PKF

Chartered Accountants
& Business Advisors

THE MARITIME FINANCIAL GROUP
(Maritime Life (Caribbean) Limited and its subsidiaries)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012

PKF

Chartered Accountants
& Business Advisors

THE MARITIME FINANCIAL GROUP
(Maritime Life (Caribbean) Limited and its subsidiaries)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2012

INDEX **Page**

THE MARITIME FINANCIAL GROUP
(Maritime Life (Caribbean) Limited and its subsidiaries)

DIRECTORS' REPORT

MARITIME LIFE (CARIBBEAN) LIMITED

To be presented at the Forty-First Annual General Meeting of the shareholders to be held at the Corporate Offices, Maritime Centre, 29 Tenth Avenue, Barataria on February 28th, 2013.

Your directors have pleasure in submitting their report for the year ended 31st December 2012.

		2012 $'000	2011 $'000
1.	**Income for the year**		
	Net income for the year	27,365	23,195
	Less: Taxation	11,451	10,180
	Net income for the year after taxation	15,914	13,015
	Other comprehensive income	1,290	-
		17,204	13,015
	Less: Non controlling interests	3,575	-
	Amount transferred to Catastrophe Reserve	1,787	1,861
	Amount transferred to General Reserve	299	-
	Amount transferred to Statutory Reserves	2,600	3,047
	Dividends paid – 2011 (22¢)	2,392	2,392
	Leaving a balance to be carried forward of	6,551	5,715
2.	**Equity attributable to Shareholders of the Company**	377,785	351,383
3.	**Insurance contracts liabilities**	1,259,321	1,186,374

4. The directors have proposed a dividend of 22¢ per share, amounting to $2,391,705 payable on February 28th, 2013 to shareholders on record at February 20th, 2013.

5. In accordance with By Law 4.3 all the directors with the exception of the Managing Director, retire from office and being eligible offer themselves for re-election.

6. The auditors, Messrs. PKF Chartered Accountants and Business Advisors, retire and being eligible, offer themselves for re-appointment as auditors of the Company.

BY ORDER OF THE BOARD

THE MARITIME FINANCIAL GROUP LIMITED

Secretary

THE MARITIME FINANCIAL GROUP
(Maritime Life (Caribbean) Limited and its subsidiaries)

CORPORATE INFORMATION

MARITIME LIFE (CARIBBEAN) LIMITED

ADVISORY BOARD	Bruce A. Mc I. Procope, QC - Chairman Hugh P. Eastman Barbara Gomes Jean Khoury	
BOARD OF DIRECTORS	John H. Smith, FCCA, CA Andrew Ferguson, BSc, CPCU, ARe, FLMI, AFSB Lesley J. Alfonso, BBA, FLMI Donald Gibbon, BSc, MSc	
EXECUTIVE MANAGEMENT	John H. Smith, FCCA, CA	Chairman/Managing Director/ Chief Executive Officer
	Andrew Ferguson, BSc, CPCU, ARe, FLMI, AFSB	Director-Enterprise Risk Management/Chief Operating Officer
	Oliver Camps	Chairman - General Insurance Services
	Lesley J. Alfonso, BBA, FLMI	Director/Manager - Corporate Relations
	Salahudeen Ali, FCCA, CA, CGA	Chief Financial Officer
	Ricardo Baynes, BSc (Hons), FLMI/M	Manager - Technology Services
	Andre Baptiste, FLMI	General Manager - Career Agency Development
	Roger Gomes, FCCA	General Manager - Financial and Trust Services
	Baliram Sawh, ACII	General Manager - General Insurance Services
	Siew Paltoo, BSc	General Manager - Development Finance Ltd
BANKERS	Scotiabank Trinidad & Tobago Limited, Port of Spain. RBC Royal Bank (Trinidad & Tobago) Limited, Port of Spain. Republic Bank Limited, Port of Spain.	
ATTORNEYS	Chersons, Port of Spain. Lex Caribbean, Port of Spain. Pollonais Blanc de la Bastide & Jacelon, Port of Spain.	
APPOINTED ACTUARY	Nazir Valani, FSA, FCIA, MAAA	
AUDITORS	PKF Chartered Accountants and Business Advisors, Port of Spain.	
REGISTERED OFFICE	29 Tenth Avenue, Barataria	

THE MARITIME FINANCIAL GROUP
(Maritime Life (Caribbean) Limited and its subsidiaries)

NOTICE OF MEETING

MARITIME LIFE (CARIBBEAN) LIMITED

NOTICE is hereby given that the Forty-First Annual General Meeting of the above-named Company will be held at the Corporate Offices, Maritime Centre, 29 Tenth Avenue, Barataria on Thursday February 28th, 2013 at 10.00 am for the following purposes:-

1. To receive the Audited Financial Statements for the year ended 31st December, 2012, together with the Reports of the Directors and Auditors thereon.

2. To declare a dividend.

3. To re-elect retiring directors.

4. To appoint Auditors and authorise the Directors to determine the remuneration of such Auditors.

5. To transact any other ordinary business.

BY ORDER OF THE BOARD

THE MARITIME FINANCIAL GROUP LIMITED

Secretary

February 5th, 2013

Registered Office:
Maritime Centre
29 Tenth Avenue
Barataria
Trinidad, W.I.

NOTES:

A member entitled to attend and vote is entitled to appoint a proxy to attend and vote on his behalf and such proxy need not also be a member of the Company.

If the appointer is a corporation, the form of proxy must be under its common seal or under the hand of an officer of the corporation or attorney duly authorised in that behalf.

To be valid the instrument appointing a proxy duly completed and executed must be deposited at the registered office of the Company not less than forty-eight hours before the time appointed for holding the meeting.

KPMG

KPMG LLP
Chartered Accountants
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

ACTUARIAL CERTIFICATE

Maritime Life (Caribbean) Limited

In accordance with section 56 (2) of the Insurance Act 1980, I have made a valuation of the actuarial liabilities of Maritime Life (Caribbean) Limited for its consolidated statement of financial position as at December 31, 2012. In my opinion, the aggregate amount of the liabilities of the Group in relation to its long term insurance business as at December 31, 2012 did not exceed the aggregate amount of those liabilities shown in the consolidated statement of financial position of the Group.

N. Valani

Nazir Valani, FSA, FCIA, MAAA
Appointed Actuary – Maritime Life (Caribbean) Limited

February 20th, 2013

PKF

Chartered Accountants
& Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Maritime Life (Caribbean) Limited and its Subsidiaries

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Maritime Life (Caribbean) Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2012, the 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 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 financial statements that are free from material misstatement, 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' judgement, 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion we draw attention to Note 37 to the consolidated financial statements. The State laid several charges on the Company and two of its subsidiaries, together with other companies and individuals. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the consolidated financial statements.

PKF

Port-of-Spain
TRINIDAD
February 20, 2013

Direct tel (868) 624-4569 | Direct fax (868) 624-4388
Email pkf-trinidad@trinidad.net
PKF | 245 Belmont Circular Road | PO Bag 250 | Belmont | Port-of-Spain | Trinidad | WI

THE MARITIME FINANCIAL GROUP
(Maritime Life (Caribbean) Limited and its subsidiaries)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2012

	Notes	2012 $'000	2011 $'000 Restated	2010 $'000 Restated
Current assets	4	673,981	442,170	501,725
Deferred tax assets	5	2,038	1,284	1,189
Investment in associates	6	1,973	-	-
Financial assets	7	1,189,708	995,766	842,081
Investment properties	8	103,850	100,540	100,540
Property, plant and equipment	9	212,643	172,397	180,019
Total Assets		2,184,193	1,712,157	1,625,554
Financed By:				
Current liabilities	10	183,340	157,120	150,722
Long term borrowings	11	277,727	-	-
Deferred tax liabilities	5	21,798	17,279	14,865
Insurance contracts liabilities	12	1,259,321	1,186,374	1,109,239
Total Liabilities		1,742,186	1,360,773	1,274,826
Stated capital	13	10,871	10,871	10,871
Capital reserve	14	91,629	77,365	76,650
Catastrophe reserve	15	16,707	14,920	13,059
General reserve	16	20,509	20,210	20,210
Investment revaluation reserve	17	901	-	-
Statutory reserves	18	33,985	31,385	28,338
Retained earnings		203,183	196,632	190,917
Equity attributable to Shareholders of the Company		377,785	351,383	340,045
Non-controlling interests	19	64,222	1	10,683
Total Equity		442,007	351,384	350,728
Total Liabilities and Equity		2,184,193	1,712,157	1,625,554

These financial statements were approved by the Board of Directors and authorised for issue on February 20, 2013 and are signed on their behalf by:

John H. Smith
Director

Andrew Ferguson
Director

The notes on pages 11 to 73 form part of these financial statements.

THE MARITIME FINANCIAL GROUP
(Maritime Life (Caribbean) Limited and its subsidiaries)

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012

	Notes	2012 $'000	2011 $'000 Restated
Revenue			
Premium income		336,876	325,986
Reinsurance recoveries		26,774	24,334
Investment income	20	107,781	83,935
Other income	21	64,277	65,996
		535,708	500,251
Expenses			
Policyholders' benefits	22	244,888	228,009
Reinsurance premiums		68,529	80,234
Interest on deposits and borrowings		15,386	2,415
Other direct costs	23	84,568	87,476
Expenses of management	24	93,928	78,922
		507,299	477,056
Operating Surplus		28,409	23,195
Share of results of associates		(1,044)	-
Surplus before taxation		27,365	23,195
Taxation	25	11,451	10,180
Surplus after taxation		15,914	13,015
Surplus attributable to:			
Shareholders of the company		12,984	13,015
Non-controlling interests		2,930	-
		15,914	13,015

The notes on pages 11 to 73 form part of these financial statements.

THE MARITIME FINANCIAL GROUP
(Maritime Life (Caribbean) Limited and its subsidiaries)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2012

	Notes	2012 $'000	2011 $'000 Restated
Surplus after taxation		15,914	13,015
Other comprehensive income			
Actuarial gain		1,352	-
Foreign exchange loss		(62)	-
Revaluation surplus		14,264	155
Share of investment revaluation reserve of associates		901	-
		16,455	155
Total comprehensive income		32,369	13,170
Total comprehensive income attributable to:			
Shareholders of the company		28,794	13,170
Non-controlling interests		3,575	-
		32,369	13,170

The notes on pages 11 to 73 form part of these financial statements.

THE MARITIME FINANCIAL GROUP
(Maritime Life (Caribbean) Limited and its subsidiaries)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	Stated capital \$'000	Capital reserve \$'000	Catastrophe reserve \$'000	General reserve \$'000	Investment revaluation reserve \$'000	Statutory reserves \$'000	Retained earnings \$'000	Shareholders' equity \$'000	Non-controlling interests \$'000	Total equity \$'000
Balance at December 31, 2011	10,871	77,365	14,920	20,210	-	31,385	196,632	351,383	1	351,384
Surplus after taxation	-	-	-	-	-	-	12,984	12,984	2,930	15,914
Other comprehensive income	-	14,264	-	-	901	-	645	15,810	645	16,455
Total comprehensive income	-	14,264	-	-	901	-	13,629	28,794	3,575	32,369
Non-controlling interests in subsidiary acquired during the year	-	-	-	-	-	-	-	-	60,646	60,646
Dividends paid 2011 (22 ¢)	-	-	-	-	-	-	(2,392)	(2,392)	-	(2,392)
Transfers from retained earnings	-	-	1,787	299	-	2,600	(4,686)	-	-	-
	-	14,264	1,787	299	901	2,600	6,551	26,402	64,221	90,623
Balance at December 31, 2012	10,871	91,629	16,707	20,509	901	33,985	203,183	377,785	64,222	442,007
Balance at December 31, 2010 as previously reported	10,871	76,650	13,059	20,210	-	28,338	86,859	235,987	10,683	246,670
Restatement (Note 31)	-	-	-	-	-	-	104,058	104,058	-	104,058
Balance at December 31, 2010 as restated	10,871	76,650	13,059	20,210	-	28,338	190,917	340,045	10,683	350,728
Surplus after taxation	-	-	-	-	-	-	13,015	13,015	-	13,015
Other comprehensive income	-	155	-	-	-	-	-	155	-	155
Total comprehensive income	-	155	-	-	-	-	13,015	13,170	-	13,170
Reduction in non-controlling interests	-	560	-	-	-	-	-	560	(10,682)	(10,122)
Dividends paid 2010 (22 ¢)	-	-	-	-	-	-	(2,392)	(2,392)	-	(2,392)
Transfers from retained earnings	-	-	1,861	-	-	3,047	(4,908)	-	-	-
	-	715	1,861	-	-	3,047	5,715	11,338	(10,682)	656
Balance at December 31, 2011	10,871	77,365	14,920	20,210	-	31,385	196,632	351,383	1	351,384

The notes on pages 11 to 73 form part of these financial statements.

