Guardian Group
Guardian Holdings Limited

Guardian Holdings Limited
Consolidated Financial Statements

First Quarter Results to 31 March, 2018

Expressed in Trinidad and Tobago Dollars

CHAIRMAN'S REPORT

Dear Shareholders,

Adoption of new financial reporting standards

As I explained at our Annual General Meeting held on 24 April 2018, the late publication of the Group's first quarter's results is solely and directly the result of the adoption of two new financial reporting standards with effect from 1 January 2018. These are IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments. IFRS 15 does not have any material impact on the Group's financial reporting and did not require retrospective adjustments. In contrast, IFRS 9, which replaces IAS 39 Financial Instruments: Recognition and Measurement, introduces new measurement categories for financial instruments and the concept of expected credit losses on substantially all financial assets. The implementation of IFRS 9 required a considerable amount of investment valuation modelling and material changes to the method in which investment fair value measurements are accounted for. These are highlighted in the accompanying financial statements and notes thereto.

The transition provisions of IFRS 9 do not require comparative figures to be restated, and consequently, the total impact on initial application has been recognized in the opening statement of financial position as at 1 January 2018. I wish to emphasize that because comparatives have not been restated, the Group's results for the quarters ended 31 March 2018 and 31 March 2017 are not strictly comparable, as the consolidated financial statements for the latter were prepared using IAS 39.

Commentary

Group profit attributable to equity shareholders for the three months ended 31 March 2018 amounted to $72 million, a decline of $18 million or 20% when compared to the corresponding period last year ($90 million). This disappointing result was due principally to Net fair value losses of $37 million recognized in the current period, as opposed to gains of $63 million recorded in the prior period, an overall swing of $100 million. These movements substantially arose from our equity portfolios and reflect intrinsic volatility in equity markets. The Group is not distracted by short-term movements in equity prices, as we remain confident that superior long-term returns will be derived from this investment class.

The Group's Net income from insurance underwriting activities increased by $80 million or 78% to $183 million, as our organic growth initiatives continued to be successful with Gross and Net written premiums increasing year-over-year by $275 million (17%) and $165 million (15%) respectively.

Net income from investing activities declined by $90 million, from $279 million to $189 million, owing to the previously mentioned swing in Net fair value gains and losses.

As a result of applying the expected credit loss model in IFRS 9, the Group will now record an impairment gain or loss on financial assets in each reporting period. For the period ended 31 March 2018, the Group recognized an impairment gain of $5 million. We take the opportunity to note that the expected credit loss model will result in the earlier recognition of possible impairment losses, which must be recorded at the time that a financial asset is initially recognized. The assessment of an instrument's credit risk may change period by period, as a result of, inter alia, purely external considerations for example, sovereign ratings, with a consequent impact on the consolidated statement of income.

Our Group appears to have suffered an unusually high tax charge for the quarter. In brief, this is the consequence of the rules governing the taxability of unrealized equity gains and losses versus underwriting income in most jurisdictions. We do not expect this to have a material effect on after tax results in future quarters.

Despite the above-described "mark-to-market" effect on our investments, the core insurance performance reflects the success of our many initiatives underway. Your Directors are satisfied that our Group is progressing along its strategic path. I thank shareholders for their continued support of GHL.

Henry Peter Ganteaume
Deputy Chairman, GHL
28 May 2018.

