriting year

Estimate of ultimate claims costs:						
- at end of underwriting year	338,681	323,505	39,357	35,575	10,597	–
- one year later	609,870	629,540	48,408	43,604	–	–
- two years later	616,323	633,445	49,274	–	–	–
- three years later	619,483	646,571	–	–	–	–
- four years later	627,617	–	–	–	–	–
Current estimate of cumulative claims	627,617	646,571	49,274	43,604	10,597	1,377,663
Cumulative payments to date	(576,191)	(548,531)	(34,088)	(22,447)	(421)	(1,181,678)
Liability recognised in the consolidated statement of financial position	51,426	98,040	15,186	21,157	10,176	195,985
Liability in respect of prior years						59,469
Total liability						255,454

24. Financial liabilities

	2012		2011	
	Carrying value $'000	Fair value $'000	Carrying value $'000	Fair value $'000
Non-current portion of financial liabilities				
Medium-term borrowings (Note 24.1)	1,324,534	1,302,052	1,260,129	1,253,373
Derivative financial instrument	32,233	32,233	31,040	31,040
	1,356,767	1,334,285	1,291,169	1,284,413
Current portion of financial liabilities				
Medium-term borrowings	65,333	65,333	26,865	26,865
Short-term borrowings	305,355	305,355	75,235	75,235
Total current portion of borrowings (Note 24.1)	370,688	370,688	102,100	102,100
Bank overdraft (Note 18)	–	–	568	568
Interest payable	35,026	35,026	32,743	32,743
	405,714	405,714	135,411	135,411
Total	1,762,481	1,739,999	1,426,580	1,419,824

The derivative financial instrument relates to an interest rate swap that matures on 15 December 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 8.26% (2011: 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 (2011 - Nil).

24.1 Borrowings

	2012 $'000	2011 $'000
Parent company	1,335,925	1,093,295
Subsidiaries	359,297	268,934
	1,695,222	1,362,229
Current	370,688	102,100
Non-current	1,324,534	1,260,129
	1,695,222	1,362,229

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 comprise 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 Guardian Holdings Limited.

24. Financial liabilities (continued)

24.1 Borrowings (continued)

Parent Company (continued)

Facility 2 - $300 million

This is an unsecured 18 month fixed rate loan ending in December 2013. Interest is charged at 3.01% per annum payable semi-annually in arrears. The principal is to be repaid 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.

Loan 2 - J$1.8 billion

This is an unsecured fixed rate 7-year loan ending in October 2019. Interest is charged at 8.75% and is payable quarterly in arrears. The principal is repayable by 21 equal quarterly payments of J$79,600,000 and a final payment of J$80,400,000 commencing 31 July 2014. This loan is guaranteed by Guardian Holdings Limited.

25. Investment contract liabilities

The movements in the liabilities arising from investment contracts are summarised below:

	2012 $'000	2011 $'000
At beginning of year	1,538,945	1,455,180
Premiums received	254,390	212,924
Fees deducted from account balances	(10,603)	(10,886)
Account balances paid on surrender and other terminations in the year	(204,069)	(187,686)
Interest credited through income	79,386	78,951
Other movements	207	(4,542)
Net exchange differences	(49,175)	(4,996)
At end of year	1,609,081	1,538,945

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

26. Third party interest in mutual funds

	2012 $'000	2011 $'000
Balance at beginning of year	1,085,343	1,065,548
Change in liability for interest in consolidated funds (Note 34)	28,940	22,569
Unrealised gains/(losses)	39,937	(6,966)
Net change in mutual fund holder balances	(86,490)	23,803
Distributions	(16,690)	(19,611)
	1,051,040	1,085,343

27. Post retirement medical benefit obligations

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

Present value of obligations	98,869	60,923
The amount in the consolidated income statement is made up as follows:		
Interest cost	4,339	4,530
Current service cost	3,281	2,259
Adjustment in value of recognisable assets	(40)	(23,217)
Expense/(income) for the year (Note 37)	7,580	(16,428)

27. Post retirement medical benefit obligations (continued)

	2012 $'000	2011 $'000
The movement in the liability is as follows:		
Balance at beginning of year	60,923	78,916
Difference on retranslation of opening balance	63	198
Acquisition of subsidiary	2,488	–
Actuarial losses	30,031	–
Employer contributions	(2,216)	(1,763)
Expense/(income) as per above	7,580	(16,428)
Balance at end of year	98,869	60,923

The principal actuarial assumptions used were as follows:		
Discount rate	4.1% - 10.0%	4.7%
Healthcare cost escalation	3.0% - 9.0%	6.0%
Retiree premium escalation:		
Existing retirees	0.0%	0.0%
Future retirees	0.0%	0.0%
Pre-retirement mortality	GBM/ GBV9500	GBM/ GBV9095
Post retirement mortality	GAM 94	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	9,604	6,470
Effect on the defined benefit obligation	38,063	26,817

Expected contributions to post-employment benefit plans for the year ending 31 December 2013 are $2,455,000.

