

Second Quarter Results to June 30, 2010

Chairman's Statement

My dear fellow shareholders

The first six months of 2010 have proven to be excellent for the Guardian Group. In February of this year we completed the sale of our loss making U.K. motor business, Zenith, thus removing a huge drag on our earnings. In May we announced that the International Finance Corporation and GHL had entered into an equity transaction to both bolster the Group's balance sheet and provide additional growth capital. Additionally, A.M. Best recently reaffirmed their A- (excellent) rating for both Guardian Life of the Caribbean and Guardian General. I will address each of these in more detail later on.

Operationally during the first six months, we continued to deliver on our primary goal of producing consistent, good quality earnings. For the half year our profit after tax was \$34.2 million as compared to \$9.9 million over the comparable period last year. This represents a 245% increase in profit. Excluding the effects of Zenith from the six month 2009 results shows an impressive increase in after tax profits of 25%.

On the revenue side, our business has demonstrated its resilience in the face of the continued economic slowdown which affects our region. Despite the continued economic contraction in our major markets our net written premium increased 12% over the prior year. Continuing its impressive double-digit organic growth, our Life, Health, and Pension business recorded top line growth of 18% over the comparable period last year. Our Caribbean Property and Casualty business meanwhile continued to hold the line against rate decreases in a very competitive marketplace and, while achieving minimum growth, delivered exceptional underwriting profits.

Profit before tax from continuing operations amounted to \$51 million compared to the six month 2009 result of \$40 million, a 26% improvement. Both of our regional insurance segment's operating performance beat last year's similar period results, with Guardian General in particular achieving an extremely good combined loss ratio of 75.1%. Unfortunately our International Property and Casualty business, which now comprises our Lloyds business and our reinsurance business Guardian Re, suffered net losses after tax of \$4 million due primarily to the Chilean earthquake losses and the European windstorm losses which we reported on in the first quarter.

Our investment activities comprise our proprietary investment activities related to our insurance business as well as our third-party asset management business, both of which are managed by Guardian Asset Management. Our proprietary investment activities also performed very well during the first six months of 2010. Investment income amounted to \$68 million, while our investment portfolio produced fair value gains of \$27 million during the first six months of the year. In addition, as indicated in my last report, we look for opportunities to crystallize our fair value gains, and so far during this year we can report \$3 million in realized gains as compared to \$1 million last year. The third-party asset management business saw its operating profits before fair value gains increase by 12% over last year's similar period, while Guardian Asset Management in Trinidad and Tobago increased its funds under management to \$220 million. As reported in the press recently, we have entered an agreement to sell our asset management business in Jamaica. With the local government and regulators in Jamaica de-emphasizing the main business of GAM Jamaica, which is their repurchase trading business, we felt this was an opportune time to exit the business. Subject to regulatory approval and confirmatory due diligence of the buyer, we expect this transaction to close by the end of August. We continue to be very bullish on the Guardian Asset Management business in Trinidad and Tobago.

A very meaningful milestone in the Group's history is the aforementioned equity transaction with the IFC. The agreement, which has now passed all of the IFC's internal approval processes, awaits only our shareholders' approval before closing. This investment by the IFC, which was made at a significant premium above our share price, was achieved only after they performed an extremely thorough due diligence on the company. The IFC makes equity investments only in companies that demonstrate the best in class for corporate governance, risk management, and corporate social responsibility. GHL has demonstrated all of these qualities. From IFC's perspective, GHL, with its track record and wide reach within the Caribbean, provides an excellent platform to help achieve their goal of expanding and deepening insurance penetration throughout the Caribbean and beyond. Both the IFC and GHL see tremendous potential shareholder value creation in this agreement.

Another external affirmation of the Group's strength was the recently released A.M. Best rating of Guardian Life of the Caribbean and Guardian General. While many of our competitors in the region and internationally have suffered downgrades, A.M. Best reaffirmed the excellent financial strength rating of both of these flagship companies. Additionally, I would like to note that World Finance magazine has bestowed the prestigious Caribbean Company of the Year award upon Guardian Life of the Caribbean for an unprecedented third year in a row.

Given the continued improvement in the financial results of the Group, your Board of Directors has approved an interim dividend of .03 per share. Contemplating the dividend for the 29.7 million new shares to the IFC, this represents a dividend payout of \$6 million, a 77% increase over last year's interim dividend. I would like to point out to our shareholders that while the GHL share price, which is of course subject to many external factors and beyond our immediate control, has depreciated over the last 5 years; we have continued to maintain a good dividend policy, through the good times and bad. Over the last five and one-half years we have paid out over \$70 million in dividends, \$45 million which has come over the last two and one-half years. In uncertain financial markets like we currently have, I hope you see, like I do, the value in holding GHL shares.