SUMMARY CONSOLIDATED STATEMENT OF INCOME

	Unaudited 3-Months Mar 2018 TT$'000	Unaudited 3-Months Mar 2017 TT$'000	Audited 12-Months Dec 2017 TT$'000
Gross written premiums	1,894,051	1,619,552	5,472,644
Net written premiums	1,238,207	1,073,595	3,926,948
Net income from insurance underwriting activities	182,738	102,898	403,099
Net income from investing activities	189,192	278,731	1,190,957
Net income from brokerage activities	7,245	4,523	15,733
Net income from all activities	379,175	386,152	1,609,789
Net impairment gains on financial assets	4,557	-	-
Operating expenses	(240,803)	(235,238)	(979,327)
Finance charges	(34,382)	(32,161)	(128,893)
Operating profit	108,547	118,753	501,569
Share of profit of associated companies	2,686	4,265	18,646
Profit before taxation	111,233	123,018	520,215
Taxation	(36,386)	(29,370)	(109,924)
Profit after taxation	74,847	93,648	410,291
Amount attributable to participating policyholders	(2,282)	(3,164)	(1,142)
Profit for the period	72,565	90,484	409,149
Profit attributable to non-controlling interests	(498)	(270)	(2,540)
Profit attributable to equity holders of the parent	72,067	90,214	406,609
Earnings per share			
- Basic	$ 0.31	$ 0.39	$ 1.75

SUMMARY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited 3-Months Mar 2018 TT$'000	Unaudited 3-Months Mar 2017 TT$'000	Audited 12-Months Dec 2017 TT$'000
Profit for the period	72,565	90,484	409,149
Other comprehensive income/(loss)			
Exchange differences on translating foreign operations	15,924	25,106	153,041
Net losses on debt instruments at fair value through other comprehensive income	(24,273)	-	-
Losses on property revaluation	-	-	(3,073)
Actuarial losses on post employment benefits	-	-	(93,767)
Other reserve movements	(342)	(96)	(29,916)
Income tax relating to components of other comprehensive income	1,647	-	913
Other comprehensive (loss)/income for the period, net of tax	(7,044)	25,010	27,198
Total comprehensive income for the period, net of tax	65,521	115,494	436,347
Comprehensive income attributable to non-controlling interests	(451)	(78)	(2,224)
Comprehensive income attributable to equity holders of the parent	65,070	115,416	434,123

Guardian Group
Guardian Holdings Limited

Guardian Holdings Limited
Consolidated Financial Statements

First Quarter Results to 31 March, 2018

Expressed in Trinidad and Tobago Dollars

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited Mar 2018 TT$'000	Audited Dec 2017 TT$'000
ASSETS		
Property, plant and equipment	598,215	602,744
Investment properties	1,474,855	1,454,364
Intangible assets	528,237	528,985
Investment in associated companies	223,119	220,844
Investment securities	16,925,579	16,640,755
Investment securities of mutual fund unit holders	1,223,748	1,011,404
Loans and receivables	2,249,455	2,302,980
Properties for development and sale	107,231	103,475
Pension plan assets	83,776	82,957
Deferred tax assets	51,281	40,130
Reinsurance assets	2,056,382	2,211,824
Deferred acquisition costs	116,065	92,615
Taxation recoverable	146,576	163,179
Cash and cash equivalents	1,895,249	2,059,318
Cash and cash equivalents of mutual fund unit holders	122,612	371,062
Total assets	27,802,380	27,886,636
EQUITY AND LIABILITIES		
Share capital	2,004,503	1,993,473
Reserves	(298,282)	(395,592)
Retained earnings	1,383,252	1,701,933
Equity attributable to owners of the parent	3,089,473	3,299,814
Non-controlling interests in subsidiary	22,927	23,071
Total equity	3,112,400	3,322,885
Liabilities		
Insurance contracts	17,386,336	17,132,813
Financial liabilities	2,324,979	2,347,739
Investment contract liabilities	1,990,150	1,989,472
Third party interests in mutual funds	1,056,735	1,177,879
Pension plan liabilities	130,429	130,208
Post retirement medical benefit obligations	106,868	105,804
Deferred tax liabilities	286,648	273,352
Provision for taxation	49,833	58,026
Reinsurance liabilities	350,132	559,314
Other liabilities	1,007,870	789,144
Total liabilities	24,689,980	24,563,751
Total equity and liabilities	27,802,380	27,886,636