As at 31 December	2012 $'000	2011 $'000	2010 $'000	2009 $'000	2008 $'000
Present value of defined benefit obligation	98,869	60,923	69,498	48,458	40,277
Experience adjustments on plan liabilities	588	104	4,210	2,111	293

28. Other liabilities

	2012 $'000	2011 $'000
Deposits and premiums received in advance	88,919	80,703
Amount due to reinsurers	146,794	186,275
Sundry payables	452,607	564,213
	688,320	831,191

29. Net premium income

(a) Insurance premium income

Long-term insurance contracts with fixed and guaranteed terms	1,867,935	1,616,550
Short-term insurance contracts:		
- premiums receivable	2,497,191	2,390,589
- change in unearned premium provision	(10,948)	(54,533)
	4,354,178	3,952,606

29. Net premium income (continued)

	2012 $'000	2011 $'000
(b) Insurance premium ceded to reinsurers		
Long-term reinsurance contracts	(65,667)	(87,162)
Short-term reinsurance contracts:		
- premiums payable	(1,159,167)	(1,015,845)
- change in unearned premium provision	14,528	35,261
	(1,210,306)	(1,067,746)

30. Policy acquisition expenses

Commissions	474,690	468,690
Other expenses for the acquisition of insurance and investment contracts	48,643	44,994
	523,333	513,684

31. Net insurance benefits and claims

Insurance benefits - gross	1,674,475	1,498,845
Insurance benefits - recovered from reinsurers	(58,300)	(32,678)
Insurance claims and loss adjustment expenses - gross	831,253	855,686
Insurance claims and loss adjustment expenses - recovered from reinsurers	(55,916)	(100,442)
	2,391,512	2,221,411

	2012		
Insurance benefits	**Gross $'000**	**Reinsurance $'000**	**Net $'000**
Long-term insurance contracts with fixed and guaranteed terms and without DPF:			
- death, maturity and surrender benefits	430,198	(40,090)	390,108
- increase in liabilities	446,241	(86)	446,155
Long-term insurance contracts without fixed terms:			
- death, maturity and surrender benefits	291,458	(17,025)	274,433
- change in unit prices	410,703	–	410,703
Long-term insurance contracts with fixed and guaranteed terms and with DPF:			
- death, maturity and surrender benefits	24,765	–	24,765
- increase in liabilities	(242)	–	(242)
Short term insurance contracts - life	71,352	(1,099)	70,253
Total cost of policyholder benefits	1,674,475	(58,300)	1,616,175

	2011		
Insurance benefits	**Gross $'000**	**Reinsurance $'000**	**Net $'000**
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	1,498,845	(32,678)	1,466,167

32. Investment income

	2012 $'000	2011 $'000
Fair value through profit or loss assets - interest income	274,621	265,097
Fair value through profit or loss assets - dividend income	28,887	27,921
Held-to-maturity assets - interest income	451,809	453,769
Loans and receivables - interest income	67,903	68,215
Cash and cash equivalents - interest income	15,322	17,043
	838,542	832,045

33. Net realised gains on financial instruments

Equity securities	4,710	5,359
Debt securities	2,637	4,531
Gain on disposal of associated company (Note below)	–	73,982
	7,347	83,872

The Group disposed of its 39.1% shareholding in Jubilee Group Holdings Limited [JGHL] on August 31, 2011. This sale accounted for the gain on disposal of $73,982,000 in 2011.

Sales proceeds	–	118,725
Less: disposal expenses	–	(1,888)
Net proceeds	–	116,837
Less:		
Net assets disposed of and realised foreign exchange losses	–	(42,855)
Loss on disposal	–	73,982

34. Net fair value gains

Net fair value gains on financial assets at fair value through profit or loss	73,323	68,464
Provision for impairment	(7,169)	14,553
Change in liability for mutual funds (Note 26)	(28,940)	(22,569)
Fair value gains on other investment properties (Note 6)	7,780	23,088
	44,994	83,536

Fair value adjustment on Pointe Simon investment

Fair value adjustment on investment property (Note 6)	(133,354)	–
Provision on properties for development and sale (Note 11)	(16,398)	–
	(149,752)	–

35. Fee income

Policy administration and asset management services:		
- Insurance contracts	4,285	4,226
- Investment contracts without a discretionary participation feature	23,444	23,486
Surrender charges – insurance contracts	7,349	10,948
Other	6,262	5,804
	41,340	44,464

36. Other loss/income

	2012 $'000	2011 $'000
Rental income	21,722	32,098
Foreign exchange gains	23,449	13,964
Net (loss)/gain for the year on pension plan assets (Note 12)	(7,688)	14,583
Other income	34,793	31,363
	72,276	92,008

37. Operating expenses

Staff cost	445,902	372,839
Depreciation and amortisation	49,885	49,316
Auditors' remuneration	10,901	10,386
Directors' fees	8,307	5,630
Other expenses	274,021	291,033
	789,016	729,204
Staff cost includes:		
Wages, salaries and bonuses	338,883	299,396
Health and medical	12,798	11,974
Staff training	3,358	3,656
National Insurance	24,042	21,247
Pension costs	18,601	11,678
Post retirement medical benefit obligations (Note 27)	7,580	(16,428)
Termination benefits	1,676	2,074
Other	38,964	39,242
	445,902	372,839
Average number of employees	2,628	2,529

38. Finance charges

Interest on borrowings from financial institutions	119,460	110,044

39. Taxation

Current tax	109,225	89,006
Business levy/green fund levy	1,968	2,909
Prior year taxation adjustment	(2,037)	950
Deferred tax (Note 14)	4,362	(5,717)
	113,518	87,148

39. 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:

	2012 $'000	2011 $'000
Profit before taxation	414,334	551,883
Prima facie tax calculated at domestic corporation tax rate of 25%	103,584	137,971
Effect of different tax rate of life insurance companies	(27,687)	(19,446)
Effect of different tax rate in other countries	(6,019)	(1,901)
Income not subject to tax	(162,717)	(206,144)
Expenses not deductible for tax purposes	196,611	182,395
Net adjustment to recognised and unrecognised tax losses	(2,528)	(2,269)
Tax reliefs and deductions	(2,541)	(2,005)
Business levy/green fund levy	1,968	2,909
Prior year taxation adjustment	(2,037)	950
Tax on dividend	4,702	7,348
Other	10,182	(12,660)
Tax charge for the period	113,518	87,148

40. 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.