THE MARITIME FINANCIAL GROUP
(Maritime Life (Caribbean) Limited and its subsidiaries)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

	2012 $'000	2011 $'000 Restated
Cash Flows from Operating Activities		
Surplus before taxation	27,365	23,195
Adjustments for:		
Depreciation (net)	8,608	10,118
Gain on sale/revaluation of assets	(24,860)	(24,693)
Share of loss of associated company	1,047	-
Increase in insurance contracts liabilities	73,583	78,110
Operating surplus before working capital changes	85,743	86,730
Change in receivables	(487)	(31,526)
Change in customers' deposits	(45,197)	1,328
Change in other funding instruments	15,128	45
Change in other payables	(394)	5,551
Cash generated from operations	54,793	62,128
Dividends paid to policyholders	(636)	(975)
Corporation taxes paid (net)	(8,214)	(7,497)
Net cash generated from operating activities	45,943	53,656
Cash Flows from Investing Activities		
Sale/redemption of financial assets	117,112	9,583
Sale of property, plant and equipment	1,297	446
Change in loans and receivables	55,445	(41,656)
Net assets of subsidiary acquired	80,595	-
Purchase of other financial assets	(44,564)	(97,203)
Purchase of investment properties	(5,850)	-
Acquisition of non-controlling interests	-	(10,122)
Purchase of property, plant and equipment	(6,337)	(2,787)
Net cash generated from/(used in) investing activities	197,698	(141,739)
Cash Flows from Financing Activities		
Repayment of borrowings	(33,135)	-
Dividends paid to shareholders	(2,392)	(2,392)
Net cash used in financing activities	(35,527)	(2,392)
Net change in cash and cash equivalents	208,114	(90,475)
Cash and cash equivalents		
- at beginning of year	202,730	293,205
- at end of year (Note 26)	410,844	202,730

The notes on pages 11 to 73 form part of these financial statements.

1. Incorporation and Principal Activity

Maritime Life (Caribbean) Limited is incorporated in the Republic of Trinidad and Tobago and was continued under the provisions of the Companies Act, 1995 on 23rd March, 1999. Its principal activity is the carrying on of all classes of long term insurance business in Trinidad and Tobago. The Company's registered office and principal place of business are located at 29 Tenth Avenue, Barataria.

2. Summary of Significant Accounting Policies

a) Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and are stated in thousands of Trinidad and Tobago dollars. They have been prepared under the historical cost convention as modified by the revaluation of financial assets at fair value through profit or loss, available for sale financial assets, and land and buildings.

The accounting policies used are consistent with those of the previous years.

b) New Accounting Standards and Interpretations

i) The Company has applied the following revised standard, which became effective during the current accounting period:

IAS 12	Income Taxes - Limited scope amendment (recovery of underlying assets)

ii) The Company has not applied the amendments to the following standards and interpretations which became effective during the current financial year as either they do not apply to the activities of the Company or have no material impact on the financial statements:

Effective for annual periods beginning on or after 1 July 2011

IFRS 1	First-time Adoption of International Financial Reporting Standards - Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'
IFRS 1	First-time Adoption of International Financial Reporting Standards – Additional exemption for entities ceasing to suffer from severe hyperinflation
IFRS 7	Financial Instruments: Disclosures - Amendments enhancing disclosures about transfers of financial assets

2. Summary of Significant Accounting Policies (continued)

b) **New Accounting Standards and Interpretations (continued)**

iii) The Company has not early applied the following standards, revised standards and interpretations which are in issue but not yet effective:

Effective for annual periods beginning on or after 1 July 2012

IAS 1	Presentation of Financial Statements - Amendments to revise the way other comprehensive income is presented.

Effective for annual periods beginning on or after 1 January 2013

IFRS 1	First-time Adoption of International Financial Reporting Standards - Government Loans
IFRS 7	Financial Instruments: Disclosures - Amendments enhancing disclosures about offsetting of financial assets and financial liabilities
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other entities
IFRS 13	Fair Value Measurements
IAS 19	Employee benefits - Amended Standard resulting from the Post-Employment Benefits and Termination Benefits projects
IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

iii) Effective for annual periods beginning on or after 1 January 2014

IAS 32	Financial Instruments: Presentation - Amendments to application guidance on the offsetting of financial assets and financial liabilities

Effective for annual periods beginning on or after 1 January 2015

IFRS 7	Financial Instruments: Disclosures - Amendments requiring disclosures about the initial application of IFRS 9
IFRS 9	Financial Instruments – Classification and measurement of financial assets
IFRS 9	Financial Instruments – Accounting for financial liabilities and derecognition.

2. Summary of Significant Accounting Policies (continued)

c) Comparative figures

Certain comparative figures were restated to facilitate changes in presentation. These changes had no effect on the previously reported surplus, except as disclosed in Note 31 – Restatement.

d) Basis of consolidation

i) Subsidiaries

The consolidated financial statements include the accounts of Maritime Life (Caribbean) Limited and its subsidiaries. All significant intra-group balances, transactions, income and expenses have been eliminated on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies.

Subsidiaries are all entities over which the Group has control i.e. the power to govern the financial and operating policies so as to obtain benefits from its activities. This generally accompanies a shareholding of more than 50% of the voting rights, whether directly or indirectly through subsidiaries. Where the Group has 50% or less of the voting rights, the existence and effect of potential voting rights that are currently exercisable or convertible are considered in determining whether the Group has the power to govern the financial and operating policies of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date control ceases.

The Group uses the purchase method of accounting for the acquisition of subsidiaries. The cost of the acquisition is measured as the fair values, at the date of exchange, of the assets given, liabilities incurred or assumed and equity instruments issued plus costs directly attributable to the acquisition. The excess of the cost of the acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill is reviewed annually for impairment. Where the fair value of the Group's share of the identifiable net assets acquired exceeds the cost of the acquisition, the gain is recognised in the profit or loss as a credit to other income.

The Group acquired the non-controlling interests previously held in Maritime General Insurance Company Limited on April 29, 2011.

On October 06, 2011 the Group invested $50 million in non-cumulative, non-voting convertible preference shares of Development Finance Limited. During the current year, $30 million of these preference shares were converted into ordinary shares, representing a 49.75% interest. The option to convert the balance of $20 million can be exercised at anytime, at the Group's discretion. The company's financial statements were prepared as at December 31, 2012 and were audited by KPMG Chartered Accountants, Port-of-Spain, Trinidad.

2. **Summary of Significant Accounting Policies (continued)**

d) **Basis of consolidation (continued)**

i) **Subsidiaries (continued)**

Details of the acquisition were as follows:	2012 $'000
Total assets acquired	482,291
Total liabilities assumed	(369,108)
Net assets acquired	113,183
Non-controlling interests	(60,646)
Purchase consideration	(50,000)
Gain on acquisition	2,537

Revenue and surplus included in these financial statements for 2012 were as follows:

Total Revenue	28,492
Surplus after taxation	5,748
Foreign exchange loss	(62)
Actuarial gain	1,352
Total comprehensive income	7,038

There were no disposals of subsidiaries during the year.

A listing of the subsidiaries, their principal activities and place of incorporation is given in Note 39.

ii) **Non-controlling interests**

Non-controlling interests is that portion of the net surplus and net assets of a subsidiary that are not owned, directly or indirectly, by the Group.

iii) **Associates**

Associates are all entities over which the Group has significant influence i.e. the power to participate in the financial and operating policy decisions but is not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights, and that is neither a subsidiary nor an interest in a joint venture. Investments in associates are accounted for using the equity method. Under the equity method the investments in associates are stated at cost plus the post acquisition changes in the Group's share of the associate's net assets, less any impairment in value. The Group's share of the results of operations of the associates, are included in profit or loss, whereas the Group's share of the other comprehensive income of the associates, are included in other comprehensive income.

Information on the Group's Associates is given in Note 6.

2. Summary of Significant Accounting Policies (continued)

e) **Cash and cash equivalents**

For the purpose of the statements of cash flows, cash and cash equivalents comprise cash and bank balances, bank overdrafts and short term investments.

Short term investments are highly liquid investments and comprise deposits placed with licensed banks and financial institutions and investments in treasury bills.

f) **Inventories**

Inventories comprise goods held for resale in the ordinary course of business and are stated at the lower of cost and net realisable value. Cost is determined on the first in first out basis. Net realisable value is the estimated selling price in the ordinary course of business.

The carrying amount of inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs.

g) **Land development**

Land development represents lands held for development and resale and are stated at cost, plus development expenditure incurred and directly attributable borrowing costs. These costs are carried forward until the lands are sold.

h) **Financial instruments**

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument.

2. Summary of Significant Accounting Policies (continued)

i) **Financial assets**

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e. the date on which the Group commits itself to purchase or sell an asset. A regular way purchase and sale of financial assets is a purchase or sale of an asset under a contract whose terms require delivery of the asset within the timeframe established generally by regulation or convention in the marketplace concerned.

When financial assets are recognised initially, they are measured at fair value of the consideration given plus transactions costs directly attributable to the acquisition of the asset.

Financial assets are derecognised when the contractual rights to receive the cash flows expire or where the risks and rewards of ownership of the assets have been transferred.

The Group classifies, at the time of initial recognition, financial assets into the following categories depending on the nature and purpose of the assets: financial assets at fair value through profit or loss, available for sale financial assets, held to maturity investments and loans and receivables. Management re-evaluates these classifications at each reporting date.

i) **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss comprise financial assets held for trading and those so designated.

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling in the near future or if they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short term profit taking. The Group does not currently have any financial assets classified as held for trading.

Financial assets are classified as at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise (an accounting mismatch) or a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy and information about the group is provided internally on that basis to the Group's key management personnel. Financial assets included in this classification support those long term insurance contracts that contain an investment element.

2. Summary of Significant Accounting Policies (continued)

i) **Financial assets (continued)**

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

Financial assets are not reclassified into or out of the fair value through profit or loss category while they are held.

Investments in quoted securities are stated at fair values based on quoted market prices without deduction of transaction costs. Gains and losses arising from changes in fair values are recognised in profit or loss in the period in which they arise.

ii) **Available for sale financial assets**

Available for sale financial assets are non-derivative financial assets that are so designated or not classified in any of the other categories. They are intended to be held for an undefined period of time, but may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Investments in quoted securities are stated at fair values based on quoted market prices without deduction of transaction costs. Gains and losses arising from changes in fair values are recognised in other comprehensive income except for impairment losses and foreign exchange gains and losses. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less provision for impairment.

Interest income is calculated using the effective interest rate method and dividends are recognised in profit or loss when the shareholders' right to receive the dividend is established.

2. Summary of Significant Accounting Policies (continued)

i) Financial assets (continued)

iii) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, purchased with the positive intention and ability to hold to maturity.

They are stated at amortised cost using the effective interest rate method less provision for impairment.

Interest income is recognised in profit or loss on an effective yield basis. Gains or losses are recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as held to maturity, it is reclassified as available for sale and re-measured at fair value.

Whenever there are sales or reclassification of more than an insignificant amount of held to maturity investments, any remaining held to maturity investments are reclassified as available for sale.

iv) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These comprise policy loans, automatic premium loans, mortgage loans and other loans.

Policy loans and automatic premium loans are stated at outstanding principal plus accrued interest and are secured by the cash surrender values of the respective policies.

Mortgage loans and other loans are stated at amortised principal using the effective interest rate method, less provision for impairment losses. Specific provisions are made for potential losses on non-performing loans on the basis of net realisable value. Periodic portfolio reviews are conducted during the course of each year to determine the adequacy of provisions.

Mortgage loans are secured by residential and commercial properties whereas loans to small and medium enterprises and other loans are secured by various forms of collateral, including charges over tangible assets, hire purchase agreements, certificates of deposit, assignment of funds and personal guarantees.

2. Summary of Significant Accounting Policies (continued)

j) **Impairment of financial assets**

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of financial assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

i) Significant financial difficulty of the issuer or obligor.

ii) A breach of contract, such as default or delinquency in interest or principal payments.

iii) It becoming probable that the borrower will enter in bankruptcy or other financial reorganisation.

iv) The disappearance of an active market for that financial asset because of financial difficulties.

v) Observable data indicating that there is a measurable decrease in the estimated cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with individual financial assets in the group, including adverse changes in the payment status of borrowers in the group or national or economic conditions that correlate with defaults on assets in the group.

vi) For investments in equity instruments, information about significant changes with an adverse effect, that have taken place in the technological, market, economic or legal environment in which the issuer operates which indicates that the cost of the investment may not be recovered, as well as a significant and prolonged declined in fair value of an investment in an equity instrument below its cost.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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.

