

# Guardian Holdings Limited

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## Notes To The Financial Statements

31 December 2000

	Freehold and Leasehold Properties \$'000	Office Furniture and Equipment \$'000	Motor Vehicles \$'000	Work in Progress \$'000	Total \$'000
PROPERTY, PLANT AND EQUIPMENT					
Year ended 31 December 2000					
Opening net book amount	26,910	10,683	2,646	3,153	43,392
Exchange rate adjustment	--	(6)	--	--	(6)
Additions	52,400	28,715	4,016	--	85,131
Assets on acquisition of subsidiary	10,898	7,735	1,341	--	19,974
Disposals and adjustments	(9,884)	2,197	(486)	(3,153)	(11,326)
Depreciation charge	(1,547)	(10,341)	(1,459)	--	(13,347)
Closing net book amount	<u>78,777</u>	<u>38,983</u>	<u>6,058</u>	<u>--</u>	<u>123,818</u>
At 31 December 2000					
Cost	81,444	107,478	9,041	--	197,963
Valuation	753	--	--	--	753
Accumulated depreciation	(3,420)	(68,495)	(2,983)	--	(74,898)
	<u>78,777</u>	<u>38,983</u>	<u>6,058</u>	<u>--</u>	<u>123,818</u>

At 31 December 1999

Opening net book amount	26,253	16,357	3,027	1,249	46,886
Exchange rate adjustment	--	9	--	--	9
Additions	1,417	1,241	947	2,765	6,370
Disposals and adjustments	--	(1,280)	(468)	(861)	(2,609)
Depreciation charge	(760)	(5,644)	(860)	--	(7,264)
Closing net book amount	<u>26,910</u>	<u>10,683</u>	<u>2,646</u>	<u>3,153</u>	<u>43,392</u>

At 31 December 1999

Cost	21,234	48,257	4,181	3,153	76,825
Valuation	6,906	--	--	--	6,906
Accumulated depreciation	(1,230)	(37,574)	(1,535)	--	(40,339)
	<u>26,910</u>	<u>10,683</u>	<u>2,646</u>	<u>3,153</u>	<u>43,392</u>

Freehold properties are stated on the basis of independent valuations conducted by professional valuers during 2000.

	2000	1999
	\$'000	\$'000
2 INVESTMENT IN ASSOCIATED COMPANIES		
Balance at beginning of year	253,267	229,509
Cost of associate acquired	859,498	--
Goodwill	(464,611)	--
Share of results after tax	66,297	28,402
Reserve and other movements	(158,902)	(4,644)
	<u>555,549</u>	<u>253,267</u>

During the year the Group attained a 20.4% interest in RBTT Financial Holdings Limited. A controlling interest in NEM (West Indies) Insurance Limited was also acquired. The resultant change in accounting treatment from an associated company to a subsidiary company accounted for the decline in the Associated Companies' reserves.

The market value of the Group's investment in Associated Companies amounted to \$1,058,342 of which \$555,549 is accounted for in the consolidated financial statements under the equity accounting method.

3 INVESTMENTS

Government securities	1,104,340	203,172
Equities	701,455	743,450
Deposits with financial institutions	434,019	204,855
Debentures and loan stock	346,508	280,597
Mortgages	143,089	89,193
Investment properties	218,319	73,864
Policy loans	95,219	40,245
Other	3,802	3,634
	<u>3,046,751</u>	<u>1,639,010</u>

Investment Properties

Balance at beginning of year	73,864	232,113
Additions	129,724	373
Fair value gains	17,622	3,128
Disposal of investment property	<u>(2,891)</u>	<u>(161,750)</u>
	<u>218,319</u>	<u>73,864</u>

	2000	1999
	\$'000	\$'000

4. PENSION PLAN ASSETS

The following information explains the quantification of the assets recognised in the Balance Sheet and the net income for the year in accordance with the provision of IAS 19.