	2012 $'000	2011 $'000
Net profit attributable to ordinary shareholders	352,532	261,103
Net profit attributable to ordinary shareholders from continuing operations	370,474	471,012
Net loss attributable to ordinary shareholders from discontinued operations	(17,942)	(209,909)

	Number of shares ('000)	
	2012	2011
Weighted average number of ordinary shares in issue (thousands)	231,620	231,097
Effect of dilution:		
Share options	16,436	7,161
Weighted average number of ordinary shares adjusted for the effect of dilution	248,056	238,258

	2012 $	2011 $
Basic earnings per ordinary share	1.52	1.13
Diluted earnings per ordinary share	1.42	1.10
Basic earnings per ordinary share from continuing operations	1.60	2.04
Diluted earnings per ordinary share from continuing operations	1.49	1.98
Basic loss per ordinary share from discontinued operations	(0.08)	(0.91)
Diluted loss per ordinary share from discontinued operations	(0.07)	(0.88)

41. Dividends

	2012 $'000	2011 $'000
Final dividend for 2011 - 37¢ per share (2010 - 33¢ per share)	85,803	76,248
Interim dividend for 2012 - 15¢ per share (2011 - 15¢ per share)	34,785	34,658
	120,588	110,906

41. Dividends (continued)

On 13 March 2013, the Board of Directors declared a final dividend of 37 cents per share (2011 - 37 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 2013.

42. Adjustment for non-cash items in operating profit

	2012 $'000	2011 $'000
Share of (profit)/loss from associated companies (Note 8)	(21,268)	25,005
Increase in the value to shareholders of inforce long-term business (Note 13)	(158,266)	(70,272)
Net fair value gains on financial and other assets	(69,397)	(60,897)
Change in liability for interest in consolidated funds (Note 26)	28,940	22,569
Net realised gains on financial and other assets	(7,712)	(83,861)
Impairment of financial assets	3,243	12,743
Net loss/(gain) for the year on post employment benefits	15,267	(31,011)
Depreciation and amortisation (Note 37)	49,885	49,316
Loss on disposal of property, plant & equipment	872	935
Change in fair value of other investment properties (Note 6)	(7,780)	(23,088)
Change in fair value adjustments on Pointe Simon (Note 6)	133,354	–
Gain on disposal of investment property	373	282
Foreign exchange losses	86,141	9,163
Other non-cash expense/(income)	27,604	(9,461)
	81,256	(158,577)

43. 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.

43. 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:

At 31 December 2012	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000
Financial assets at fair value through profit or loss				
Equity securities	1,310,061	3,234	46,366	1,359,661
Debt securities	2,024,816	2,153,115	142,686	4,320,617
Other financial assets	40,934	8,874	10,356	60,164
	3,375,811	2,165,223	199,408	5,740,442

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 Jan 2012 $'000	Exchange rate adjustment $'000	Total gain/(loss) in income statement $'000	Purchases $'000	Sales $'000	Transfers to Level 1 & 2 $'000	At 31 Dec 2012 $'000	Total gains or losses for the period included in income statement for assets held at 31 Dec 2012 $'000
Financial assets at fair value through profit or loss								
Equity securities	40,506	(8,053)	910	13,003	–	–	46,366	7,586
Debt securities	214,999	(2,243)	4,340	32,601	(68,857)	(38,154)	142,686	(9,499)
Other financial assets	9,979	(51)	(99)	643	(116)	–	10,356	(99)
	265,484	(10,347)	5,151	46,247	(68,973)	(38,154)	199,408	(2,012)

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

	Realised gains and losses $'000	2012 Fair value gains and losses $'000	Total $'000
Total gains included in the consolidated income statement for the period	1,128	4,023	5,151
Total losses included in the consolidated income statement for the period for assets held at the end of the year	(99)	(1,913)	(2,012)

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

At 31 December 2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total fair value $'000
Financial assets at fair value through profit or loss				
Equity securities	1,184,309	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
	4,149,621	897,253	265,484	5,312,358

43. Fair values of financial instruments (continued)

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

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 Jan 2011 $'000	Exchange rate adjustment $'000	Total gain/(loss) in income statement $'000	Purchases $'000	Sales $'000	Transfers to Level 1 & 2 $'000	At 31 Dec 2011 $'000	Total gains or losses for the period included in income statement for assets held at 31 Dec 2011 $'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)
	311,256	(2,862)	(6,808)	27,451	(76,160)	12,607	265,484	(7,972)

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

	Realised gains and losses $'000	2011 Fair value gains and losses $'000	Total $'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)

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.