2. Summary of Significant Accounting Policies (continued)

j) Impairment of financial assets (continued)

Impairment losses are recorded in an allowance account and are measured and recognised as follows:

i) Financial assets measured at amortised cost

The difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate is recognised in profit or loss.

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 (such as improvement in the debtor's credit rating), the previously recognised loss is reversed to the extent that the carrying amount of the financial asset does not exceed what the amortised cost would have been had the impairment not been recognised at the date that the impairment is reversed. The amount of the reversal is recognised in profit or loss.

ii) Financial assets measured at cost

The difference between the assets' carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the current market's rate of return for similar financial assets is recognised in profit or loss. These losses are not reversed.

iii) Available for sale financial assets

The cumulative loss recognised in other comprehensive income, (representing the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss), is reclassified from equity to profit or loss as a reclassification adjustment even though the financial assets has not been derecognised. These losses are not reversed.

2. Summary of Significant Accounting Policies (continued)

k) **Investment properties**

Investment properties comprise land and buildings held to earn rentals and/or for capital appreciation rather than occupied by the Group for use in the supply of goods and services or for administrative purposes. Land and buildings that comprise a portion held to earn rentals and/or for capital appreciation and another portion that is occupied by the Group for administrative purposes are classified as investment properties only if an insignificant portion is held for administrative purposes. Otherwise, it is classified under property, plant and equipment.

An investment property is recognised as an asset only if it is probable that the future economic benefits that are associated with the investment property will flow to the Group and its cost can be measured reliably.

Investment properties are measured initially at cost including transaction costs. Cost is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

After initial recognition investment properties are measured at fair values. Fair values are based on independent professional open market valuations that are conducted at least once every three years. The last valuations were done in 2012. Gains and losses arising from changes in fair values are included in profit or loss in the period in which they arise.

Transfers to or from investment properties are only made when there is a change in use.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The gain or loss arising from the retirement or disposal is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in profit or loss in the period of retirement or disposal.

l) **Property, plant and equipment**

i) Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset only if it is probable that the future economic benefits associated with the item will flow to the Group and its cost can be measured reliably.

Cost includes the purchase price and any expenditure directly attributable to the acquisition of the item. Expenditures incurred for repairs and maintenance are recognised in profit or loss as incurred.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of the item is determined as the difference between the net disposal proceeds and the carrying amount of the item and is recognised in profit or loss when the item is derecognised.

2. Summary of Significant Accounting Policies (continued)

l) **Property, plant and equipment (continued)**

ii) Owner occupied properties comprise land and buildings used by the Group for the supply of goods and services or for administrative purposes and are stated at fair values less accumulated depreciation and accumulated impairment losses.

Fair values are based on independent professional open market valuations that are conducted at least once every three years. The last valuations were done in 2010 and 2012. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the property and the net amount is restated to the revalued amount.

Increases in carrying amounts arising from revaluations are recognized in other comprehensive income and accumulated in equity under the heading of revaluation surplus in capital reserve. Decreases in carrying amounts arising from revaluations are recognized in other comprehensive income to the extent of any credit balance existing in revaluation surplus in respect of that asset. All other decreases are recognised in profit or loss.

iii) Plant and equipment are stated at historical cost less accumulated depreciation.

iv) Property, plant and equipment are depreciated over their estimated useful lives using the straight line method at the following rates:

Buildings	2% per annum
Furniture/equipment	8.33-25% per annum
Motor vehicles	25% per annum
Equipment on lease	10-50% per annum

Land is not depreciated.

The depreciation method, useful lives and residual values of property, plant and equipment are reviewed annually. During the current year no changes were required.

m) **Financial liabilities**

When financial liabilities are recognised initially, they are measured at fair value of the consideration given plus transaction costs directly attributable to the acquisition of the liability. Financial liabilities are re-measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when they are extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability extinguished and the consideration paid is recognised in profit or loss.

Financial liabilities comprise accounts payable, bank overdrafts, customer deposits, other funding instruments and long term borrowings.

2. Summary of Significant Accounting Policies (continued)

n) Provisions

Provisions are recognised when there is a present (legal or constructive) obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

o) Insurance contracts

i) Insurance contracts are those contracts under which the Group accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder if an uncertain future event (insured event) adversely affects the policyholder.

Insurance risk is risk other than financial risk transferred from the policyholder to the Group. Investment contracts transfer financial risk but not insurance risk. Financial risk is the risk of a possible future change in either a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Insurance risk is significant if and only if an insured event could cause the payment of significant additional benefits in any scenario, excluding scenarios that lack commercial substance.

Uncertainty under insurance contracts arises as to whether an insured event will occur, when it will occur or how much will be payable if it occurs.

Significant additional benefits are amounts that exceed those that would be payable if no insured event occurred.

ii) Once a contract has been classified as an insurance contract it remains an insurance contract until all rights and obligations are extinguished or expire.

The liability under an insurance contract is removed from the consolidated statement of financial position when and only when, it is extinguished i.e. when the obligation specified in the contract is discharged, cancelled or expires.

iii) Reinsurance contracts are those contracts entered into with reinsurers under which the Group is compensated for losses under one or more insurance contracts issued.

2. Summary of Significant Accounting Policies (continued)

p) **Long term insurance contracts**

i) Long term insurance contracts insure human life events (for example death, survival, permanent disability) over a long duration and include life assurance, annuity, and deposit administration contracts. These contracts are classified as those with discretionary participation features and those without discretionary participation features. For insurance contracts with discretionary participation features, the guaranteed element has not been recognized separately.

Discretionary participation features are contractual rights to receive, as a supplement to guaranteed benefits, additional benefits that are likely to be a significant portion of the total contractual benefits, whose amount or timing is contractually at the discretion of the issuer, and that are contractually based on the performance of a specified pool of contracts or a specified type of contract, realised or unrealised investment returns on a specified pool of assets by the issuer, or the surplus of the Group.

Guaranteed benefits are payments or other benefits to which a particular policyholder has an unconditional right that is not at the discretion of the Group.

ii) The liabilities arising from long term insurance contracts include provisions for future policy benefits and provisions for outstanding claims.

iii) Long term insurance contracts are valued using the Premium Policy Method ("PPM") for traditional insurances and fund value for insurance contracts with fund accumulations.

The PPM requires the calculation of the policy liabilities, on a policy by policy basis, using the full amount of the policy premium stipulated in the related insurance policies (the actual premiums), and the policy payments (without arbitrary limitation on expenses) such that the net present value of these elements, after providing for adverse deviations, form the policy benefit liabilities.

The PPM requires the calculation of the present value of future claims and expenses less premiums, based on realistic assumptions with respect to future investment earnings, expenses, mortality, morbidity and lapses together with reasonable provisions for margins. In deriving the liabilities, the PPM takes into consideration assumptions about the future impact of mortality, lapse rates, administration expenses and interest rates, among other factors, for each policy type.

The valuation by the Appointed Actuary at December 31, 2012 revealed a surplus before tax amounting to $9,035,000 (2011: $4,775,000), of which $8,405,000 (2011: $4,160,000) is allocated to shareholders and $630,000 (2011: $615,000) is allocated to "participating" policyholders.

iv) Provisions for outstanding claims comprise the estimated cost of all claims and claims expenses incurred but not settled at the year-end date. Provisions are also made for claims and claims expenses incurred in 2012 but not reported until after the year-end date. Differences between the provisions for outstanding claims and claims expenses and subsequent settlements and revisions are included in profit or loss in later years.

2. Summary of Significant Accounting Policies (continued)

q) **Short term insurance contracts**

i) Short term insurance contracts generally run for a period of twelve months and are subject to review and renewal at the end of that period. These contracts include property, motor, liability, marine, pecuniary loss and personal accident insurance contracts.

ii) The liabilities arising from short term insurance contracts include provisions for unearned premiums, unexpired risks and outstanding claims.

iii) **Provisions for unearned premiums**

Provisions for unearned premiums represent the proportions of the premiums written in the year which relate to periods of insurance subsequent to the reporting date and are computed on the daily pro-rata fractional basis - the "365ths" method, except for mortgage indemnity, contractors all risk, erection all risk and performance bond business (some of which carry a policy period in excess of twelve months). The unearned premiums on these policies are pro-rated over the periods of the guarantees/policies.

iv) **Provisions for unexpired risks**

Provisions for unexpired risks represent amounts set aside at the year-end, in addition to unearned premiums, in respect of the subsequent risks to be borne by the Group under insurance contracts in force at the year-end and are computed as a percentage of unearned premiums.

v) **Provisions for outstanding claims**

Provisions for outstanding claims comprise the estimated cost of all claims and claims expenses incurred but not settled at the year-end date. Provisions are also made for claims and claims expenses incurred in 2012 but not reported until after the year-end date. Differences between the provisions for outstanding claims and claims expenses and subsequent settlements and revisions are included in profit or loss in later years.

vi) **Catastrophe reserves**

Amounts set aside for catastrophe reserves are included in equity.

r) **Liability adequacy test**

The Group assesses at each reporting date 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 in the light of the estimated future cash flows, the entire deficiency is recognised in profit or loss and the amount of the relevant insurance contract liabilities is increased.

The Liability Adequacy Test required by IFRS 4 has been performed in respect of Insurance Contracts in-force as at December 31, 2012. The results of the sensitivity testing, within the liability adequacy test, are shown in Note 32 (a) (ii).

2. Summary of Significant Accounting Policies (continued)

s) **Impairment of reinsurance assets**

If a reinsurance asset is impaired the carrying amount is reduced accordingly and the impairment loss is recognised in profit or loss.

A reinsurance asset is impaired if, and only if, there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the Group may not receive all amounts due to it under the terms of the contract and that event has a reliably measurable impact on the amount that the Group will receive from the reinsurer.

t) **Revenue recognition**

i) Premiums from insurance contracts are shown on a receivable basis.

Premiums on life and annuity policies that became due within the last thirty days but not collected at the reporting date are shown as outstanding premiums. Premiums that are not collected within thirty days of the due date are advanced as automatic premium loans on the security of the cash surrender values of the respective policies, or the policies lapse or expire.

Premiums due on short term insurance policies are accounted for upon issuance or renewal of the respective policies and include amounts due from brokers and agents. These premiums are recognised as revenue on a pro-rata basis over the period of coverage of the respective policy.

Premiums received in advance of the due date are credited to premium suspense.

ii) Investment and other income derived from long term insurance business is allocated to policyholders, whilst that derived from short term insurance and other operations is allocated to shareholders.

iii) Interest income is accounted for using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial instrument and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the carrying amount of the financial instrument.

Accrual of interest income ceases when a payment on a loan is contractually ninety days in arrears and will only be recognised on a cash basis when the loan status is determined to be current.

iv) Dividends are accounted for when the shareholders' right to receive the dividends is established.

v) Commissions receivable are recognized upon the billing of the respective premiums.

2. **Summary of Significant Accounting Policies (continued)**

t) **Revenue recognition (continued)**

vi) Rentals under operating leases are recognised on a straight line basis over the lease term.

Leases which do not transfer substantially all the risks and rewards incidental to ownership are classified as operating leases. Assets leased under operating leases include land and buildings classified as investment properties and owner occupied properties, as well as motor vehicles and other equipment categorised as equipment on lease and included in property, plant and equipment. The lease terms range from three to five years.

vii) Revenue from the sale of goods is recognised upon delivery and stated net of discounts and value added tax.

viii) Miscellaneous income comprises fees and other sundry income.

u) **Policyholders' benefits**

i) Death claims, disability claims and surrenders are recognised upon notification.

ii) Maturities and annuities are accounted for when due.

iii) Claims arising from short term insurance contracts are recorded as an expense when they are incurred and are stated net of recoveries from subrogations and salvages. Subrogations are accounted for when received, whereas salvages are accounted for when the damaged properties (usually motor vehicle wrecks) are sold.

v) **Reinsurance premiums and recoveries**

i) Reinsurance premiums on long term insurance contracts are expensed when due, which generally coincides with when the policy premium is due. Reinsurance claim recoveries are established at the time of the recording of the claim notification.

ii) Premiums ceded on short term insurance contracts are expensed on a pro-rata basis over the term on the respective policy coverage or of the respective reinsurance contract as appropriate. Reinsurance claim recoveries are established at the time of the recording of the claim liability.

iii) Profit sharing commissions due to the Group are only recognised as commission income when there is reasonable certainty of collectibility.

w) **Other direct costs**

i) Commissions payable are recognised on settlement of the respective premiums.

ii) Other costs include underwriting expenses and other direct expenses related to the retail operations.

2. Summary of Significant Accounting Policies (continued)

x) **Expenses of management**

i) **Employee benefits**

Employee benefits are all forms of consideration given by the Group in exchange for service rendered by the employees and include both short term and post-employment benefits.