Arthur Lok Jack
Chairman
August 10, 2010

Consolidated Income Statement

	Unaudited 6-Months June 2010 US\$'000	Unaudited 6-Months June 2009 US\$'000 (Restated)	Unaudited 3-Months June 2010 US\$'000	Unaudited 3-Months June 2009 US\$'000 (Restated)	Audited 12-Months Dec 2009 US\$'000
Gross premiums written	383,093	354,966	187,348	169,168	668,498
Reinsurance ceded	(68,916)	(74,905)	(43,082)	(40,770)	(118,560)
Net premiums written	314,177	280,061	144,266	128,398	549,938
Net movement in unearned premiums	(12,205)	(28,926)	4,798	(11,252)	(30,022)
Net insurance premium income earned	301,972	251,135	149,064	117,146	519,916
Investment income	67,855	74,916	32,817	38,047	147,907
Fee & commission income	10,554	10,227	5,879	5,469	22,492
Other operating income	6,358	14,137	1,962	8,436	24,578
Total revenue	386,739	350,415	189,722	169,098	714,893
Net insurance benefits and claims	(221,941)	(187,188)	(105,396)	(92,943)	(376,475)
Policy acquisition expenses	(79,605)	(67,776)	(40,193)	(31,487)	(143,929)
Operating expenses	(56,002)	(56,229)	(28,709)	(31,858)	(110,835)
Operating profit before fair value gains	29,191	39,222	15,424	12,810	83,653
Fair value gains	27,226	9,766	4,402	25,030	8,980
Operating profit	56,417	48,988	19,826	37,840	92,633
Share of profit / (loss) of associated companies	1,262	(838)	830	(1,455)	2,451
Finance charges	(6,975)	(8,105)	(3,872)	(4,047)	(17,356)
Profit before taxation	50,704	40,045	16,784	32,338	77,728
Taxation					
- Current Tax	(10,985)	(8,176)	(5,688)	(4,575)	(18,106)
- Deferred Tax	(3,968)	(3,521)	(868)	(4,589)	(255)
Profit after taxation	35,751	28,348	10,228	23,174	59,367
Amount attributable to participating policyholders	(1,437)	(1,015)	(195)	(999)	(1,007)
Profit from continuing operations	34,314	27,333	10,033	22,175	58,360
Net (loss) / profit on discontinued operations	(129)	(17,443)	497	(15,233)	(187,568)
Profit / (loss) for the period	34,185	9,890	10,530	6,942	(129,208)
Profit / (loss) attributable to:					
Owners of the parent	32,215	8,241	9,938	6,525	(132,935)
Non-controlling interests	1,970	1,649	592	417	3,727
	34,185	9,890	10,530	6,942	(129,208)
Earnings / (loss) per share:					
Basic	\$0.16	(\$0.04)			(\$0.66)
Diluted	\$0.15	(\$0.04)			(\$0.64)

Consolidated Statement of Comprehensive Income

	Unaudited 6-Months June 2010 US\$'000	Unaudited 6-Months June 2009 US\$'000 (Restated)	Unaudited 3-Months June 2010 US\$'000	Unaudited 3-Months June 2009 US\$'000 (Restated)	Audited 12-Months Dec 2009 US\$'000
Profit / (loss) for the period	34,185	9,890	10,530	6,942	(129,208)
Exchange differences on translating foreign operations	(1,405)	7,122	1,900	23,871	44,748
Gains on property revaluation	-	-	-	-	1,703
Net gain on available-for-sale financial assets of mutual funds	7,757	7,296	4,216	7,754	14,607
Actuarial losses on defined benefit pension plans	-	-	-	-	(7,821)
Reserve movements	(549)	(152)	(739)	2	265
Income tax relating to components of other comprehensive income	3	-	(20)	-	28
Other comprehensive income for the period	5,806	14,266	5,357	31,627	53,530
Total comprehensive income / (loss) for the period	39,991	24,156	15,887	38,569	(75,678)
Total comprehensive income / (loss) attributable to:					
- Owners of the parent	34,175	17,662	13,179	31,751	(89,720)
- Non-controlling interests	5,816	6,494	2,708	6,818	14,042
	39,991	24,156	15,887	38,569	(75,678)

Consolidated Statement of Financial Position

	Unaudited June 2010 US\$'000	Unaudited June 2009 US\$'000 (Restated)	Audited Dec 2009 US\$'000
ASSETS			
Property, plant and equipment	79,111	92,985	80,047
Investment properties	148,713	123,603	150,951
Intangible assets	42,347	106,841	42,527
Investment in associated companies	43,095	41,953	43,132
Financial assets	1,785,319	1,760,599	1,690,508
Financial assets of Mutual Fund unit holders	183,320	130,169	151,464
Loans and receivables including reinsurance receivables	167,720	184,096	188,349
Pension plan assets	7,297	18,058	8,494
Value to shareholders of inforce long term business	96,958	88,571	91,860
Deferred tax asset	3,753	9,072	7,456
Reinsurance assets	79,735	199,879	64,230
Deferred acquisition costs	77,666	95,692	73,421
Taxation recoverable	29,379	20,330	24,911
Cash and cash equivalents	307,156	448,746	331,170
Cash and cash equivalents of Mutual Fund unit holders	20,075	5,902	20,507
Other assets	191,673	273,968	181,917
Assets held for sale	151,340	-	207,614
	3,414,657	3,600,464	3,358,558
Segregated funds			
Segregated fund assets of life insurance policyholders	70,099	58,388	63,098
Total assets	3,484,756	3,658,852	3,421,656
EQUITY AND LIABILITIES			
Share capital	243,553	242,987	243,246
Reserves	(49,398)	(93,324)	(51,903)
Retained earnings	198,191	328,972	177,023
Equity attributable to owners of the parent	392,346	478,635	368,366
Non-controlling interests			
Mutual Fund holders	167,234	109,972	136,312
Non-controlling interests in subsidiaries	14,806	15,913	16,592
Total non-controlling interests	182,040	125,885	152,904
Total equity	574,386	604,520	521,270
LIABILITIES			
Insurance contracts	1,765,497	2,072,004	1,654,163
Financial liabilities	720,161	744,354	762,432
Post retirement medical benefit obligations	11,645	8,837	10,937
Deferred tax liability	29,948	37,270	31,432
Provision for taxation	19,062	12,663	15,073
Other liabilities	125,855	120,816	135,437
Liabilities related to assets held for sale	168,103	-	227,814
	2,840,271	2,995,944	2,837,288
Segregated fund liabilities of life insurance policyholders	70,099	58,388	63,098
Total liabilities	2,910,370	3,054,332	2,900,386
Total equity and liabilities	3,484,756	3,658,852	3,421,656