44. Segment information

The segment results for the year ended 31 December 2012 are as follows:

	Life, health and pension business $'000	Property and casualty business $'000	Asset management $'000	Other companies $'000	Consolidation adjustments $'000	Group $'000
Year ended 31 December 2012						
Insurance activities						
Insurance premium income	2,531,812	1,822,366	–	–	–	4,354,178
Insurance premium ceded to reinsurers	(90,301)	(1,120,005)	–	–	–	(1,210,306)
Commission income	11,979	129,721	–	–	–	141,700
	2,453,490	832,082	–	–	–	3,285,572
Change in "Value of inforce life insurance business"	158,266	–	–	–	–	158,266
Net underwriting revenue	2,611,756	832,082	–	–	–	3,443,838
Policy acquisition expenses	(332,955)	(190,378)	–	–	–	(523,333)
Net insurance benefits and claims	(2,091,559)	(299,953)	–	–	–	(2,391,512)
Underwriting expenses	(2,424,514)	(490,331)	–	–	–	(2,914,845)
Net result from insurance activities	187,242	341,751	–	–	–	528,993
Investing activities						
Investment income	710,420	104,749	74,206	407,864	(458,697)	838,542
Net realised gains/(losses) on financial instruments	(754)	2,715	5,751	(10,424)	10,059	7,347
Net fair value gains/(losses)	67,052	9,151	(13,356)	(25,243)	7,390	44,994
Fair value adjustment on Pointe Simon investment	–	–	–	(149,752)	–	(149,752)
Fee income	21,703	2,086	22,658	133,444	(138,551)	41,340
Other income/(loss)	69,417	(6,286)	2,407	22,841	(16,103)	72,276
Investment contract benefits	(82,198)	–	–	–	–	(82,198)
Net income from investing activities	785,640	112,415	91,666	378,730	(595,902)	772,549
Net income from all activities	972,882	454,166	91,666	378,730	(595,902)	1,301,542
Operating expenses	(462,367)	(223,797)	(32,167)	(248,100)	177,415	(789,016)
Finance charges	(4,315)	(20,061)	(1,001)	(152,552)	58,469	(119,460)
Operating profit/(loss)	506,200	210,308	58,498	(21,922)	(360,018)	393,066
Share of profit/(loss) of associated companies	(315)	5,509	–	16,074	–	21,268
Profit before taxation	505,885	215,817	58,498	(5,848)	(360,018)	414,334
Taxation	(73,778)	(39,454)	(7,853)	7,567	–	(113,518)
Profit after taxation	432,107	176,363	50,645	1,719	(360,018)	300,816
Amount attributable to participating policyholders	(10,004)	–	–	–	–	(10,004)
Profit from continuing operations	422,103	176,363	50,645	1,719	(360,018)	290,812
Net loss on discontinued operations	–	(17,942)	–	–	–	(17,942)
Profit for the year	422,103	158,421	50,645	1,719	(360,018)	272,870

44. Segment information (continued)

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

	Life, health and pension business $'000	Property and casualty business $'000	Asset management $'000	Other companies $'000	Consolidation adjustments $'000	Group $'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
	2,184,029	841,002	–	–	–	3,025,031
Change in "Value of inforce life insurance business"	70,272	–	–	–	–	70,272
Net underwriting revenue	2,254,301	841,002	–	–	–	3,095,303
Policy acquisition expenses	(315,043)	(198,641)	–	–	–	(513,684)
Net insurance benefits and claims	(1,933,057)	(288,354)	–	–	–	(2,221,411)
Underwriting expenses	(2,248,100)	(486,995)	–	–	–	(2,735,095)
Net result from insurance activities	6,201	354,007	–	–	–	360,208
Investing activities						
Investment income	690,025	106,804	80,237	771,619	(816,640)	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)	109,251	(2,464)	(39,485)	(40,409)	56,643	83,536
Fair value adjustment on Pointe Simon investment	–	–	–	–	–	–
Fee income	26,398	2,043	19,891	130,816	(134,684)	44,464
Other income/(loss)	58,798	3,093	883	(4,845)	34,079	92,008
Investment contract benefits	(79,997)	–	–	–	–	(79,997)
Net income from investing activities	810,325	182,755	65,455	847,015	(849,622)	1,055,928
Net income from all activities	816,526	536,762	65,455	847,015	(849,622)	1,416,136
Operating expenses	(428,924)	(199,755)	(34,921)	(249,273)	183,669	(729,204)
Finance charges	(5,323)	(19,346)	(3,041)	(136,773)	54,439	(110,044)
Operating profit	382,279	317,661	27,493	460,969	(611,514)	576,888
Share of profit/(loss) of associated companies	(16,273)	(16,544)	–	4,259	3,553	(25,005)
Profit before taxation	366,006	301,117	27,493	465,228	(607,961)	551,883
Taxation	(41,729)	(43,231)	(4,500)	2,312	–	(87,148)
Profit after taxation	324,277	257,886	22,993	467,540	(607,961)	464,735
Amount attributable to participating policyholders	(8,716)	–	–	–	–	(8,716)
Profit from continuing operations	315,561	257,886	22,993	467,540	(607,961)	456,019
Net loss on discontinued operations	–	(209,909)	–	–	–	(209,909)
Profit for the year	315,561	47,977	22,993	467,540	(607,961)	246,110

44. Segment information (continued)

The segment assets and liabilities are as follows:

	Life, health and pension business $'000	Property and casualty business $'000	Asset management $'000	Other companies $'000	Consolidation adjustments $'000	Group $'000
Year ended 31 December 2012						
Assets						
Intangible assets	137,232	37,495	–	76,146	116,128	367,001
Investment in associated companies	122,282	57,500	–	475	25,978	206,235
Financial assets	10,396,302	1,732,703	92,664	2,204	(156,508)	12,067,365
Financial assets of mutual fund unit holders	67,642	–	1,257,825	–	(149,773)	1,175,694
Loans and receivables	1,262,794	230,621	30,000	57,930	(13,330)	1,568,015
Properties for development and sale	–	–	–	448,728	–	448,728
Reinsurance assets	74,926	636,310	–	–	–	711,236
Segregated fund assets of life insurance policyholders	466,424	–	–	–	–	466,424
Value of inforce life insurance business	875,317	–	–	–	3,763	879,080
Deferred acquisition costs	1,888	77,466	–	–	–	79,354
Cash and cash equivalents of mutual fund unit holders	280,580	8,852	124,339	–	(289,445)	124,326
Assets held for sale	8,705	685,811	–	–	–	694,516
Other assets	2,236,866	635,686	43,210	750,005	(24)	3,665,743
Total assets	15,930,958	4,102,444	1,548,038	1,335,488	(463,211)	22,453,717
Liabilities						
Insurance liabilities	10,743,076	1,806,407	–	–	(23,611)	12,525,872
Segregated fund liabilities of life insurance policyholders	466,424	–	–	–	–	466,424
Liabilities related to assets held for sale	–	685,811	–	–	–	685,811
Other liabilities	2,256,143	371,912	1,067,094	1,962,706	(80,502)	5,577,353
Total liabilities	13,465,643	2,864,130	1,067,094	1,962,706	(104,113)	19,255,460
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
Properties 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 business	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
Assets held for sale	–	1,000,356	–	–	–	1,000,356
Other assets	1,894,747	682,039	71,064	918,974	34,658	3,601,482
Total assets	14,763,410	4,149,423	1,583,054	1,430,677	(389,087)	21,537,477

44. Segment information (continued)

The segment assets and liabilities are as follows:

	Life, health and pension business $'000	Property and casualty business $'000	Asset management $'000	Other companies $'000	Consolidation adjustments $'000	Group $'000
Year ended 31 December 2011						
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
Liabilities related to assets held for sale	–	1,000,356	–	–	–	1,000,356
Other liabilities	2,088,165	278,664	1,124,730	1,821,835	(80,161)	5,233,233
Total liabilities	12,447,007	3,045,268	1,124,730	1,821,835	(95,634)	18,343,206

	Total revenue from external customers		Non current assets	
	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Trinidad and Tobago	1,724,823	1,685,559	575,132	652,647
Jamaica	1,053,602	935,118	448,064	440,623
Barbados	142,514	130,819	46,977	48,002
Dutch Caribbean	962,733	896,053	317,650	244,496
Latin America	58,928	82,535	–	–
Other countries	355,985	501,144	1,180,502	1,083,274
	4,298,585	4,231,228	2,568,325	2,469,042

There are no transactions with a single customer that amount to more than 10% of total revenue.
Non current assets for this purpose consist of property, plant and equipment, investment properties, intangible assets, investment in associated companies and properties for development and sale.

45. Contingent liabilities

Legal proceedings

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.

46. 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:

	2012 $'000	2011 $'000
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	24,755	25,732
Later than one year and no later than five years	74,091	76,388
	98,846	102,120

Rental expense under these leases amounted to $24,109,000 for the year ended 31 December 2012 (2011 - $23,832,000).

47. Acquisitions

During the year the Group acquired the following companies primarily to obtain leading market share in the respective markets:

1) Globe Holdings Limited

On 16 November 2012, the Group acquired 100% of the shares of Globe Holdings Limited for cash consideration of USD38,000,000 (TT$238,976,000). Globe Holdings Limited is an investment holding company which owns 100% of Globe Insurance Company of Jamaica Limited, a property and casualty insurer.

The fair value and gross amount of loans and receivables on Globe's statement of financial position was $18,047,000. None of the loans and receivables has been impaired and it is expected that the full contractual amounts can be collected.

2) Thoma Exploitatie B.V.

On 15 December 2012, the Group acquired 100% of the shares of Thoma Exploitatie B.V. through its subsidiary Fatum Holdings N.V., for consideration of EUR8,860,000 (TT$74,987,000). Thoma Exploitatie B.V. is an insurance brokerage firm incorporated under the laws of the Netherlands.

As part of the purchase agreement with the previous owner of Thoma Exploitatie B.V., cash payments including contingent consideration have been agreed. As at the date of acquisition, the conditions attached to the contingent consideration were expected to be met and therefore the fair value of contingent consideration included in the purchase price calculation was estimated to be EUR3,000,000.

The Group is in the process of measuring the fair value of the identifiable assets and liabilities and in accordance with IFRS 3, will be completed within 12 months of the acquisition date.