Short term benefits comprise wages and salaries, bonuses, national insurance contributions, paid annual vacation and sick leave and other non-monetary benefits including group health and group life coverage. They are recognised as a liability, net of payments made and charged as expenses to profit or loss.

The expected cost of accumulating compensated absences for vacation and sick leave not yet taken is measured as the additional amount that the Group expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

ii) **Post-employment benefits**

The Group has two pension plans.

All full time employees of Maritime Life Caribbean Limited and its wholly owned subsidiaries participate in a defined contribution plan. A defined contribution plan is a post-employment benefit plan under which an entity pays a fixed contribution into a fund and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and future periods. The Group's contribution to this plan is charged to profit or loss as incurred.

The subsidiary, Development Finance Limited, operates a defined benefit plan for its employees. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The subsidiary's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted.

The subsidiary's pension obligation is measured as the present value of the estimated future cash outflows using discount rates related to market securities which have terms to maturity that approximate the terms of the related pension liability. The calculation is performed by a qualified actuary using the projected unit credit method. The actuaries carry out a full valuation of the fund every three (3) years. An actuarial valuation was completed for the financial year ended December 31, 2012.

To determine the net amount in the statement of financial position, any actuarial gains and losses that have not been recognised because of application of the 'corridor' approach described below are added or deducted as appropriate and unrecognised past service costs are deducted.

2. Summary of Significant Accounting Policies (continued)

x) **Expenses of management (continued)**

ii) **Post-employment benefits (continued)**

The subsidiary recognises a portion of actuarial gains and losses that arise in calculating its obligation in respect of a plan in profit or loss over the expected average remaining working lives of the employees participating in the plan. The portion is determined as the extent to which any cumulative unrecognised actuarial gain or loss at the end of the previous reporting period exceeds 10 percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets (the corridor). Otherwise, the actuarial gains and losses are not recognised.

The Plan has been continuously in surplus for many years and a pension holiday has been in effect since January 1, 2000 as advised by the Plan's Actuary.

iii) **Other administrative expenses**

Other administrative expenses include office, technology, real estate, legal and professional fees, advertising and sales promotions, and miscellaneous expenses.

y) **Foreign currencies**

Foreign currency transactions during the year are translated into Trinidad and Tobago dollars at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities in foreign currencies at the reporting date are expressed in Trinidad and Tobago dollars at the exchange rates ruling at that date. Profits and losses thus arising are dealt with in profit or loss.

z) **Taxation**

i) Deferred taxation is provided using the liability method for all temporary differences between the carrying amounts and tax bases of assets and liabilities using current corporation tax rates. The principal temporary differences arise from tax losses carried forward, depreciation of property, plant and equipment, unrealised gain/losses, and amounts credited directly to equity. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

ii) Corporation tax is charged annually at 15% of investment and other income relating to long term insurance funds (other than approved pension plans) less investment expenses allowable in relation thereto. A further 10% corporation tax is chargeable on net surpluses arising from the annual actuarial valuations, when these are transferred to shareholders.

iii) The profits of Development Finance Limited are exempt from taxation under the Corporation Tax Act, Chapter 75.02 as amended, but the company is required to pay Green Fund Levy.

2. Summary of Significant Accounting Policies (continued)

z) Taxation (continued)

iv) Corporation tax is charged annually at 25% in respect of surpluses from short term insurance and other operations.

aa) Administered funds

The assets and liabilities under administration by the Group have not been included in these financial statements. Gross assets under administration amounted to $26,024,000 at December 31, 2012 (2011: $25,692,000), (2010: $25,062,000).

3. Critical Judgements in Applying Accounting Policies and Key Sources of Estimation Uncertainty

a) The preparation of financial statements in accordance with International Financial Reporting Standards requires management to make judgements, estimates and assumptions in the process of applying the Group's accounting policies.

These are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances, and are reviewed on an ongoing basis. Actual results could differ from those estimates.

Changes in accounting estimates are recognised in profit or loss in the period in which the estimate is changed, if the change affects that period only, or in the period of the change and future periods if the change affects both current and future periods.

b) Critical judgements

The critical judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements, are as follows:

i) Whether investments are classified as financial assets at fair value through profit or loss, available for sale financial assets, held to maturity investments or loans and receivables.

ii) Whether land and buildings are classified as land development, investment properties or owner-occupied properties.

iii) Whether leases are classified as operating leases or finance leases.

iv) Which depreciation method for property, plant and equipment is used.

v) Which cost formula is used for the valuation of inventories.

vi) Whether policy contracts issued are classified as insurance contracts or investment contracts.

vii) The methods used for the valuation of liabilities arising under insurance contracts.

viii) When insurance premiums are recognised in profit or loss.

3. Critical Judgements in Applying Accounting Policies and Key Sources of Estimation Uncertainty (continued)

c) Key assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date (requiring management's most difficult, subjective or complex judgements) that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

i) Fair values

The fair values of financial assets are based on quoted market prices for specific or similar instruments.

The fair values of land and buildings are based on independent professional open market valuations.

ii) Impairment of assets

Management assesses at each reporting date whether assets are impaired. An asset is impaired when the carrying value is greater than its recoverable amount and there is objective evidence of impairment. Recoverable amount is the present value of the future cash flows. Provisions are made for the excess of the carrying value over the recoverable amount.

iii) Deferred tax assets

Management uses judgement in determining whether it is probable that future taxable profits will be available against which unused tax losses can be utilised before deferred tax assets arising therefrom are recognised.

iv) Property, plant and equipment

Management exercises judgement in determining whether future economic benefits can be derived from expenditures to be capitalised, and the useful lives and residual values of these assets.

v) Long term insurance contracts liabilities

Management and the Appointed Actuary determine, at the inception of the contract, assumptions regarding mortality, morbidity, lapses, surrenders, return on investments, and the level of expenses that have a material effect on the valuation of insurance liabilities. These assumptions are based on past experience as well as prevailing and expected future conditions. They are reviewed annually and are changed as current and future expected circumstances change.

3. **Critical Judgements in Applying Accounting Policies and Key Sources of Estimation Uncertainty (continued)**

c) **Key assumptions (continued)**

vi) **Short term insurance contracts liabilities**

Management estimates the cost of claims incurred but not settled at the year-end date and claims incurred but not reported until after the year-end date, based on input from adjustors and past claims development experience. Estimates are also made for unexpired risks, calculated as a percentage of unearned premiums. The estimates are reviewed for adequacy on an ongoing basis and the provisions are adjusted accordingly.

4. **Current Assets**

	2012 $'000	2011 $'000	2010 $'000
Cash and bank balances	122,292	71,164	53,522
Short term investments	288,552	131,566	239,950
Central Bank reserve account	5,956	6,180	6,191
Accounts receivable and prepayments	29,354	26,984	30,422
Outstanding premiums	6,654	5,764	5,197
Reinsurance assets	107,728	115,702	98,532
Inventories	3,517	3,334	3,052
Land development	84,937	78,911	61,671
Taxation recoverable	2,774	2,565	3,188
Retirement benefit asset	22,217	-	-
	673,981	442,170	501,725

a) **Short term investments - Concentration:**

	2012	2011	2010
Deposits with licensed banks and financial institutions	233,605	103,584	121,847
Treasury bills	54,947	27,982	118,103
	288,552	131,566	239,950

b) **Central Bank reserve account**

The Financial Institutions Act 2008, requires that every financial institution hold and maintain an account with the Central Bank of Trinidad and Tobago to be called a reserve account which at present, is to be equivalent to 9% of the total liabilities to depositors. This account is non-interest bearing.

	2012 $'000	2011 $'000	2010 $'000
4. Current Assets (continued)			
c) Accounts receivable (continued)			
i) Balances outstanding:			
Accrued investment income	10,765	9,614	9,690
Brokers and agents balances	5,822	4,289	5,926
Other receivables	39,414	30,566	32,575
	56,001	44,469	48,191
Less: impairment provision	26,647	17,485	17,769
	29,354	26,984	30,422
ii) Impairment provision:			
Balance brought forward	17,485	17,769	17,429
Provision for the year	9,162	(284)	340
	26,647	17,485	17,769
iii) Brokers and agents balances:			
Aged analysis			
Up to 30 days	3,078	1,807	2,807
31 to 45 days	1,186	1,367	1,359
Over 45 days	1,558	1,115	1,760
	5,822	4,289	5,926
d) Reinsurance assets			
i) Amounts due from reinsurers	790	791	556
Other amounts			
Long term insurance contracts	31,442	21,270	16,931
Reinsurers share of:			
Outstanding claims	47,644	60,464	53,752
Claims incurred but not reported	6,860	10,244	9,681
Unearned premiums	19,527	21,333	16,383
Unexpired risks	1,465	1,600	1,229
	106,938	114,911	97,976
Total	107,728	115,702	98,532

4. **Current Assets (continued)**

d) Reinsurance assets (continued)

ii) Reconciliation

	2012 $'000	2011 $'000	2010 $'000
Amounts due from reinsurers			
Balance brought forward	791	556	
Recoverable for the year	26,774	24,334	
Payments received during the year	(26,775)	(24,099)	
	790	791	
Other amounts			
Balance brought forward	114,911	97,976	
Increases in:			
Long term insurance contracts	10,172	4,339	
Outstanding claims	(12,820)	6,712	
Claims incurred but not reported	(3,384)	563	
Unearned premiums	(1,806)	4,950	
Unexpired risks	(135)	371	
	106,938	114,911	
	107,728	115,702	

e) Retirement Benefit Asset

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

	2012 $'000	2011 $'000	2010 $'000
Present value of obligation	(29,343)	-	-
Fair value of plan assets	51,560	-	-
Asset in the statement of financial position	22,217	-	-

Movement of amounts recognised in the statement of financial position:

	2012 $'000	2011 $'000	2010 $'000
Asset recognised in the statement of financial position January 1	21,384	-	-
(Expenses) income recognised in profit or loss	(519)	-	-
Actuarial gains recognised in other comprehensive income	1,352	-	-
Asset in the statement of financial position	22,217	-	-

4. Current Assets (continued)

e) Retirement Benefit Asset (continued)

	2012 $'000	2011 $'000	2010 $'000
The amounts recognised in the statement of income are as follows:			
Current service cost	1,153	-	-
Interest cost	1,610	-	-
Expected return on assets	(2,963)	-	-
Past Service Cost - vested benefits	719	-	-
Total included in employee benefits (Note 24)	519	-	-
Expected return on plan assets	2,963	-	-
Actuarial gain on plan assets	4,421	-	-
Actual return on plan assets	7,384	-	-
Changes in the fair value of Plan assets			
Opening fair value of plan assets	47,005	-	-
Expected return on plan assets	2,963	-	-
Benefits paid	(2,829)	-	-
Actuarial gain on plan assets	4,421	-	-
Closing fair value of plan assets	51,560	-	-
Changes in the present value of the obligation			
Opening present value of obligation	25,621	-	-
Current service cost	1,153	-	-
Interest cost	1,610	-	-
Benefits paid	(2,829)	-	-
Past Service Cost - vested benefits	719	-	-
Actuarial loss/(gain)	3,069	-	-
Closing fair value of obligation	29,343	-	-

4. **Current Assets (continued)**

e) **Retirement Benefit Asset (continued)**

	2012	2011	2010
The principal actuarial assumptions used were:			
Discount rate	5.00%	-	-
Future salary increases	5.00%	-	-
Expected return on plan assets	5.00%	-	-
Post retirement mortality:			
Group annunitants mortality table 1994			
Pre-retirement mortality, withdrawal from service	Nil	-	-
Future pension increases	Nil	-	-
Proportion of employees opting for early retirement	Nil	-	-

The overall expected rate of return is the weighted average of the expected returns of the expected various categories of plan assets held.