These financial statements have been approved for issue by the Board of Directors on August 5, 2010 and signed on its behalf:

Director:  Director: 

Consolidated Statement of Changes in Equity

	Unaudited June 2010 US\$'000	Unaudited June 2009 US\$'000 (Restated)	Audited Dec 2009 US\$'000
Balance at the beginning of the period	521,270	564,854	564,854
Profit / (loss) for the period	34,185	9,890	(129,208)
Other comprehensive income / (loss) for the period	5,806	14,266	53,530
Total comprehensive income / (loss) for the period	39,991	24,156	(75,678)
Net change in Mutual Fund holder balances	25,725	29,168	50,885
Share option scheme - value of services provided	307	833	1,447
Repurchase of shares	-	(241)	(241)
Dividends	(12,907)	(14,250)	(19,997)
Balance at the end of the period	574,386	604,520	521,270

Consolidated Statement of Cash Flows

	Unaudited June 2010 US\$'000	Unaudited June 2009 US\$'000 (Restated)	Audited Dec 2009 US\$'000
Profit before taxation from continuing operations	50,705	40,046	77,728
Loss before taxation from discontinued operations	(129)	(17,443)	(187,336)
Adjustment for specific items included on the accruals basis:			
- Interest expense	6,975	8,105	17,356
- Investment income	(67,855)	(74,916)	(147,907)
Interest and dividends received	81,499	78,374	141,502
Adjustments for non-cash items	(14,442)	443	195,368
Operating profit before changes in operating assets / liabilities	56,753	34,609	96,711
Net increase in insurance liabilities	111,334	162,639	132,677
Net purchases of financial assets	(104,769)	(110,751)	(161,987)
Net movement in other operating assets and liabilities	(24,824)	(130,887)	(165,414)
Cash provided by / (used in) operating activities	38,494	(44,390)	(98,013)
Interest paid	(6,412)	(8,063)	(15,622)
Net taxation paid	(6,150)	(5,584)	(11,618)
Net cash provided by / (used in) operating activities	25,932	(58,037)	(125,253)
Net cash (used in) / provided by investing activities	(1,802)	(2,879)	5,651
Net cash (used in) / provided by financing activities	(43,347)	30,952	80,866
Net decrease in cash and cash equivalents	(19,217)	(29,964)	(38,736)

Segment Information

	Life, health and pension business US\$'000	Property and casualty business US\$'000	Asset management US\$'000	Other US\$'000	Total Group US\$'000
Six months ended 30 June 2010					
Total segment revenue	236,020	187,866	12,367	5,351	441,604
Inter-segment revenue	(6,587)	(42,965)	(556)	(4,757)	(54,865)
Revenue from external customers	229,433	144,901	11,811	594	386,739
Operating profit / (loss) before fair value gains	19,203	11,367	5,753	(7,132)	29,191
Fair value gains	13,361	1,848	12,015	2	27,226
Operating profit / (loss)	32,564	13,215	17,768	(7,130)	56,417
Six months ended 30 June 2009					
Total segment revenue	210,654	180,455	12,525	5,289	408,923
Inter-segment revenue	(3,490)	(47,770)	(2,831)	(4,417)	(58,508)
Revenue from external customers	207,164	132,685	9,694	872	350,415
Operating profit / (loss) before fair value losses	24,297	15,946	5,192	(6,213)	39,222
Fair value losses	5,049	795	4,134	(212)	9,766
Operating profit / (loss)	29,346	16,741	9,326	(6,425)	48,988
Total assets					
30 June 2010	2,065,141	911,743	461,248	46,624	3,484,756
30 June 2009 (Restated)	1,877,617	1,263,480	367,030	150,725	3,658,852
31 December 2009	1,950,886	907,339	459,109	104,322	3,421,656

Note:

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2009. For comparative purposes, adjustments and reclassifications to prior year numbers have been made to conform to the current year reporting.