	Recognised amounts of identifiable assets acquired and liabilities assumed		
	Globe Holdings Limited $'000	Thoma Exploitatie B.V. $'000	Total $'000
Net assets acquired:			
Property, plant and equipment	2,427	2,263	4,690
Intangible assets	1,089	2,683	3,772
Financial assets	311,919	–	311,919
Loans and receivables	18,047	14,174	32,221
Reinsurance assets	63,943	–	63,943
Cash and cash equivalents	18,179	925	19,104
Other assets	7,736	3,493	11,229
Insurance contracts	(196,237)	–	(196,237)
Other liabilities	(21,850)	(24,696)	(46,546)
Identifiable net assets	205,253	(1,158)	204,095
Goodwill	33,723	76,145	109,868
Total consideration	238,976	74,987	313,963
Satisfied by:			
Cash consideration	238,976	74,987	313,963
Cash consideration	238,976	74,987	313,963
Cash and cash equivalent balances acquired	(18,179)	(925)	(19,104)
Net cashflow on acquisitions	220,797	74,062	294,859
Acquisition related costs included in the consolidated statement of income	4,553	977	5,530

The goodwill amounts of $33,723,000 and $76,145,000 comprise the value of expected synergies arising from both acquisitions and other intangible assets, which were not separately recognised. An exercise to identify other intangible assets included in goodwill will be undertaken in 2013.

None of the goodwill recognised is expected to be deductible for taxation purposes.

48. 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	Effective 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
Guardian Insurance Limited	Republic of Trinidad & Tobago	100.0
Guardian Asset Management Limited	Republic of Trinidad & Tobago	100.0
Guardian Asset Management & Investment Services 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 Shared Services Limited	Republic of Trinidad & Tobago	100.0
RGM Limited	Republic of Trinidad & Tobago	33.3
Servus Limited	Republic of Trinidad & Tobago	50.0
Fatum Holding N.V.	Curacao	100.0
Fatum Accident & Health N.V.	Curacao	100.0
Fatum General Insurance Aruba N.V.	Aruba	100.0
Fatum General Insurance N.V.	Curacao	100.0
Fatum Life Aruba N.V.	Aruba	100.0
Fatum Life N.V.	Curacao	100.0
Homes & Properties N.V.	Curacao	100.0
Thoma Exploitatie B.V.	Netherlands	100.0
Guardian Life Limited	Jamaica	100.0
Ocho Rios Beach Resorts Limited	Jamaica	24.0
Globe Insurance Company of Jamaica Limited	Jamaica	100.0
West Indies Alliance Insurance Limited	Jamaica	100.0
GL Investments Limited	Jamaica	100.0
Guardian Resorts (Jamaica) Limited	Jamaica	100.0
Guardian Re (SAC) Limited	Bermuda	100.0
Nemwil Corporate Capital Limited	United Kingdom	100.0
Appleclaim Investment Holdings Limited	United Kingdom	39.2
Royal Star Assurance (Bahamas) Limited	Bahamas	25.0
Guardian Group St. Lucia Holdings Limited	St. Lucia	100.0
Globe Holdings Limited	St. Lucia	100.0
Guardian Resorts International Inc	St. Lucia	100.0
Trans-Nemwil Insurance (Grenada) Limited	Grenada	100.0
T.M.D.C. Limited	Barbados	79.2
Guardian International Inc.	Barbados	100.0
Gamay Investments Limited	Malta	57.8%
Centre d'Affaires de la Pointe Simon Sarl	Martinique	57.8%
Societe de Promotion de la Pointe Simon et ses Environs S.A.S. 2	Martinique	57.8%
Societe de Promotion de la Pointe Simon et ses Environs S.A.S.	Martinique	57.8%
Societe Hoteliere de la Pointe Simon S.A.S.	Martinique	57.8%
Societe Immobiliere de la Pointe Simon Sarl	Martinique	57.8%

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.

	2012 $'000	2011 $'000
The following transactions were carried out with related parties:		
(a) Sales of insurance contracts and other services:		
- Key management personnel	2,276	2,283
(b) Interest income from:		
- Key associates	10,518	11,054

48. Related party disclosures (continued)

	2012 $'000	2011 $'000
The following transactions were carried out with related parties: (continued)		
(c) Financial assets of:		
- Key associates	237,745	233,212
(d) Key management personnel compensation:		
- Salaries and other short-term employee benefits	90,615	72,302
- Termination benefits	–	777
- Post-employment benefits	–	395
- Share-based payments	9,894	9,507
(f) Loans to related parties:		
Loans to key management of the Group:		
Balance at beginning of year	40,900	42,704
Difference on retranslation of opening balance	2	11
Loans advanced during the year	2,820	5,482
Loan repayments received	(9,366)	(7,297)
Interest charged	1,671	1,868
Interest received	(1,671)	(1,868)
	34,356	40,900

There was no provision for doubtful debts at the reporting date and no bad debt expense in the year (2011: Nil)

(g) Guarantees
The Group is the guarantor of an unsecured 7 year loan, ending October 2019, to its subsidiary, Guardian Group St. Lucia Holdings Limited. Proceeds from this loan was used to finance the acquisition of 100% of the shares of Globe Holdings Limited.

49. Subsequent events

Jamaica National Debt Exchange

In February 2013, the Jamaican subsidiaries participated in a National Debt Exchange (NDX) transaction. The NDX involved a par for par exchange of domestic debt instruments ("Old Notes") issued by the Government of Jamaica for new debt instruments ("New Notes") having lower interest rates and longer maturities. Participation in the NDX was voluntary.