The major categories of the plan assets are:			
Local equities	40%	-	-
Government securities	28%	-	-
Short-term securities	-%	-	-
Mutual Funds	5%	-	-
Other	27%	-	-
	$'000	**$'000**	**$'000**
Actual return on plan assets	7,384	-	-

Defined benefit pension plan

Amounts for the current period are as follows:

	2012	2011	2010	2009	2008
	$'000	$'000	$'000	$'000	$'000
Defined benefit obligation	(29,343)	(25,621)	(25,287)	(22,795)	(19,345)
Plan assets	51,560	47,005	42,438	42,511	39,603
Surplus	22,217	21,384	17,151	19,716	20,258
Experience adjustments on plan liabilities gain	(2,452)	(1,038)	(140)	(243)	(937)
Experience adjustments on plan assets gain/(loss)	4,421	2,928	77	(414)	(3,092)

	2012 $'000	2011 $'000	2010 $'000
5. Deferred Taxation			
Deferred tax assets	2,038	1,284	1,189
Deferred tax liabilities	(21,798)	(17,279)	(14,865)
Net deferred tax liabilities	(19,760)	(15,995)	(13,676)

a) **Movements for the year**

	2012	2011
Balance brought forward	(15,995)	(13,676)
Acquisition of subsidiary	109	-
Provision for the year	(3,874)	(2,319)
	(19,760)	(15,995)

	2012 $'000	2011 $'000	2010 $'000
6. Investment in Associates			
Shares at cost	3,460	-	-
Impairment loss	(1,341)	-	-
Share of profit or loss	(1,047)	-	-
Share of other comprehensive income	901	-	-
	1,973	-	-

AIC Securities Limited was incorporated in the Republic of Trinidad and Tobago and its principal activity is that of a stockbroker, trading in bonds, shares and other securities. The company is registered with the Securities and Exchange Commission and is also a member firm of the Trinidad and Tobago Stock Exchange Limited. The company's financial statements were prepared as at September 30, 2012 and were audited by BDO Chartered Accountants, Port of Spain, Trinidad. The Group has a 25.00% interest in this company.

6. **Investment in Associates (continued)**

Summarised financial information in respect of the investment in associates is as follows:

	2012 $'000	2011 $'000	2010 $'000
Total assets	17,120	-	-
Total liabilities	9,228	-	-
Net Assets	7,892	-	-
Total revenue	1,112	-	-
Net loss after taxation	(4,187)	-	-
Other comprehensive income	3,602	-	-
Group's share of associates:			
Net assets	1,973	-	-
Net loss after taxation	(1,047)	-	-
Other comprehensive income	901	-	-

7. **Financial Assets**

	2012 $'000	2011 $'000	2010 $'000
Investment securities			
Financial assets at fair value through profit or loss	218,144	192,575	177,909
Available for sale financial assets	100	53,560	558
Held to maturity investments	578,941	499,622	457,367
	797,185	745,757	635,834
Loans and receivables			
Policy and automatic premium loans	44,929	46,008	46,054
Mortgages and other loans	347,594	204,001	160,193
	392,523	250,009	206,247
Total	1,189,708	995,766	842,081

7. Financial Assets (continued)

	2012 $'000	2011 $'000	2010 $'000
a) Fair values			
i) Financial assets at fair value through profit or loss	218,144	192,575	177,909
ii) Available for sale financial assets	100	53,560	558
iii) Held to maturity investments	670,520	551,728	491,223
iv) Mortgages and other loans	347,594	204,001	160,193
b) Investment securities – Concentration			
Government/Government guaranteed bonds	495,954	458,466	434,159
Bonds in licensed financial institutions	158,531	134,385	121,149
Other fixed income securities	17,218	-	-
Equities	125,482	152,906	80,526
	797,185	745,757	635,834
c) Investment securities – Bonds			
i) Contracted maturity			
Up to one year	21,893	35,600	10,532
Two to five years	272,083	248,080	253,848
Over five years	377,727	309,171	290,928
	671,703	592,851	555,308
ii) Range of interest rates	**% per annum**	**% per annum**	**% per annum**
Up to one year	6.75 - 10.88	5.46 - 10.88	6.25 - 10.88
Two to five years	3.75 - 12.00	4.00 - 10.88	5.46 - 10.88
Over five years	4.63 - 12.00	5.95 - 10.88	5.95 - 10.88
d) Investment securities – Unquoted equities			
i) At cost	14,258	67,718	14,258
Less: impairment provision	14,158	14,158	13,700
	100	53,560	558
ii) Impairment provision			
Balance brought forward	14,158	13,700	
Provision for the year	-	458	
	14,158	14,158	

	2012 $'000	2011 $'000	2010 $'000

7. **Financial Assets (continued)**

e) Policy and automatic premium loans

	2012 $'000	2011 $'000	2010 $'000
Policy loans	22,551	22,700	21,989
Automatic premium loans	21,085	21,922	22,622
Accrued interest	1,293	1,386	1,443
	44,929	**46,008**	**46,054**

f) Mortgages and other loans

	2012 $'000	2011 $'000	2010 $'000
i) Mortgage loans	110,003	109,254	69,839
Loans to small and medium-sized enterprises	146,425	-	-
Other loans	95,872	102,942	100,655
	352,300	212,196	170,494
Less: impairment provision	4,706	8,195	10,301
	347,594	**204,001**	**160,193**
ii) Impairment provision:			
Balance brought forward	8,195	10,301	
Provision for the year	(721)	(163)	
Write offs and adjustments	(2,768)	(1,943)	
	4,706	**8,195**	
iii) Concentration - sectoral analysis:			
Consumer	116,984	113,993	114,054
Commercial and industrial	143,482	90,008	46,139
Tourism	65,789	-	-
Other	21,339	-	-
	347,594	**240,001**	**160,193**
iv) Loans on which interest is not being accrued	**84,303**	**13,328**	**13,151**

	2012 $'000	2011 $'000	2010 $'000

8. Investment Properties

	2012 $'000	2011 $'000	2010 $'000
At beginning of year	100,540	100,540	99,800
Additions	5,850	-	-
Fair value (losses)/gains	(2,540)	-	740
	103,850	100,540	100,540
a) **Rental income**	4,053	3,831	3,831
b) **Direct operating expenses**	756	780	654

9. Property, Plant and Equipment

	Properties $'000	Furniture/ Equipment $'000	Motor Vehicles $'000	Equipment on lease $'000	Total $'000
December 31, 2012					
Cost/Valuation					
At beginning of year	162,932	81,211	6,021	22,355	272,519
Additions	27,631	3,889	170	4,197	35,887
Disposals	-	(63)	(48)	(4,007)	(4,118)
Revaluation	7,571	-	-	-	7,571
	198,134	85,037	6,143	22,545	311,859
Accumulated depreciation					
At beginning of year	5,547	73,283	4,355	16,937	100,122
Charge for the year	2,914	2,576	982	2,323	8,795
Disposals	-	-	(39)	(2,969)	(3,008)
Revaluation	(6,693)	-	-	-	(6,693)
	1,768	75,859	5,298	16,291	99,216
Net book value					
At December 31, 2012	196,366	9,178	845	6,254	212,643
At December 31, 2011	157,385	7,928	1,666	5,418	172,397

9. Property, Plant and Equipment (continued)

	Properties $'000	Furniture/ Equipment $'000	Motor Vehicles $'000	Equipment on lease $'000	Total $'000
December 31, 2011					
Cost/Valuation					
At beginning of year	163,720	80,387	5,933	27,324	277,364
Additions	-	1,031	88	1,668	2,787
Disposals	-	(207)	-	(6,637)	(6,844)
Revaluation	(788)	-	-	-	(788)
	162,932	81,211	6,021	22,355	272,519
Accumulated depreciation					
At beginning of year	3,865	70,709	3,271	19,500	97,345
Charge for the year	2,625	2,780	1,084	3,757	10,246
Disposals	-	(206)	-	(6,320)	(6,526)
Revaluation	(943)	-	-	-	(943)
	5,547	73,283	4,355	16,937	100,122
Net book value					
At December 31, 2011	157,385	7,928	1,666	5,418	172,397
At December 31, 2010	159,855	9,678	2,662	7,824	180,019

	2012 $'000	2011 $'000	2010 $'000
a) Written down value of properties			
Written down value of the properties based on cost	101,671	95,407	97,389
b) Revaluation surplus			
Balance brought forward	68,671	68,516	
Revaluation surplus for the year	14,264	155	
	82,935	68,671	

	2012 $'000	2011 $'000	2010 $'000
10. Current Liabilities			
Bank overdraft	-	-	267
Customers' deposits	63,730	66,949	65,621
Other funding instruments	17,079	1,951	1,906
Premium suspense	19,642	18,988	18,755
Accounts payable, accruals and other liabilities	66,518	51,607	45,749
Provision for employees benefits	5,526	5,085	4,202
Reinsurance liabilities	10,344	11,611	13,034
Taxation payable	501	929	1,188
	183,340	157,120	150,722

a) **Bank overdraft**

The Group has an overdraft facility for $6,000,000 at Scotiabank Trinidad and Tobago Limited which is unsecured and bears interest at 7.25% (2011: 7.50%) per annum.

b) **Customers' deposits and other funding instruments - Concentration**

	2012	2011	2010
Corporate and commercial	28,414	29,085	24,155
Other financial institutions	17,383	2,503	2,205
Personal	35,012	37,312	41,167
	80,809	68,900	67,527

c) **Other funding instruments**

Other funding instruments are secured by specific assets including Trinidad and Tobago Government Securities.

d) **Reinsurance liabilities**

	2012	2011
Balance brought forward	11,611	13,034
Reinsurance premiums for the year	68,529	80,234
Payments made during the year	(69,796)	(81,657)
Balance carried forward	10,344	11,611

	2012 $'000	2011 $'000	2010 $'000
11. Long Term Borrowings			
TT$ Floating rate bonds due 2008 - 2030	161,000	-	-
US$ Floating rate bonds due 2030	5,499	-	-
US$ Variable rate loans	101,621	-	-
Conditional borrowings and private equity	9,607	-	-
	277,727	-	-

a) Movements for the year

	2012 $'000	2011 $'000
Arising on acquisition of subsidiary	310,862	-
Repayments during the year (net)	(33,135)	-
Balance carried forward	277,727	-

b) The Group's borrowings are mainly long term and are covered by various forms of loan agreements. These include Trust Deeds related to bond issues on capital markets and finance contracts with international institutions. The Group has complied with all terms and conditions of all borrowings and all payments have been made as contracted. The finance contracts with international institutions include operational benchmarks related to the purposes of the loan based on projections and assumptions. Changes in market conditions and implementation issues beyond the control of the borrower may delay the achievement of such benchmarks and deadlines.

c) Conditional borrowings and Private Equity Funding

The Group had entered into finance contracts with the European Investment Bank (EIB) in respect of investment funds provided by the EIB to be used only for private equity investments in small and medium sized entities. The Group has fully utilised all funding available from this source.

The conditions of the contracts require the Group to pay fixed and participating rates of interest to the EIB which bears a proportionate share of risk under certain defined circumstances. The liabilities to the EIB in respect of conditional borrowings are at fair value if the participating rates of interest are taken into account.

Fixed interest on an EIB loan to DLFSA Inc., is charged at 3% per annum on the unpaid principal. In any year where the subsidiary's return on equity exceed 8% in the preceding year this rate will be increased by half of the difference between the relevant return on equity and 8% provided that the total interest rate charged shall never exceed 10% per annum.

d) Bond redemption funds

The floating rate bonds which mature in series from 2017 to 2022 and 2030 respectively are secured by bond redemption funds totalling $93.144 million that are invested in local securities issued by the Government of the Republic of Trinidad and Tobago and in various investments and deposit certificates issued by local commercial banks. These funds are managed by the various Trustees for the several bond issues and are to be used exclusively for the redemption of specific bonds.

12. Insurance Contracts Liabilities

	2012 $'000	2011 $'000	2010 $'000
With discretionary participation features	496,582	465,844	420,868
Without discretionary participation features	512,345	466,414	447,081
Provisions for outstanding claims	145,273	148,792	143,094
Provisions for claims incurred but not reported	24,629	25,630	25,143
Provisions for unearned premiums	74,876	74,134	67,956
Provisions for unexpired risks	5,616	5,560	5,097
	1,259,321	**1,186,374**	**1,109,239**

a) Reconciliation of changes for the year

	2012 $'000	2011 $'000
Balance brought forward	1,186,374	1,109,239
Increase in reserves	69,236	61,290
(Decrease)/increase in claims	11,684	(1,091)
Increase in reinsurance assets	(7,973)	16,936
Balance carried forward	**1,259,321**	**1,186,374**

b) Net insurance contracts liabilities

	2012 $'000	2011 $'000	2010 $'000
Insurance contracts liabilities	1,259,321	1,186,374	1,109,239
Less: reinsurance assets	106,938	114,911	97,976
	1,152,383	**1,071,463**	**1,011,263**

Represents

	2012 $'000	2011 $'000	2010 $'000
With discretionary participation features	496,582	465,844	420,868
Without discretionary participation features	480,903	445,144	430,150
Provisions for outstanding claims	97,629	88,328	89,342
Provisions for claims incurred but not reported	17,769	15,386	15,462
Provisions for unearned premiums	55,349	52,801	51,573
Provisions for unexpired risks	4,151	3,960	3,868
	1,152,383	**1,071,463**	**1,011,263**

c) Concentration by lines of business

	2012 $'000	2011 $'000	2010 $'000
Life assurance funds	417,680	377,231	354,123
Annuities	483,917	467,091	435,882
Deposit administration contracts	78,154	71,541	66,160
Policyholder dividends	6,516	6,522	6,883
Property	7,638	7,315	8,713
Motor	139,077	125,221	123,249
Liability	13,530	10,299	10,447
Marine	5,436	5,622	5,342
Pecuniary loss	431	616	464
Personal accident	4	5	-
	1,152,383	**1,071,463**	**1,011,263**

12. Insurance Contracts Liabilities (continued)	2012 $'000	2011 $'000	2010 $'000
d) Provision for outstanding claims			
Balance brought forward	148,792	143,094	
Claims incurred for the year	154,829	141,666	
Reinsurance assets	(12,820)	6,712	
Payments made during the year	(145,528)	(142,680)	
Balance carried forward	145,273	148,792	

	2012 $'000	2011 $'000	2010 $'000
e) Aged analysis of outstanding claims			
Short term insurance			
Up to 2007	41,919	48,484	61,198
2008	6,837	9,818	12,590
2009	10,656	12,695	18,270
2010	12,794	27,493	33,661
2011	17,605	29,660	-
2012	33,337	-	-
	123,148	128,150	125,719

13. Stated Capital

Authorised
An unlimited number of ordinary shares of no par value.