Pension plan assets	248,516	174,776
Present value of obligation to plan members	<u>(49,369)</u>	<u>(31,644)</u>
Value of surplus	199,147	143,132
Assets ineligible for recognition under IAS 19	<u>(117,657)</u>	<u>(78,835)</u>
IAS 19 balance sheet asset	<u>81,490</u>	<u>64,297</u>

The amount in the profit and loss account is made up as follows:

Expected return on assets	20,973	20,985
Net actuarial gain/(loss) recognised during the year	17,737	(17,558)
Interest cost	(3,164)	( 3,068)
Current service cost	<u>(1,603)</u>	<u>( 1,416)</u>
	33,943	( 1,057)
Adjustment in value of recognisable assets	<u>(29,229)</u>	5,264
Net income for the year	<u>4,714</u>	<u>4,207</u>
Balance at beginning of year	174,776	174,871
Expected return on assets	20,973	20,985
Benefit payments	<u>(2,500)</u>	<u>(3,522)</u>
	193,249	192,334
Actuarial gain/(loss) on assets for the year	23,903	(17,558)
Fair value of pension plan assets of acquired subsidiary	<u>31,364</u>	--
Balance at end of year	<u>248,516</u>	<u>174,776</u>

The principal actuarial assumptions used for accounting purposes were:

Discount rates	9.75% -10%
Future salary increases	6% - 7%
Expected return on plan assets	10% -12%
Post retirement mortality	Pensions annuitant 1990 ultimate
Pre retirement mortality	Annuitants 1967 to 1970 ultimate
Withdrawal from service	Nil
Future pension increases	Nil
Proportion of employees opting for early retirement	Nil

2000	1999
\$'000	\$'000

5 VALUE TO SHAREHOLDERS' OF  
IN-FORCE LONG TERM BUSINESS

Balance at beginning of year	110,051	96,597
Amount arising on acquisition of insurance portfolios	154,882	-
Increase in the value to shareholders' of in-force long term business	<u>17,954</u>	<u>13,454</u>
Balance at end of year	<u>282,887</u>	<u>110,051</u>

6 GOODWILL

Balance at beginning of year	96,943	99,946
Goodwill acquired during the year		
- Subsidiaries	116,625	-
- Associated companies	464,611	-
Amortisation.	<u>(14,769)</u>	<u>(3,003)</u>
Balance at end of year	<u>663,410</u>	<u>96,943</u>
Cost	684,185	102,949
Accumulated amortisation	<u>(20,775)</u>	<u>(6,006)</u>
	<u>663,410</u>	<u>96,943</u>

7 CURRENT ASSETS

Property developments	329,584	234,836
Receivables and prepayments	377,145	182,344
Interest and dividends receivable	33,182	40,128
Due from reinsurers	25,774	22,726
Other receivables	17,064	10,172
Cash at bank and in hand	<u>209,839</u>	<u>22,417</u>
	<u>992,588</u>	<u>512,623</u>

8 SHARE CAPITAL

Issued and fully paid		
125,625,000 ordinary shares of no par value	<u>37,766</u>	<u>36,422</u>
(1999 - 62,512,250 ordinary shares before stock dividend)		
At beginning of year	62,512	30,781
Issue of shares - share option scheme	300	475
Stock dividend	<u>62,813</u>	<u>31,256</u>
At end of year	<u>125,625</u>	<u>62,512</u>

Executive Stock Option Plan

The Group operates a Stock Option Plan for its executives. A total of 13,031,252 shares have been allocated to this plan since inception, inclusive of bonus issues and stock dividends as well as the increase approved at the Annual Meeting in 1999.

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

Total shares allocated to the plan	13,031
Issued pursuant to exercise of options	(5,156)
Outstanding options	<u>(2,476)</u>
Remaining shares allocated to plan in respect of which options have not been granted	<u>5,399</u>

These options were granted at the market price of the shares at the time the options were granted.

	2000	1999
	\$'000	\$'000
9. RESERVES		
Investment valuation reserve	225,767	291,857
Revaluation reserve	2,866	78,602
Reserve arising on consolidation	--	13,947
Associated companies reserves	5,455	13,076
Translation Reserve	<u>(25,715)</u>	<u>--</u>
	<u>208,373</u>	<u>397,482</u>

The investment valuation and revaluation reserves were reduced by \$210,882 as a result of the change to the equity accounting method for the Group's investment in RBT Financial Holdings Limited resulting from the attainment of a 20.4% interest from July 2000 (see also note 2).