In February 2013, the Board of Directors of the Jamaican subsidiaries formally accepted the government's debt exchange offer. On 22 February 2013, Old Notes were exchanged for New Notes resulting in the write off of JMD455 million (TT$32 million) in un-amortised premium on the Old Notes. The difference between the carrying value of the Old Notes and the fair value of the New Notes will be recognised in the consolidated income statement in 2013 as a realised loss on disposal.

Group Acquisition - Royal & Sun Alliance Insurance (Antilles) N.V.

On December 19, 2012, the Group, through its subsidiary Fatum Holding N.V., signed a Share Purchase Agreement with Sun Alliance Insurance Overseas Limited (SAIO) and Maduro & Curiel's Bank N.V. (MCB) for the purchase of the entire issued, outstanding and fully paid up share capital of Royal & Sun Alliance Insurance (Antilles) N.V. (RSA) for a purchase price of USD18,000,000.

Due to outstanding approval of this acquisition from the Central Bank of Curacao and Sint Maarten, the Group did not obtain control of RSA before the end of the reporting period. Therefore, RSA is not included in the consolidated financial statements of the Group.

50. 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:

	2012 Carrying amount $'000	2011 Carrying amount $'000
Amounts not included in the consolidated statement of financial position		
Cash and short-term investments	296,435	511,907
Investments	1,573,526	1,443,642
Interest and other receivables	96,659	109,812
	1,966,620	2,065,361

51. Pledged assets

The Group had deposited certain assets with the regulatory authorities in the countries in which it is authorised 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:

	2012 $'000	2011 $'000
Statutory deposits/funds	6,632,692	6,367,550

Consolidated Statement of Financial Position

Expressed in US Dollars • as at December 31, 2012

The Group's Consolidated Statement of Financial Position and Consolidated Income Statement expressed in US dollars appears below. The purpose of this publications to provide readers of the Group's Annual Report, a number of whom are from jurisdictions outside of Trinidad and Tobago, with a quick and convenient overview of the Group's financial performance, referenced against a major international currency. The exchange rate used for this purpose is TT$6.41955 to US$1.00.

	2012 US$'000	2011 US$'000
Assets		
Property, plant and equipment	76,312	78,086
Investment properties	164,570	174,534
Intangible assets	57,169	39,610
Investment in associated companies	32,126	31,468
Financial assets	1,879,784	1,753,556
Financial assets of mutual fund unit holders	183,143	181,474
Loans and receivables	244,256	235,336
Properties for development and sale	69,900	60,915
Pension plan assets	12,605	12,569
Value of inforce life insurance business	136,938	115,591
Deferred tax assets	2,838	3,348
Reinsurance assets	110,792	105,969
Segregated fund assets of life insurance policyholders	72,657	77,810
Deferred acquisition costs	12,361	11,318
Taxation recoverable	18,509	21,529
Cash and cash equivalents	296,194	270,953
Cash and cash equivalents of mutual fund unit holders	19,367	25,087
Assets held for sale	108,188	155,830
Total assets	3,497,709	3,354,983
Equity and liabilities		
Share capital	317,216	312,847
Reserves	(53,680)	(41,180)
Retained earnings	241,089	219,739
Equity attributable to owners of the parent	504,625	491,406
Non-controlling interests in subsidiaries	(6,419)	6,179
Total equity	498,206	497,585
Liabilities		
Insurance contracts	1,951,207	1,808,556
Financial liabilities	274,549	222,224
Investment contract liabilities	250,653	239,728
Third party interests in mutual funds	163,725	169,068
Pension plan liabilities	17,252	5,430
Segregated fund liabilities of life insurance policyholders	72,657	77,810
Post retirement medical benefit obligations	15,401	9,490
Deferred tax liabilities	30,182	30,988
Provision for taxation	9,823	8,795
Other liabilities	107,222	129,479
Liabilities related to assets held for sale	106,832	155,830
Total liabilities	2,999,503	2,857,398
Total equity and liabilities	3,497,709	3,354,983

GUARDIAN HOLDINGS LIMITED

Consolidated Income Statement

Expressed in US Dollars • for the year ended December 31, 2012

	2012 US$'000	2011 US$'000
Insurance activities		
Insurance premium income	678,268	615,714
Insurance premium ceded to reinsurers	(188,534)	(166,327)
Reinsurance commission income	22,073	21,835
	511,807	471,222
Change in "Value of inforce life insurance business"	24,654	10,947
Net underwriting revenue	536,461	482,169
Policy acquisition expenses	(81,522)	(80,019)
Net insurance benefits and claims	(372,536)	(346,038)
Underwriting expenses	(454,058)	(426,057)
Net result from insurance activities	82,403	56,112
Investing activities		
Investment income	130,623	129,611
Net realised gains on financial instruments	1,144	13,065
Net fair value gains	7,009	13,013
Fair value adjustment on Pointe Simon investment	(23,327)	–
Fee income	6,440	6,926
Other income	11,259	14,332
Investment contract benefits	(12,804)	(12,461)
Net income from investing activities	120,344	164,486
Net income from all activities	202,747	220,598
Operating expenses	(122,908)	(113,591)
Finance charges	(18,609)	(17,142)
Operating profit	61,230	89,865
Share of profit / (loss) of associated companies	3,313	(3,895)
Profit before taxation	64,543	85,970
Taxation	(17,683)	(13,575)
Profit after taxation	46,860	72,395
Amount attributable to participating policyholders	(1,558)	(1,358)
Profit from continuing operations	45,302	71,037
Net loss on discontinued operations	(2,795)	(32,698)
Profit for the year	42,507	38,339
Loss attributable to non-controlling interests	12,409	2,336
Profit attributable to equity holders of the parent	54,916	40,675
Earnings per share		
- Basic - for profit attributable to ordinary equity holders of the parent	$ 0.24	$ 0.18
- Diluted - for profit attributable to ordinary equity holders of the parent	$ 0.22	$ 0.17
Earnings per share for continuing operations		
- Basic - for profit attributable to ordinary equity holders of the parent	$ 0.25	$ 0.32
- Diluted - for profit attributable to ordinary equity holders of the parent	$ 0.23	$ 0.31