Issued and fully paid
10,871,387 shares of no par value.

14. Capital Reserve

Capital reserve comprises share premium and revaluation surpluses.

15. Catastrophe Reserve

The Corporation Taxes Act was amended in 1994 by Section 10D such that contributions to the catastrophe reserve fund up to a maximum of 20% of net premium income on property business is allowed as a deduction in computing chargeable income.

16. General Reserve

The general reserve represents appropriations of retained earnings for any possible unforeseen losses on financial assets for which alternative specific provision is not made.

17. Investment Revaluation Reserve

The investment revaluation reserve represents gains and losses arising from changes in fair value of available for sale financial assets.

18. Statutory Reserve

a) Section 171 of the Insurance Act, 1980 requires that at least 25% of the profit of every company carrying on general insurance business for the current year shall be appropriated towards surplus until such surplus equals or exceeds the reserves in respect of its outstanding unexpired policies.

b) The Financial Institutions Act, 2008 requires every financial institution to transfer no less than 10% of its net profit after deduction of taxes to a reserve fund until the amount standing to the credit of the reserve fund is equal at least to its paid up capital.

19. Non-Controlling Interests

	2012 $'000	2011 $'000
Balance brought forward	1	10,683
Arising on acquisition of subsidiary	60,646	-
Change in controlling interest of subsidiary	-	(10,682)
Share of surplus after taxation	3,575	-
	64,222	1

20. Investment Income

	2012 $'000	2011 $'000
Interest income	85,530	57,985
Dividends	3,939	3,459
Foreign exchange (losses)/gains	(717)	1,353
Unrealised gains	19,029	21,138
	107,781	83,935

a) Interest income

	2012 $'000	2011 $'000
Cash and cash equivalents	420	1,181
At fair value through profit or loss	5,503	6,402
Held to maturity	40,111	31,004
Loans and receivables	38,172	20,180
Other	1,324	(782)
	85,530	57,985

	2012 $'000	2011 $'000
20. Investment Income (continued)		
b) Gains/(losses)		
At fair value through profit or loss	32,785	21,925
Available for sale	-	(448)
Held to maturity	-	-
Investment properties	(2,540)	-
Associates	(1,341)	-
Other assets	(9,875)	(339)
	19,029	21,138

21. Other Income

	2012 $'000	2011 $'000
Commissions	13,722	14,708
Rental income from operating leases	12,074	13,514
Revenue from sale of goods	34,331	36,413
Fees from trustee services	50	55
Miscellaneous income	4,100	1,306
	64,277	65,996

22. Policyholders' Benefits

	2012 $'000	2011 $'000
Claims and surrenders	175,207	165,831
Dividends to participating policyholders	630	615
Provision for future policy benefits	69,051	61,563
	244,888	228,009

23. Other Direct Costs

	2012 $'000	2011 $'000
Commissions	47,693	48,401
Policy issue expenses	2,487	2,217
Depreciation on leased assets (net)	2,220	3,655
Cost of sales	29,566	30,236
Other costs	2,602	2,967
	84,568	87,476
Direct labour included in other costs	1,269	1,352
Pension costs included in other direct costs	1,382	1,191

24. Expenses of Management

	2012 $'000	2011 $'000
Employee benefits	44,755	38,504
Depreciation (net)	6,388	6,463
Operating lease rentals	47	43
Bad debts	(969)	(877)
Other administrative expenses	43,707	34,789
	93,928	78,922
Pension costs included in employee benefits	1,717	1,139

25. Taxation

a) Tax charge for the year

	2012 $'000	2011 $'000
Current year	7,577	7,861
Deferred taxation	3,874	2,319
	11,451	10,180
Insurance revenue statement	6,641	5,482
Shareholders	4,810	4,698
1	11,451	10,180

b) Reconciliation

Income taxes in the statements of income vary from amounts that would be computed by applying the statutory tax rates for the following reasons:

	2012 $'000	2011 $'000
Surplus before taxation	27,365	23,195
Tax at applicable statutory rates	6,841	5,799
Effect of different tax rates of life insurance companies	(664)	(548)
Items not subject to tax	(745)	618
Temporary differences	4,022	2,912
Tax losses	322	(150)
Other	1,675	1,549
	11,451	10,180

	2012 $'000	2011 $'000	2010 $'000
25. Taxation (continued)			
c) Tax losses			
Tax losses in subsidiaries available for set off against future chargeable profits of those companies.	16,289	15,804	16,694
26. Cash and Cash Equivalents			
Cash and bank balances	122,292	71,164	53,522
Bank overdraft	-	-	(267)
Short term instruments	288,552	131,566	239,950
	410,844	202,730	293,205
27. Capital Commitments			
Loans	21,908	17,274	2,433
28. Operating Leases			
Future rental income due on non-cancellable operating leases			
Up to one year	5,275	8,734	10,569
Two to three years	2,357	3,272	12,489
	7,632	12,006	23,058

29. Assets Pledged – Statutory Deposit, Statutory Fund and Catastrophe Reserve Fund

Fair value of assets deposited with and/or pledged to the order of the Inspector of Financial Institutions under the provisions of the Insurance Act, 1980

	2012 $'000	2011 $'000	2010 $'000
Current assets	72,529	72,862	130,462
Investment in subsidiaries	61,721	118,212	80,808
Financial assets	876,140	817,034	708,676
Investment properties	86,000	88,540	88,540
Owner occupied properties	143,000	141,500	138,500
	1,239,390	**1,238,148**	**1,146,986**

30. Related Party Transactions

Related party transactions are transfer of resources, services or obligations between the Group and a related party, regardless of whether a price is charged.

Related parties include: persons, or a close member of that person's family, who has control, joint control, or significant influence over the Group, including members of the key management personnel; all subsidiaries (note 39); all associates (note 6) and joint venture partners; and the Group's post employment benefit plans for the employees of the Group.

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group.

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

30. Related Party Transactions (continued)

Balances and transactions with related parties during the year were as follows:

	2012 $'000	2011 $'000	2010 $'000
a) Associates			
Investments in stated capital	3,460	-	-
Impairment loss	(1,341)	-	-
Share of loss for the year	(1,047)	-	-
Share of other comprehensive income	901	-	-
b) Subsidiaries			
Gain on acquisition	2,537	-	-
c) Post employment benefit plans			
i) Defined contribution plan			
Deposit administration contract	57,809	53,367	49,201
Pension fund contributions	1,669	1,515	1,483
Purchase of annuities	763	648	2,580
ii) Defined benefit plan			
Retirement benefit asset	22,217	-	-
Actuarial gain	1,352	-	-
Expense	519	-	-
d) Key management personnel			
Loans - secured	4,926	2,631	2,991
Customer deposits	2,673	2,885	997
Interest income	194	200	273
Interest expense	81	44	49
e) Key management compensation			
Short term benefits	10,162	7,298	6,967
Post employment benefits	228	250	289
Other long term benefits	133	-	-
Termination benefits	524	-	-
	11,047	7,548	7,256

31. Restatement

During the current year the Group adopted the Premium Policy Method for valuation of the long term insurance contracts, as prescribed for all Life Insurers under the proposed Insurance Bill 2011. Previously these were valued using the modified net premium method. This adoption was accounted for as a change in accounting policy and has been applied retrospectively. The net effect of this change was to reduce the previously reported total comprehensive income for 2011 by $804,000 from $13,974,000 to $13,170,000.

32. Insurance Contracts – Assumptions, Changes in Assumptions and Sensitivity

a) Long term insurance contracts

i) The actuarial liabilities for long term insurance contracts are determined in accordance with the provisions of the Insurance Act, 1980 and following generally accepted actuarial practice in the Republic of Trinidad and Tobago. The Insurance Act requires that the actuary place a "proper" value on the liabilities. These liabilities are determined using the PPM (Note 2 (p) (iii)). In deriving the liabilities, the PPM takes into consideration assumptions about the future impact of mortality, lapse rates, administration expense and interest rates among other factors for each policy type. Such assumptions are based on insurer and industry experience and are updated annually.

ii) **Sensitivity**

The liability adequacy tests were performed using the PPM and current best estimate assumptions. The sensitivity of the liability adequacy test carried out was as follows:

Scenario	Change in Variable	% Change in Minimum reserve based on Liability Adequacy test
Increase in interest and expense inflation	+1%	-6.27%
Decrease in interest and expense inflation	-1%	+7.69%
Increase in mortality (life insurance) Decrease in mortality (annuities)	+10%	+1.06%
Decrease in mortality (life insurance) Increase in mortality (annuities)	-10%	-0.99%
Increase in lapses	+10%	-0.74%
Decrease in lapses	-10%	+0.87%
Increase in expenses	+20%	+3.58%
Decrease in expenses	-20%	-3.30%
Increase in critical illness incidence	+10%	+1.37%
Decrease in critical illness incidence	-10%	-1.22%

b) Short term insurance contracts

i) The most significant liability arising from short term insurance contracts is the provisions for outstanding claims. These provisions are determined using input from loss adjustors and past experience. To this is added provisions made for claims and claims expenses incurred but not reported until after the year-end date. These provisions cannot be determined with certainty because of the substantial delay between the occurrences, reporting and final settlement of the claims. They are reviewed and amended on an ongoing basis as new information becomes available, claims are settled and new claims reported.

Experience and industry information is used to assess the impact of external factors such as legislative changes, judicial decisions and technological changes. The claims reserves are sensitive to these assumptions.

32. Insurance Contracts – Assumptions, Changes in Assumptions and Sensitivity (continued)

b) Short term insurance contracts (continued)

ii) Claims development – short term insurance

Underwriting year	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	Total $'000
Estimate of cumulative claims						
At end of year	73,895	68,163	64,773	65,202	74,182	346,215
One year later	68,033	51,393	70,613	63,650		
Two years later	67,523	53,221	71,708			
Three years later	67,811	52,362				
Four years later	67,093					
Estimate of cumulative claims	**67,093**	**52,362**	**71,708**	**63,650**	**74,182**	**328,995**
Cumulative payments	(60,256)	(41,706)	(58,914)	(46,045)	(40,845)	(247,766)
Claims outstanding	**6,837**	**10,656**	**12,794**	**17,605**	**33,337**	**81,229**
Liability in respect of prior years						**41,919**
Total Liability						**123,148**

33. Insurance Risk

The Group is involved in underwriting, pricing, and accepting various kinds of risks in exchange for premiums. The insurance contract gives rise to the traditional insurance risk, which is the uncertainty that an insured event will occur resulting in financial consequences covered by the insurance contract, in addition to regulatory, legal, and pricing risk. Regulatory risk is associated with the potential of laws, directives and guidelines affecting the insurance industry to change and impact the insurance operations. Legal risk arises out of the costs associated with a possible dispute over policy terms and conditions, subrogation, and any other legal matter arising from the insurance contract. Pricing risk is the possibility that the premiums paid for the transfer of various risks are not sufficient.

The objective of risk management of insurance contracts is to properly identify, assess, control, evaluate and price all risks so as to increase stakeholder value.

As part of the Group's enterprise risk management strategy, risks are managed through the underwriting processes, claims management, reinsurance, diversification among various products, asset liability management, and actuarial consultation.

33. Insurance Risk (continued)

a) Underwriting

The principal area of risk management begins in the underwriting process. Underwriting is the entire process that entails selecting policyholders by recognizing and evaluating hazards, establishing prices and determining policy terms and conditions. These processes are continually reviewed as it is at this stage that the Group determines if a risk will be accepted, rejected, or modified.