Associated Companies Reserves		
Investment and revaluation reserves	1,359	11,757
Capital reserve	2,259	44
Statutory reserve	<u>1,837</u>	<u>1,275</u>
	<u>5,455</u>	<u>13,076</u>

10. MEDIUM TERM DEBT

Total borrowings:		
Parent company	531,664	153,227
Subsidiary	13,230	--
Joint venture	<u>124,327</u>	<u>9,324</u>
	<u>669,221</u>	<u>162,551</u>
Less: current portion	<u>358,800</u>	<u>--</u>
	<u>310,421</u>	<u>162,551</u>

Parent Company

Loan 1 - \$61.3 million

Interest is charged at 10.5% per annum and is repayable semi-annually. The principal will be repaid in September 2002. The loan is secured by equity investments.

Loan 2 - \$90.0 million

Interest is charged at 13.15% per annum and is payable quarterly. The principal will be repaid in December 2001. The loan is unsecured.

Loan 3 - \$40.0 million

Interest is charged at 12.75% and is payable quarterly. The principal will be repaid in April 2001. The loan is secured by equity investments.

Loan 4 - \$100.0 million

Interest is charged at 12% per annum. Interest and principal will be repaid at maturity in June 2001. The loan is unsecured.

Loan 5 - \$71.4 million

Interest is charged at 17% per annum. Interest and principal will be repaid at maturity in June 2001. The loan is unsecured.

Loan 6 - \$49.8 million

Interest is charged at 10.5% per annum and is payable quarterly. The principal will be repaid in December 2001. The loan is secured by equity investments.

Loan 7 - \$119.1 million

Interest is charged at 12.75% per annum. The principal and interest will be repaid over three years commencing April 2002. The loan is secured by equity investments.

Subsidiary

This loan bears interest at 0.5% below the minimum lending rate for United States Dollars and is secured by equity and other investments.

Joint Ventures

This represents the Group's proportionate share of the debt of the joint venture companies.

Tobago Plantations Limited

The loan to the joint venture company is secured by a deed of mortgage over the company's freehold land. Interest is charged at a rate of local US dollar prime plus 0.75% per annum.

RGM Limited

These loans bear interest at rates between 12.25% and 13% and are secured by property and buildings.

	2000 \$'000	1999 \$'000
11 DEFERRED TAX		
Effect of adopting IAS 12	14,767	11,808
Charge for the year	<u>2,858</u>	<u>2,959</u>
	<u>17,625</u>	<u>14,767</u>
Deferred tax liabilities are attributable to the following:		
Accelerated tax depreciation	671	-
Pension plan assets	731	670
Value to shareholders of long term insurance business in force	8,064	7,595
Zero Coupon Bonds	<u>8,159</u>	<u>6,502</u>
	<u>17,625</u>	<u>14,767</u>
12 INSURANCE FUNDS		
Life Assurance Funds		
Long term insurance contracts	986,121	551,910
Deposit administration contracts	944,392	390,053
Unit-linked funds	<u>748,259</u>	<u>455,585</u>
	<u>2,678,772</u>	<u>1,397,548</u>
Participating policyholders' share of the surplus from long term insurance business	<u>229,883</u>	<u>184,174</u>
	<u>2,908,655</u>	<u>1,581,722</u>
General Insurance Funds		
Unearned premiums	126,077	-
Outstanding claims	129,670	-
Catastrophe reserve	<u>14,685</u>	<u>-</u>
	<u>270,432</u>	<u>-</u>
	<u>3,179,087</u>	<u>1,581,722</u>



13. CURRENT LIABILITIES

Bank overdraft and other short term borrowings	125,073	67,266
Current portion of medium term debt	358,800	-
Insurance and other payables and accrued charges	417,891	165,347
Due to reinsurers	18,631	18,472
Provision for taxation	12,660	1,705
Dividends	<u>37,688</u>	<u>26,256</u>
	<u>970,743</u>	<u>279,046</u>

Interest on short-term borrowings was charged at rates between 12.5% and 13.5% during the year.