These consolidated financial statements have been approved for issue by the Board of Directors on 28 May 2018 and signed on its behalf:

Director: Director:

SUMMARY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Mar 2018 TT$'000	Unaudited Mar 2017 TT$'000	Audited Dec 2017 TT$'000
Balance at beginning of period	3,322,885	3,063,595	3,063,595
Impact of initial application of IFRS 9 (Note 3)	(182,676)	-	-
Total comprehensive income	65,521	115,494	436,347
Other movements	11,025	-	(11,145)
Repurchased vested options	-	-	(8,919)
Dividends	(104,355)	(104,355)	(156,993)
Balance at end of period	3,112,400	3,074,734	3,322,885

SUMMARY CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Mar 2018 TT$'000	Unaudited Mar 2017 TT$'000	Audited Dec 2017 TT$'000
Profit before taxation	111,233	123,018	520,215
Adjustment for specific items included on the accruals basis:			
- Finance charges	34,382	32,161	128,893
- Investment income	(217,116)	(203,280)	(890,823)
Interest and dividends received	179,528	170,893	921,334
Adjustments for non-cash items	96,061	(27,396)	(259,320)
Operating profit before changes in operating assets / liabilities	204,088	95,396	420,299
Net increase in insurance liabilities	114,623	543,345	2,475,337
Net purchases of financial assets	(322,119)	(239,247)	(898,017)
Net purchases of/additions to investment properties	(9,389)	(25,512)	(49,886)
Net movement in other operating assets and liabilities	(120,956)	37,097	(1,186,056)
Cash (used in)/provided by operating activities	(133,753)	411,079	761,677
Interest paid	(38,080)	(41,807)	(138,757)
Net taxation paid	(20,754)	(20,363)	(108,775)
Net cash (used in)/provided by operating activities	(192,587)	348,909	514,145
Net cash used in investing activities	(8,603)	(13,486)	(77,305)
Net cash (used in)/provided by financing activities	(222,220)	(79,080)	75,321
Net (decrease)/increase in cash and cash equivalents	(423,410)	256,343	512,161

SEGMENT INFORMATION

	Life, health and pension business TT$'000	Property and casualty business TT$'000	Asset Management TT$'000	Other including consolidation adjustments TT$'000	Group TT$'000
Three months ended 31 March 2018					
Gross written premiums	1,053,701	840,350	-	-	1,894,051
Net written premiums	995,584	242,623	-	-	1,238,207
Underwriting revenue	957,805	257,625	-	-	1,215,430
Underwriting expenses	(883,281)	(149,746)	-	335	(1,032,692)
Net income/(loss) from investing activities	167,572	10,917	22,100	(11,397)	189,192
Net income from brokerage activities	-	7,245	-	-	7,245
Net income/(loss) from all activities	242,096	126,041	22,100	(11,062)	379,175
Net impairment gains/(losses) on financial assets	(2,165)	8,532	(1,242)	(568)	4,557
Operating expenses	(133,617)	(73,583)	(12,122)	(21,481)	(240,803)
Finance charges	(57)	(2,043)	(342)	(31,940)	(34,382)
Operating profit/(loss)	106,257	58,947	8,394	(65,051)	108,547
Three months ended 31 March 2017					
Gross written premiums	907,260	712,292	-	-	1,619,552
Net written premiums	844,613	228,982	-	-	1,073,595
Underwriting revenue	806,554	241,238	-	-	1,047,792
Underwriting expenses	(806,343)	(139,455)	-	904	(944,894)
Net income/(loss) from investing activities	259,932	26,637	22,020	(29,858)	278,731
Net income from brokerage activities	-	4,523	-	-	4,523
Net income/(loss) from all activities	260,143	132,943	22,020	(28,954)	386,152
Operating expenses	(141,800)	(81,596)	(9,291)	(2,551)	(235,238)
Finance charges	(548)	(4,782)	(113)	(26,718)	(32,161)
Operating profit/(loss)	117,795	46,565	12,616	(58,223)	118,753
Total Assets					
31 March 2018	20,633,805	5,531,928	1,665,285	(28,638)	27,802,380
31 December 2017	20,491,615	5,681,356	1,777,624	(63,959)	27,886,636