The Group has strict underwriting guidelines that have been developed with the assistance of actuarial support. These guidelines are reviewed and audited to ensure compliance.

b) Long term insurance contracts

Policy benefits under long term insurance contracts become payable when an insurable event such as death or critical illness occurs, at a specified time such as at the retirement date specified by an annuity contract and on the exercise of policy options such as surrender or request for a policy loan by a policyowner.

i) Underwriting

Underwriting risk inherent in long term insurance contracts is the risk that the company's rates will prove inadequate because experience (mortality, morbidity, lapse, expense, average size cases etc,) worsens vis a vis pricing parameters.

ii) Longevity risk on annuity business

The Group is exposed to a risk exposure to improvement in mortality on its annuity business. This risk is managed by using a conservative mortality assumption in pricing including mortality improvement projections.

iii) Mortality and morbidity risk

Mortality and morbidity risks including critical illness incidence are managed through pricing and underwriting strategies and reinsurance arrangements. Mortality improvement continues to be experienced, however the Group is exposed to the risk of a sudden and severe spike in mortality rates due to either a global or region specific pandemic. These risks are mitigated through catastrophe reinsurance arrangements.

iv) Lapse risk

Lapse risk is managed through product design and conservation strategies.

v) Experience studies

Experience studies are carried out on a regular basis to monitor experience vis a vis pricing assumptions and to determine experience assumptions for cash flow and profitability projections.

33. Insurance Risk (continued)

b) **Long term insurance contracts (continued)**

vi) **Reinsurance**

Reinsurance is used to reduce any single exposure of an insured. Limits and retentions are set according to the risk tolerance of stakeholders. The Group in certain cases also relies on the reinsurers' expertise in analyzing risks, product development and training.

vii) **Pricing risk**

The Group's insurance contracts are subject to pricing risk, which includes risks associated with mortality, expenses, and investments. The Group manages its pricing risk through actuarial support in the review of existing products and new product development. The Appointed Actuary assists in managing the development and deployment of an appropriate and efficient product development process that is tailored to the organizational structure and available resources. The Appointed Actuary approves all product design and pricing and conducts experience studies on mortality and morbidity, lapses and expenses.

c) **Short term insurance contracts**

Insurance risks are accepted from insureds in consideration for premiums calculated on the basis of the client, company and the industry experience with particular types of risks. The Group carries significant exposure on the various lines of business written, with the most significant being the motor and property lines. Material losses arise from low frequency, high severity events such as catastrophes, major fires and motor liability claims. The loss potential for these events is limited by ceding certain portions of these risks to reinsurers.

i) **Underwriting**

The Group has underwriting guidelines for various product lines that are followed by staff underwriters and agents that have been authorized to bind coverage. These guidelines are reviewed annually.

ii) **Reinsurance**

The Group relies on a significant amount of reinsurance. Reinsurance is used as a risk transfer mechanism, to smooth the Group's loss experience and to provide for large line capacity, catastrophe protection and underwriting guidance.

Because some risk exposures can be very large in nature, the Group utilizes reinsurance to accept the liability for loss exposures that the Group is unwilling or unable to retain. Reinsurance allows the Group to increase its market share while limiting the financial consequences of potential losses. Further, the Group insures various property and major exposures that are subject to earthquakes and windstorms. The Group purchases excess of loss insurance to mitigate the losses of these catastrophic events. The Group also utilizes the reinsurers for underwriting assistance, claims management and overall guidance.

33. Insurance Risk (continued)

c) Short term insurance contracts (continued)

ii) Reinsurance (continued)

Reinsurers are selected based on their track record and capability to meet their contractual obligations. In addition, the ratings assigned to reinsurers by the international rating agencies such as A.M. Best and Standard and Poors are used in determining whether or not reinsurers are acceptable. These ratings are monitored on an ongoing basis.

d) Concentration of insurance risk

i) The Group is exposed to significant insurance risk on the various lines of business written.

ii) The total sums assured/insured analysed by major classes of business is as follows:

	2012 $'000	2011 $'000	2010 $'000
Gross			
Long term insurance	8,716,884	7,853,929	7,123,128
Short term insurance	13,775,876	12,959,297	8,180,566
	22,492,760	**20,813,226**	**15,303,694**
Net			
Long term insurance	6,099,131	5,955,746	5,472,980
Short term insurance	3,906,184	4,987,395	2,695,263
	10,005,315	**10,943,141**	**8,168,243**

34. Financial Risk

a) Enterprise risk management

The Group's overall strategy is to move away from traditional risk management to enterprise risk management (ERM), whereby each company within the Group assesses, controls, exploits, finances and monitors risks from all sources affecting it for the purpose of increasing stakeholder value, and also within the context of the Group as a whole. This holistic approach allows the Group to mitigate risk and create value. In essence, the Group can increase stakeholder value while maintaining an acceptable level of risk to stakeholders. As a part of the ERM strategy the Group identifies and evaluates all risks in the context of one another as opposed to distinct risks.

The Group is exposed to financial risk including credit risk, liquidity risk, currency risk, interest rate risk and price risk. In particular, the key financial risk is that proceeds from its financial and reinsurance assets are not sufficient to fund obligations arising from insurance contracts and financial liabilities.

b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group is exposed to credit risk mainly on its short term investments, accounts receivable, reinsurance assets and investments in bonds, mortgages, loans to small and medium-sized entreprises and other loans.

i) Short term investments

The credit risk on short term investments is limited because the funds are invested in deposits with licensed banks and financial institutions, and in treasury bills.

ii) Accounts receivable

Accounts receivable are stated at amounts outstanding less impairment provision. Adequate provisions have been made for any uncollectible amounts.

iii) Reinsurance assets

The Group reduces its credit risk associated with reinsurance assets by entering into treaty agreements only with reinsurers who have acceptable credit ratings.

iv) Bonds

The Group invests in bonds issued only by governments, licensed financial institutions and corporations with acceptable credit ratings. The Group actively reviews all bond-issuing entities in which investments are being considered. The Group also limits the size of any given bond issue compared to size of its investment portfolio.

34. Financial Risk (continued)

b) Credit risk (continued)

v) Mortgage loans

The value at risk associated with mortgage loans is very insignificant as they are secured by property, which has been experiencing a significant increase in value over the past three years and because of the continued growth of the local economy.

vi) Loans to small and medium-sized enterprises (SME)

The principal activity of the subsidiary, Development Finance Limited, is the granting of loans to SMEs in the Caribbean. These are vulnerable to interruptions in the supply chain due to transport facilities, weather, utilities, licensing regimes and natural disasters such as hurricanes and flooding as well as changes in customer preferences due to global influences and variable household incomes. Cash flow is often affected by the slow receipt of receivables from larger entities, including Governments.

This risk is highly correlated with "Country risk" in terms of governance, economic conditions and the operation of markets. The correlation between SME risk and Country risk arises from the inability of some Caribbean countries to increase competitiveness due to delays in improving infrastructure, in delivering appropriately trained entrants to the work force and in creating conditions that allow markets to function effectively. This reduces sustained access by SME to markets and operating finance.

The subsidiary manages "Country risk" (as defined above) in various ways.

- Conventional country assessments provide country ratings that are indexed to its assessment of its home country. This relative risk rating provides a loan pricing scale.

- In Guyana and Suriname, there is a subsidiary dedicated to SME in those countries which is geared financially to deal with country risk effects in those countries.

- The Subsidiary's Board is responsible for managing credit risk along with the General Manager who is responsible for implementing the credit and risk management policy approved by the Board which relies on oversight by the Board's Audit Committee. Specific management measures include:

- Ensuring that suitably qualified staff is adequately trained in various aspects of credit risk management and providing advice, guidance and specialist skills and training to business units to promote sound techniques and practices.

- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements.

- The authorisation structure for the approval of credit and related decisions.

34. Financial Risk (continued)

b) **Credit risk (continued)**

vi) **Loans to small and medium-sized enterprises (SME) (continued)**

- Limitation of credit concentrations, industry and country risk exposure and reviewing compliance of business units with agreed exposure limits and the credit quality of local portfolios and ensuring that appropriate corrective action is taken where required.

- Developing and maintaining the company's risk rating and pricing systems and its procedures for determining impairment loss.

Credit risk in the subsidiary refers mainly to "Business enterprise risk" which is the probability that an enterprise might fail and not be able to meet its obligations because of poor management or poor judgement or inadequate execution of plans. Management deals with that risk as follows:

- Management evaluates business proposals using a three-tiered approach that centres on the business enterprise, the environment in which it will operate and the likely effects of global factors related to the industry and to the enterprise as well as reassessment of Key Success Factors and credit criteria. The results of the evaluations and management's insights and judgements provide inputs for a risk rating model that takes Country Risk into account. The model centers on a normal risk threshold. There are two ratings above this level and two ratings below. The score explicitly takes into account likely loss given default based on exposure at default. Loan pricing is based on the risk level which is a composite rating of Enterprise, Industry and Country risk. Results based on scores that are higher than statistically derived normal ranges are subject to independent review.

- Management monitors "Business enterprise risk" by regularly reviewing the performance of companies in its portfolio.

- The subsidiary's credit risk is managed primarily at source by Management and reviewed by the Board and monitored through the Enterprise Risk Management framework managed by senior management.

- The subsidiary has its own internal self-assessment and risk management controls. Loan operations and loan management services are segregated from loan origination and enterprise appraisal responsibilities.

34. Financial Risk (continued)

b) **Credit risk (continued)**

vii) **Other loans**

The Group relies heavily on a written Credit Advances Policy Manual, which sets out in detail the current policies governing the lending function and provides a comprehensive framework for prudent risk management of the credit function. Adherence to these guidelines is expected to communicate the Group's lending philosophy, provide policy guidelines to team members involved in lending, establish minimum standards for credit analysis, documentation, decision making and post-disbursement administration, as well as create the foundation for a sound credit portfolio.

All team members involved with the lending activity are required to be familiar with the contents of the Credit Advances Policy Manual and are required to adhere to the policies therein; serious breaches results in disciplinary measures being taken. It is the responsibility of the General Manager to ensure that policies are adhered to.

The Group's loan portfolio is adequately secured by collateral and where necessary, provisions are made for estimated losses when, in the opinion of the directors, the related loans are impaired.

viii) **Concentration**

The Group has set an upper limit of total assets that can be invested with any one company or group of related companies so as to avoid any significant concentration of credit risk.

ix) **Global economic developments and government policies**

The Group actively monitors global economic developments and government policies that may affect the growth rate of the local economy.

34. Financial Risk (continued)

b) Credit risk (continued)

ix) Maximum exposure to credit risk

The Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements is as follows:

	2012 $'000	2011 $'000	2010 $'000
Maximum exposure to credit risk	1,579,821	1,154,345	1,149,276

c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The Group is exposed to daily calls on its available cash resources to settle trade, financial and insurance liabilities.

i) Risk environment

The Group operates in an environment in which most investments are subject to liquidity risk. There is no active bond market and the Trinidad and Tobago Stock Exchange lists less than forty public companies. There are also only a few local licensed banking and financial institutions to deposit funds. Liquidity risk is also increased because of restrictions imposed by the provisions of the Insurance Act, 1980 that govern the investments of statutory deposits and statutory funds.

ii) Risk management

The Group operates a central treasury function. To manage and reduce liquidity risk the Group's Asset Liability Committee actively meets to match cash inflows with liability requirements. The Group maintains a minimum percentage of its assets in short term investments and has un-drawn credit lines available to meet its short term obligations as they fall due. In addition, the Group's investments in marketable bonds and equities can be used for liquidity support if the need arises.

iii) Liquidity gap

The Group's exposure to liquidity risk is summarised in the table below which analyses assets and liabilities by relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date, except for insurance contracts liabilities which are analysed by estimated timings:

34. Financial Risk (continued)

c) Liquidity risk (continued)

iii) Liquidity gap (continued)

2012	Up to one year $'000	Two to five years $'000	Over five years $'000	Undated $'000	Total $'000
Assets					
Liquid assets	410,844	-	-	-	410,844
Financial assets	80,603	348,436	590,258	170,411	1,189,708
Other assets	155,983	-	-	427,658	583,641
	647,430	348,436	590,258	598,069	2,184,193
Liabilities					
Borrowings	87,930	155,335	115,271	-	358,536
Insurance contracts	235,213	42,243	927,693	54,172	1,259,321
Other liabilities	100,235	2,296	-	21,798	124,329
	423,378	199,874	1,042,964	75,970	1,742,186
Net gap	224,052	148,562	(452,706)	522,099	442,007
Cumulative gap	224,052	372,614	(80,092)	442,007	

2011	Up to one year $'000	Two to five years $'000	Over five years $'000	Undated $'000	Total $'000
Assets					
Liquid assets	202,730	-	-	-	202,730
Financial assets	89,483	305,862	401,506	198,915	995,766
Other assets	160,529	-	-	353,132	513,661
	452,742	305,862	401,506	552,047	1,712,157
Liabilities					
Borrowings	56,920	11,980	-	-	68,900
Insurance contracts	224,957	(32,070)	940,550	52,937	1,186,374
Other liabilities	85,509	2,711	-	17,279	105,499
	367,386	(17,379)	940,550	70,216	1,360,773
Net gap	85,356	323,241	(539,044)	481,831	351,384
Cumulative gap	85,356	408,597	(130,447)	351,384	

34. Financial Risk (continued)

c) Liquidity risk (continued)

iii) Liquidity gap (continued)

	Up to one year $'000	Two to five years $'000	2010 Over five years $'000	Undated $'000	Total $'000
Assets					
Liquid assets	293,472	-	-	-	293,472
Financial assets	61,296	307,416	346,789	126,580	842,081
Other assets	146,582	-	-	343,419	490,001
	501,350	**307,416**	**346,789**	**469,999**	**1,625,554**
Liabilities					
Borrowings	49,022	18,772	-	-	67,794
Insurance contracts	221,783	(13,694)	744,703	156,447	1,109,239
Other liabilities	80,204	2,724	-	14,865	97,793
	351,009	**7,802**	**744,703**	**171,312**	**1,274,826**
Net gap	**150,341**	**299,614**	**(397,914)**	**298,687**	**350,728**
Cumulative gap	**150,341**	**449,955**	**52,041**	**350,728**	

34. Financial Risk (continued)

d) 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 currency risk, interest rate risk and other price risk.

e) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group operates primarily in the Republic of Trinidad and Tobago. 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, as far as possible, offset foreign currency liabilities with assets denominated in the same currency.