14. REVENUE

	2000	1999
	\$'000	\$'000
Premium income net of reinsurance	663,133	213,747
Investment income	173,451	188,655
Income from real estate operations	78,554	35,800
Increase in value of recognisable pension plan assets (Note 4)	<u>4,714</u>	<u>4,207</u>
	<u>919,852</u>	<u>442,409</u>

Included in premium income and investment income respectively are the following:

Increase in the value to shareholders of long term insurance business in-force	<u>17,954</u>	<u>13,454</u>
Transfer from investment valuation reserve	<u>37,147</u>	<u>41,022</u>

15. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

Policyholders' benefits	263,046	233,193
Staff cost	144,853	63,621
Depreciation	13,347	7,264
Directors' fees	963	437
Auditors' remuneration	<u>1,496</u>	<u>442</u>
Staff cost includes:		
Pension costs	<u>844</u>	<u>-</u>

The average number of employees in 2000 was 1,572 (1999: 786)

16. TAXATION

Subsidiaries	9,943	4,653
Associated companies	24,612	13,768
Joint ventures	25	467
Deferred tax	<u>2,858</u>	<u>2,959</u>
	<u>37,438</u>	<u>21,847</u>

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

Operating profit	<u>190,229</u>	<u>116,648</u>
Prima facie tax calculated at corporation tax rate of 35% (1998 - 35%)	66,580	40,827
Effect of different tax rate of life insurance companies	( 20,327)	(18,881)
Effect of different tax rates in other countries	-	156
Income not subject to tax	(384,710)	(58,015)

	2000	1999
	\$'000	\$'000
Expenses not deductible for tax purposes	378,339	63,350
Utilisation of tax losses	(2,444)	(9,293)
Effect of current year losses	--	3,703
	<u>37,438</u>	<u>21,847</u>

17 DIVIDENDS

Interim dividend paid - 8¢ per share		
(1999 - 5¢ per share adjusted for stock dividend)	10,050	6,251
Final - 30¢ per share		
(1999 - 21¢ per share adjusted for stock dividend)	<u>37,688</u>	<u>26,256</u>
	<u>47,738</u>	<u>32,507</u>

18. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

Net profit attributable to shareholders	<u>137,940</u>	<u>94,462</u>
Weighted average number of ordinary shares in issue	<u>125,548</u>	<u>124,759</u>
Basic earnings per share	<u>1.10</u>	<u>0.76</u>

For the diluted earnings per share the weighted average number of ordinary shares in issue is adjusted for the share options granted to the executives.

Net profit attributable to shareholders	<u>137,940</u>	<u>94,462</u>
Weighted average number of ordinary shares for diluted earnings per share	<u>126,769</u>	<u>125,206</u>
Diluted earnings per share	<u>1.09</u>	<u>0.75</u>

19. ACQUISITION OF SUBSIDIARIES

Jamaican Subsidiaries

Effective 1 October 1999 and 1 October 2000, the Group acquired 100% of the share capital of Guardian Life Limited and West Indies Alliance Insurance Company Limited respectively.

Purchase consideration	
Cash paid	298,960
Other consideration	40,161
Fair value of net assets acquired	<u>(251,646)</u>
Goodwill	<u>87,475</u>

The fair value of the net assets approximated to the book value of the net assets acquired.

The assets and liabilities arising from the acquisition are as follows:

Cash and cash equivalents	16,835
Non current assets	986,094
Current assets other than cash and cash equivalents	532,099
Non current liabilities	(1,183,356)
Current liabilities	<u>(100,026)</u>
	251,646
Goodwill	<u>87,475</u>
Total purchase consideration	339,121
Cash paid in 1999	(146,672)
Non-cash consideration	(40,161)
Cash and cash equivalents acquired	<u>(16,835)</u>
Cash outflow from acquisition	<u>135,453</u>

NEM (West Indies) Insurance Limited  
Effective I October 2000, the Group acquired an additional 4.5% of the share capital of NEM (West Indies) Insurance Limited. This increased the Group's total shareholdings to 51.2%, which changed the Group status of NEMWIL from an associated to a subsidiary company.