NOTES

(1) Basis of Preparation

The summary consolidated financial statements are prepared in accordance with criteria developed by management. Under management's established criteria, management discloses the consolidated statement of financial position, summary consolidated statement of income, summary consolidated statement of comprehensive income, summary consolidated statement of changes in equity and summary consolidated statement of cash flows.

The summary consolidated financial statements have been prepared in accordance with the accounting policies set out in "Note 2" of the 31 December 2017 audited financial statements consistently applied from period to period, except for the adoption of new standards that became effective for the Group from 1 January 2018: IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments.

IFRS 15 Revenue from Contracts with Customers did not have any material impact on the Group's accounting policies and did not require retrospective adjustments; however, the changes in accounting policies in respect of adopting IFRS 9 Financial Instruments are described in Note 2 below, and the impact of the initial application is described in Note 3.

Forward-looking statements

This statement may contain certain forward-looking statements, including but not limited to, statements as to future operating results and plans that involve risks and uncertainties. We use words such as "expects", "anticipates", "believes", or "estimates", the negative of these terms and similar expressions to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to differ materially from any future results, performance or achievements expressed or implied by those projected in the forward-looking statements for any reason.

NOTES (CONTINUED)

(2) Change in accounting policies

Initial Application

IFRS 9 replaces the provisions of IAS 39 Financial Instruments: Recognition and Measurement that relates to the recognition, classification, and measurement of financial assets and liabilities, derecognition of financial instruments, and introduces an expected credit loss model for the impairment of financial assets.

The adoption of IFRS 9 resulted in changes to the Group's accounting policies, and in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The cumulative retrospective impact of applying the new requirements has been reflected in the Group's opening statement of financial position as at 1 January 2018.

Classification

From 1 January 2018, the Group classified its financial assets in the following measurement categories:

- those to be measured at amortised cost, and
- those to be measured subsequently at fair value either through other comprehensive income (OCI), or through profit or loss.

The classification depends on the business model used for managing the financial assets and the contractual terms of the cash flows. The assessment of Group's business models was made as of the date of initial application of IFRS 9, 1 January 2018, and the resulting reclassifications are shown in Note (3).

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the consolidated statement of income.

Debt instruments

Subsequent to initial recognition, debt instruments are measured in accordance with the business models determined by the Group's respective business units for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classified its debt instruments:

- Amortised cost (AC): Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at AC. Interest income from these financial assets is recognised in the consolidated statement of income using the effective interest rate method. Gains or losses arising on derecognition, and impairment gains or losses are recognised in the consolidated statement of income. In addition to certain debt securities, the Group's loans and receivables are carried at amortised cost.
- Fair value through other comprehensive income (FVOCI): Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets are recognised in the consolidated statement of income using the effective interest rate method.
- FVPL: Assets that do not meet the criteria for AC or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in the consolidated statement of income in the period in which it arises.

Equity instruments

Subsequent to initial recognition, the Group measures all equity investments at fair value, and changes in the fair value of equity instruments are recognized in the consolidated statement of income. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established.

Impairment

From 1 January 2018, at each reporting date, the Group assesses, on a forward-looking basis, the expected credit losses (ECL) associated with its financial assets measured at amortised cost and FVOCI.

The Group measures loss allowances on its debt instruments at an amount equal to lifetime ECL, except in the following cases, for which the amount recognised is 12-month ECL:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other financial instruments for which credit risk has not increased significantly since initial recognition.

Lifetime ECL are the ECL that result from all possible default events over the expected life of a financial asset, whereas 12-month ECL are the portion of ECL that results from default events that are possible within the 12 months after the reporting date.

For receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Loss allowances for ECL are presented in the consolidated financial statements as follow:

- Financial assets measured at amortised cost: the loss allowance is deducted from the gross carrying amount of the assets in the statement of financial position. Movement in ECL is recognised in the consolidated statement of income
- Financial assets measured at FVOCI: the loss allowance is recognised in OCI with the corresponding entry recognised in the consolidated statement of income. The loss allowance does not reduce the carrying amount of the financial asset in the statement of financial position.

(3) Impact of initial application of IFRS 9

The Group's financial statements have been restated as at 1 January 2018 to reflect the impact of initial application of IFRS 9. As described in Note (2), the transition provisions applied by the Group do not require comparative figures to be restated. The total impact is therefore recognized in the opening statement of financial position as at 1 January 2018, as shown below.

	Audited 31-Dec-17 $'000	IFRS 9 Initial Application Adjustments 1-Jan-18 $'000	Unaudited 1-Jan-18 $'000
ASSETS			
Investment securities			
FVPL	7,480,460	136,784	7,617,244
AC	9,160,295	(1,877,052)	7,283,243
FVOCI	-	1,916,767	1,916,767
Investment securities of mutual fund unit holders			
FVPL	1,011,404	(799,470)	211,934
AC	-	96,677	96,677
FVOCI	-	760,217	760,217
Loans and receivables	2,302,980	(304,525)	1,998,455
Deferred tax assets	40,130	11,617	51,747
Cash and cash equivalents	2,059,318	13,637	2,072,955
Cash and cash equivalents of mutual fund unit holders	371,062	4,804	375,866
Other assets	5,460,987	-	5,460,987
Total assets	27,886,636	(40,544)	27,846,092
EQUITY AND LIABILITIES			
Share capital	1,993,473	-	1,993,473
Reserves	(395,592)	103,969	(291,623)
Retained earnings	1,701,933	(286,050)	1,415,883
Equity attributable to owners of the parent	3,299,814	(182,081)	3,117,733
Non-controlling interests in subsidiary	23,071	(595)	22,476
Total equity	3,322,885	(182,676)	3,140,209
Insurance contracts	17,132,813	137,409	17,270,222
Deferred tax liabilities	273,352	8,775	282,127
Third party interests in mutual funds	1,177,879	(4,052)	1,173,827
Other liabilities	5,979,707	-	5,979,707
Total liabilities	24,563,751	142,132	24,705,883
Total equity and liabilities	27,886,636	(40,544)	27,846,092

The initial application adjustments principally arise from:

(a) The reclassification of the Group's financial assets following the business model assessment conducted at 1 January 2018; and

(b) The application of the expected credit loss model for determining the impairment of financial assets.

The impact of initial application of IFRS 9 on the Group's equity as at 1 January 2018 is as follows:

	Share Capital & Other Reserves $'000	Fair Value Reserve $'000	Retained Earnings $'000	Equity attributable to owners of the parent $'000
Audited opening balance – 1 January 2018 – IAS 39	1,597,881	-	1,701,933	3,299,814
Reclassification adjustments (before taxation):				
From FVPL to AC	-	-	(6,499)	(6,499)
From AC to FVPL	-	-	129,928	129,928
From FVPL to FVOCI	-	94,553	(94,553)	-
From AC to FVOCI	-	691	-	691
Expected credit losses adjustments (before taxation):				
Increase in provision for financial assets at AC	-	-	(171,634)	(171,634)
Increase in provision for financial assets at FVOCI	-	34,264	(34,264)	-
Insurance contracts adjustments	-	-	(137,409)	(137,409)
Taxation adjustments	-	(25,539)	28,381	2,842
Total IFRS 9 initial application adjustments	-	103,969	(286,050)	(182,081)
Unaudited opening balance – 1 January 2018 – IFRS 9	1,597,881	103,969	1,415,883	3,117,733