Due to the unavailability of United States Dollars from the local banking system, the Group holds foreign currency assets for investment purposes and to settle reinsurance liabilities.

The Group's net exposure to currency risk is as follows:

Net Foreign Currency Assets	2012 $'000	2011 $'000	2010 $'000
United States Dollars	284,964	264,851	223,711
Other Currencies	14,423	-	-
	299,387	266,451	223,711

f) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group is exposed to interest rate risk through the effect of fluctuations in the prevailing levels of interest rates on interest bearing financial assets and liabilities, including short term investments, investments in bonds, mortgage loans, other loans, bank overdraft, customer deposits and other funding instruments.

i) Risk management

Exposure is managed using interest rate sensitivity management.

In the Republic of Trinidad and Tobago, the availability of creative hedging strategies is very limited. Therefore, the Group attempts to maintain a well-balanced portfolio by matching interest sensitive assets with interest sensitive liabilities.

34. Financial Risk (continued)

f) **Interest rate risk (continued)**

ii) **Short term investments**

The short maturities of these investments allow the Group to take advantage of rising interest rates. However, the Group is exposed to falling interest rates. As part of a well-balanced portfolio, if interest rates decrease, the increase in value of the bond portfolio will reduce the negative effect of the reduction in interest rate.

iii) **Bonds**

The Group invests mainly in medium to long term bonds consisting of both floating rate and fixed rate instruments.

Financial assets classified as at fair value through profit or loss comprise mainly floating rate securities. The market values of these bonds are not very sensitive to changes in interest rates.

Financial assets classified as held to maturity comprise mainly fixed rate bonds. The market values of these bonds are sensitive to changes in interest rates. The longer the maturity of the bonds, the greater is the sensitivity to changes in interest rates. Because these assets are being held to maturity and are not traded, any changes in market value will not impact profit or loss.

The Group actively monitors bonds with maturities greater than ten years, as well as the interest rate policies of the Central Bank of Trinidad and Tobago.

iv) **Mortgage loans**

Mortgage loans are for terms of up to thirty years. The interest rates on mortgage loans are generally fixed for the first three years and adjustable thereafter.

v) **SME loans**

Most of the loans to small and medium-sized enterprises earn fixed interest rates. These loans are funded by long term borrowings in the form of bond issues on the capital market and finance contracts with international institutions.

vi) **Other loans**

The Group invests in fixed rate loans for terms not exceeding five years. These are funded mainly by borrowings in the form of customer deposits and other funding instruments.

vii) **Interest rate sensitivity gap**

The Group's exposure to interest rate risk is summarised in the table below which analyses assets and liabilities at their carrying amounts categorised by the earlier of contractual re-pricing or maturity dates except for insurance contracts liabilities which are analysed by estimated timings.

34. Financial Risk (continued)

f) Interest rate risk (continued)

vi) Interest rate sensitivity gap (continued)

2012	Up to one year $'000	Two to five years $'000	Over five years $'000	Non-Interest bearing $'000	Total $'000
Assets					
Liquid assets	410,844	-	-	-	410,844
Financial assets	154,809	351,840	557,577	125,482	1,189,708
Other assets	-	-	-	583,641	583,641
	565,653	351,840	557,577	709,123	2,184,193
Liabilities					
Borrowings	90,126	151,479	116,931	-	358,536
Insurance contracts	511,535	191,078	289,952	266,756	1,259,321
Other liabilities	-	-	-	124,329	124,329
	601,661	342,557	406,883	391,085	1,742,186
Net gap	(36,008)	9,283	150,694	318,038	442,007
Cumulative gap	(36,008)	(26,725)	123,969	442,007	

2011	Up to one year $'000	Two to five years $'000	Over five years $'000	Non-Interest bearing $'000	Total $'000
Assets					
Liquid assets	202,730	-	-	-	202,730
Financial assets	179,626	236,436	426,798	152,906	995,766
Other assets	-	-	-	513,661	513,661
	382,356	236,436	426,798	666,567	1,712,157
Liabilities					
Borrowings	56,279	12,621	-	-	68,900
Insurance contracts	479,451	179,086	253,586	274,251	1,186,374
Other liabilities	-	-	-	105,499	105,499
	535,730	191,707	253,586	379,750	1,360,773
Net gap	(153,374)	44,729	173,212	286,817	351,384
Cumulative gap	(153,374)	(108,645)	64,567	351,384	

34. Financial Risk (continued)

f) **Interest rate risk (continued)**

vi) **Interest rate sensitivity gap (continued)**

	2010				
	Up to one year $'000	Two to five years $'000	Over five years $'000	Non-Interest bearing $'000	Total $'000
Assets					
Liquid assets	293,472	-	-	-	293,472
Financial assets	151,421	247,747	362,387	80,526	842,081
Other assets	-	-	-	490,001	490,001
	444,893	247,747	362,387	570,527	1,625,554
Liabilities					
Borrowings	49,022	18,772	-	-	67,794
Insurance contracts	432,057	183,598	233,703	259,881	1,109,239
Other liabilities	-	-	-	97,793	97,793
	481,079	202,370	233,703	357,674	1,274,826
Net gap	(36,186)	45,377	128,684	212,853	350,728
Cumulative gap	(36,186)	9,191	137,875	350,728	

34. Financial Risk (continued)

g) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (equity and commodity prices) whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market.

i) Equity price risk

The Group is exposed to equity price risk on its investments in equity instruments classified as investments in associates, available for sale financial assets and financial assets at fair value through profit or loss.

Most of these investments are listed on the Trinidad and Tobago Stock Exchange. The Group actively reviews the financial performance, future growth potential and economic environment before investing in any equities.

The Group manages its exposure to price risk by trading these investments to reduce the impact of any adverse price movements.

The Group has very limited investments in unquoted equity instruments. These investments are stated at cost less provision for impairment losses.

The Group's total exposure to investments in equity instruments is as follows:

Investments in Equity Instruments	2012 $'000	2011 $'000	2010 $'000
Associates	1,973	-	-
At fair value through profit or loss	125,382	99,346	79,968
Available for sale	100	53,560	558
	127,455	152,906	80,526

ii) Commodity price risk

The Group is not exposed to commodity price risk.

35. Fair Value of Financial Assets and Liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. The existence of published price quotation in an active market is the best evidence of fair value. Where market prices are not available, fair values are estimated using various valuation techniques, including using recent arm's length market transactions between knowledgeable, willing parties, if available, current fair value of another financial instrument that is substantially the same and discounted cash flow analysis.

The following methods have been used to estimate the fair values of various classes of financial assets and liabilities:

a) Current assets and current liabilities

The carrying amounts of current assets and current liabilities are a reasonable approximation of the fair values because of their short-term nature.

b) Quoted securities

The fair values of quoted securities are determined on the basis of quoted market prices available at December 31, 2012.

c) Unquoted securities

The fair values of unquoted securities are determined using various valuation techniques. Unquoted securities are stated at cost less accumulated impairment provisions.

d) Loans and receivables

Loans and receivables are stated net of specific provisions for impairment losses. These assets result from transactions under typical market conditions and their values are not adversely affected by unusual terms. The inherent rates of interest in the portfolio approximate market conditions and yield discounted cash flow values, which are substantially in accordance with financial statement amounts.

36. Capital Risk Management

The Group manages its capital to ensure that companies in the Group will be able to continue as a going concern while maximising the return to shareholders. The Group's overall strategy remains unchanged from 2011.

The capital structure of the Group consists of equity attributable to shareholders, comprising issued capital, reserves and retained earnings.

37. Contingent Liabilities

a) During the period from March to June 2002, the State laid several charges indictably on several individuals and companies including two of the Company's subsidiaries. The charges cover offences that are alleged to have occurred between the period from July 1, 1996 to December 21, 2000, and constitute for the greater part the following:

i) corruptly receiving significant funds on account of and paying such funds to and on behalf of an individual who was at the time performing duties in which the public had an interest;

ii) aiding and abetting the said individual to misbehave in public office; and

iii) conspiring to convert funds that the State alleges the subsidiaries had reasonable grounds to suspect were part of proceeds of a specified offence.

On January 7, 2008, the Chief Magistrate discharged all of the accused persons, including two of the Company's subsidiaries, in respect of all of the original charges preferred against them. Thereafter, the Chief Magistrate committed all of the accused persons including two of the Company's subsidiaries to stand trial on new and substituted charges all of which are denied by the accused.

On April 4, 2008, two of the Company's subsidiaries made an application for Leave for Judicial review. Having been refused leave, the companies have lodged an appeal with the Court of Appeal, which is currently pending.

b) Additionally, on May 20, 2004 the Company and two of its subsidiaries together with other companies were charged with the offence of conspiring with other persons to obtain contracts and payments or settlements thereafter, of a total face value of up to $1,600,000,000 contrary to Section 34(1) of the Larceny Act Chapter 11:12. The Company has been advised by its attorneys that this offence is not known to the law.

c) All of these matters are currently before the Courts. No provision has been made in these financial statements in respect to any of the alleged charges. Legal fees in connection with these matters are expensed as incurred.

38. Dividends

The Board of Directors has proposed a dividend of 22¢ per share for the year ended December 31, 2012 (2011: 22¢ per share). This dividend, amounting to $2,391,705 is not recorded as a liability in the statement of financial position in accordance with International Accounting Standard 10.

39. Subsidiaries

	Place of Incorporation	2012 % Shareholding	2011 % Shareholding	2010 % shareholding
Balandra by the Bay 1 Limited Land development	Republic of Trinidad and Tobago	100.00	100.00	100.00
Development Finance Ltd Term lenders and equity investors in small and medium sized private industrial and commercial enterprises in the Caribbean	Republic of Trinidad and Tobago	49.75	-	-
DFLSA Inc 91.34% subsidiary of Development Finance Limited	Republic of Guyana	45.44	-	-
Fidelity Finance and Leasing Company Limited Acceptance of deposits and carrying on the business of a finance house or finance company, trust company and leasing corporation	Republic of Trinidad and Tobago	100.00	100.00	100.00
Inter-Island Mortgage Finance Limited Granting of mortgage loans	Republic of Trinidad and Tobago	100.00	100.00	100.00
Keystone Property Developers Limited Building contractors and real estate developers	Republic of Trinidad and Tobago	100.00	100.00	100.00
Las Cuevas South West Limited Land development	Republic of Trinidad and Tobago	100.00	100.00	100.00
Maritime Capital Limited Not yet commenced trading	Republic of Trinidad and Tobago	100.00	-	-
Maritime General Insurance Company Limited Underwriting all classes of general insurance business in Trinidad and Tobago	Republic of Trinidad and Tobago	100.00	100.00	91.94
Maritime Leasing Company Limited Leasing of equipment and commercial properties	Republic of Trinidad and Tobago	100.00	100.00	100.00
Maritime Residences Limited Development, trade and rental of newly constructed dwelling houses	Republic of Trinidad and Tobago	100.00	100.00	100.00
Nettletons Limited Retail operations	Republic of Trinidad and Tobago	100.00	100.00	100.00
Comteq Technological Services Company Limited On-line sales	Republic of Trinidad and Tobago	100.00	100.00	100.00
Marnett Security Company Limited Provision of security services	Republic of Trinidad and Tobago	100.00	100.00	100.00