Purchase Consideration	
Cash paid	17,142
Fair value of net assets acquired	<u>(12,340)</u>
Goodwill	<u>4,802</u>

The fair value of the net assets approximated the book value of the net assets acquired.

The assets and liabilities arising from the acquisition are as follows:

Cash and cash equivalents	180,298
Goodwill	20,168
Other non-current assets	319,171
Current assets other than cash and cash equivalents	86,804
Non current liabilities	(240,864)
Current liabilities	<u>( 92,405)</u>
	273,172

Goodwill		4,802
Less net assets acquired in previous years		<u>(260,832)</u>
Total purchase consideration		17,142
Less cash and cash equivalents acquired		<u>(180,298)</u>
Cash inflow from acquisition		<u>(163,156)</u>

Subsidiaries:

Jamaican subsidiaries cash outflow	135,453	
NEM (West Indies) Insurance Limited cash inflow	<u>(163,156)</u>	
Net cash inflow from acquisitions	<u>(27,703)</u>	

	2000	1999
	\$'000	\$'000
20 NET CASH		
Cash at bank and in hand (Note 7)	209,839	22,417
Bank overdraft and other short term borrowings (Note 13)	<u>(125,073)</u>	<u>(67,266)</u>
	84,766	<u>(44,849)</u>
At beginning of year	<u>(44,849)</u>	(82,343)
At end of year	84,766	<u>(44,849)</u>
Net increase in cash	<u>129,615</u>	<u>37,494</u>

21. FINANCIAL INSTRUMENTS

21.1 INTEREST RATE RISK

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing liabilities and assets. Exposure is managed largely by the use of natural hedges that arise by matching interest sensitive assets with liabilities of a similar nature.

21.2 FOREIGN EXCHANGE RISK

Most of the Group's liabilities are denominated in local currency and are matched with local assets. The strategy for dealing with foreign exchange risk is to offset as far as possible foreign currency liabilities with assets denominated in the same currency.

### 21.3 CREDIT RISK

The Group has no significant concentration of credit risk. The Group minimises its credit risk by limiting its investment in mortgages and its counterparties to Government, major banks and financial institutions.

### 21.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are carried at amounts which approximate their fair values at the balance sheet date. The following methods and assumptions have been used to estimate fair value.

Cash and cash equivalents, investments and other non-current assets

The carrying amounts of cash and certain other financial assets approximate fair values. The fair value of publicly traded instruments is based on quoted market values. Market values were determined on the basis of available information at the end of the financial year and, therefore, did not take into account subsequent movements.

As provided in the Statement of Significant Accounting Policies, unquoted securities are stated at the lower of cost or directors' valuation and corporate bonds are stated at cost in the absence of market values and are considered to reflect fair value.

Mortgages are granted under typical market conditions and their values are not adversely affected by unusual terms.

Receivables, payables and short-term borrowings

The carrying amounts are a reasonable estimate of the fair values because of their short-term nature.

Medium term debt

Medium term debt is carried at amounts which reflect contractual obligations.

## 22. CONTINGENT LIABILITIES AND COMMITMENTS

### 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.

### Taxation

The Board of Inland Revenue has raised additional assessments in certain subsidiaries within the Group for the years of income 1994 to 1997 for the aggregate amount of \$68 million. The Directors, based on appropriate advice, are satisfied that the returns have been properly filed and have objected to the assessments. Accordingly, no adjustments have been reflected in these financial statements.

### Capital Commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements, is as follows:

	2000 \$'000	1999 \$'000
Property, plant and equipment	-	573
Property developments	<u>216,634</u>	<u>125,600</u>
	<u>216,634</u>	<u>126,173</u>
Operating lease commitments		
Within one year	1,883	2,178
One to five years	3,761	7,798
Over five years	-	57
	<u>5,644</u>	<u>10,033</u>

Rental expense under these leases amounted to \$2,371,963 for the year ended 31 December 2000 (1999 - \$1,733,062).