Consolidated Statement of Comprehensive Income

Expressed in US Dollars • for the year ended December 31, 2012

	2012 US$'000	2011 US$'000
Profit for the year	42,507	38,339
Other comprehensive income/(loss)		
Exchange differences on translating foreign operations	(12,175)	(2,656)
Gains on property revaluation	701	300
Actuarial losses on post-employment benefits	(15,421)	(9,462)
Other reserve movements	(704)	145
Income tax relating to components of other comprehensive income	298	(90)
Other comprehensive loss for the period, net of tax	(27,301)	(11,763)
Total comprehensive income for the period, net of tax	15,206	26,576
Comprehensive loss attributable to non controlling interests	12,430	7,818
Comprehensive income attributable to equity holders of the parent	27,636	34,394

GUARDIAN HOLDINGS LIMITED

Management Proxy Circular

I. Name of Company: GUARDIAN HOLDINGS LIMITED

Company No. G - 967 (C)

II. Particulars of Meeting:

Annual Meeting of the Company to be held at The Atrium, Guardian Corporate Centre, 1 Guardian Drive, Westmoorings, Trinidad, on Tuesday May 7, 2013 at 4:30 in the afternoon.

III. Solicitation:

It is intended to vote the proxy solicited hereby (unless the shareholder directs otherwise) in favour of all resolutions specified therein.

IV. Any director's statement submitted pursuant to section 76 (2):

No statement has been received from any Director pursuant to Section 76 (2) of the Companies Act, Ch 81:01

V. Any auditor's statement submitted pursuant to section 171 (1):

No statement has been received from the Auditors of the Company pursuant to Section 171 (1) of the Companies Act, Ch 81:01

VI. Any shareholder's proposal submitted pursuant to sections 116 (a) and 117 (2):

No proposal has been received from any Shareholder pursuant to Sections 116 (a) and 117 (2) of the Companies Act, Ch 81:01

Date	Name and Title	Signature
March 13, 2013	Fé Lopez-Collymore Corporate Secretary	

GUARDIAN HOLDINGS LIMITED

Form of Proxy

REPUBLIC OF TRINIDAD AND TOBAGO
THE COMPANIES ACT CH. 81:01
[SECTION 143 (1)]

Name of Company: GUARDIAN HOLDINGS LIMITED **Company No.** G - 967 (C)

Particulars of Meeting: Annual Meeting of the Company to be held at 4:30 in the afternoon on Tuesday, May 7, 2013.

I/We (block capitals please) _____being Shareholder(s) in the above Company (or in the case of an owner whose shares are held in a Clearing Agency being authorised by the Clearing Agency to do so) appoint (s) the Chairman of the Meeting, or failing him, _____of _____

to be my/our Proxy to attend and vote for me/us on my/our behalf at the above meeting and any adjournment thereof as indicated below on the Resolutions to be proposed in the same manner, to the same extent and with the same powers as if I/we were present at the said meeting or such adjournment or adjournments thereof.

Please indicate with an "X" in the spaces below how you wish your Proxy to vote on the resolutions referred to. If no such indication is given the Proxy will exercise his discretion as to how he votes or whether he abstains from voting.

	For	Against
RESOLUTION 1:		
BE IT RESOLVED THAT the Consolidated Financial Statements of the Company for the year ended December 31, 2012 and Reports of the Directors and the Auditors thereon be received and adopted		
RESOLUTION 2:		
(a) BE IT RESOLVED THAT the Directors to be re elected be elected en bloc.		
(b) BE IT RESOLVED THAT That Messrs. Antony Lancaster, Selby Wilson, Peter Ganteaume and David Philip Hamel-Smith be and are hereby re-elected Directors of the Company for a term expiring at the close of the third Annual Meeting of the Company following this appointment subject to the provisions of Regulation 4.5 of By-law No. 1.		
RESOLUTION 3:		
BE IT RESOLVED THAT Ernst & Young be reappointed as auditors of the Company and that the Directors be authorised to fix their remuneration for the ensuing year.		

Signature(s): _____

Date: _____

Notes:

1. If it is desired to appoint a proxy other than the Chairman of the Meeting, the necessary deletion must be made and initialed and the name inserted in the space provided.
2. In the case of joint holders the signature of any holder is sufficient but the names of all joint holders should be stated.
3. If the appointor is a corporation this form must be under its common seal or under the hand of its attorney.

Mail or deliver to: The Corporate Secretary
Guardian Holdings Limited
P.O. Box 88
1 Guardian Drive, Westmoorings, 110612
Trinidad

For official use only:

Folio Number

_____

No. of Shares

_____

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