23. SUBSIDIARY, JOINT VENTURES AND ASSOCIATED COMPANIES

Subsidiaries	Percentage of interest held
Guardian Life of the Caribbean Limited	80
Guardian Life Limited	80
BancAssurance Caribbean Limited	80
Guardian Properties Limited	100
West Indies Alliance Insurance Limited	100
Star Technologies Limited	100
NEM (West Indies) Insurance Limited	51.2
Joint ventures	
Tobago Plantations Limited	50
RGM Limited	33.3
Associated Companies	
RBTT Financial Holdings Limited	20.4
Neal & Massy Holdings Limited	20.1

All undertakings are incorporated in the Republic of Trinidad and Tobago except for Guardian Life Limited, West Indies Alliance Insurance Limited, and Star Technologies Limited, which are incorporated in Jamaica.

The following amounts represent the Group's share of the assets and liabilities and revenues and expenses of the joint venture companies included in the consolidated balance sheet and income statement:

	2000 \$'000	1999 \$'000
Property, plant and equipment	7,931	6,940
Associated company	--	25,017
Investments	198,006	164,823
Current assets	<u>26,916</u>	<u>14,726</u>
	<u>232,853</u>	<u>211,506</u>
Life assurance funds	--	79,017
Current liabilities	<u>57,808</u>	<u>25,567</u>



	<u>57,808</u>	<u>104,584</u>
Net assets	175,045	106,922
Revenue	<u>31,548</u>	<u>13,427</u>
Profit before taxation	22,364	5,329
Taxation	<u>25</u>	<u>467</u>
Profit after taxation	<u>22,339</u>	<u>4,862</u>

	2000	1999
	\$'000	\$'000
Proportionate interest in joint venture companies' commitments	<u>124,133</u>	<u>-</u>
Proportionate interest in joint venture companies' contingent liabilities	<u>4,500</u>	<u>-</u>

24. SEGMENT REPORTING FORMAT FOR THE YEAR ENDED DECEMBER 31, 2000

Primary Reporting Format - Business Segments

	Long-term Insurance Business	Short-term Insurance Business	Property	Other	Group
Year ended 31 December 2000			-		
Total revenue	833,145	8,789	77,918	--	919,852
Profit before taxation	55,189	9,662	42,980	82,398	190,229
Taxation	<u>11,616</u>	<u>3,545</u>	45	<u>22,232</u>	<u>37,438</u>
Profit after taxation	43,573	6,117	42,935	60,166	152,791
Transfer to reserves	-	-	-	986	986
Minority interests	<u>13,436</u>	-	-	429	<u>13,865</u>
Profit available to shareholders	<u>30,137</u>	<u>6,117</u>	<u>42,935</u>	<u>58,751</u>	<u>137,940</u>
Net assets	524,973	5,255	57,355	38,329	625,912

Profit derived from short-term business arose as a result of the Group's acquisition of West Indies Alliance Insurance Limited. Effective October 2000 the Group increased its interest in NEM (West Indies) Insurance Limited to 51%. Accordingly, the profit from NEM (West Indies) Insurance Limited was accounted in these financial statements through equity accounting. Notwithstanding, the assets and liabilities of that company have been consolidated into the Group's assets and liabilities as at 31 December.

Year ended 31 December 1999	Long-term Insurance Business	Short-term Insurance Business	Property	Other	Group
Total Revenue	390,745	-	51,664	-	442,409
Profit before taxation	52,627	6,585	26,576	30,860	116,648
Taxation	7,860	931	8	13,048	21,847
Profit after taxation	44,767	5,654	26,568	17,812	94,801
Transfer to reserves	339	-	-	-	339
Profit available to shareholders	44,428	5,654	26,568	17,812	94,462
Net assets	640,546	-	10,166	30,785	681,497

	Total Revenue		Total Assets	
	2000	1999	2000	1999
Trinidad and Tobago	459,387	433,483	3,445,508	2,409,049
Other individual countries over 10% threshold				
Jamaica	451,995	-	1,481,789	-
Barbados			41,836	-
Other countries	8,470	8,926	221,811	57,267
	<u>919,852</u>	<u>442,409</u>	<u>5,190,944</u>	<u>2,466,316</u>
Associates			555,549	253,267
Total assets			<u>5,746,493</u>	<u>2,719,583</u>

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