

THE HAND IN HAND MUTUAL FIRE INSURANCE COMPANY LIMITED  
AND SUBSIDIARIES  
NOTES ON THE ACCOUNTS

1. Incorporation and activities

The Hand in Hand Mutual Fire Insurance Company Limited was incorporated in Guyana on 25 October 1865 under Ordinance of Incorporation No. 18 of 1865.

The Company provides a range of Insurance services.

Guyana Co-operative Insurance Service was established in Guyana by virtue of Order No. 57 of 1976 made under the Co-operative Financial Institutions Act 1976 (No. 8 of 1976). Effective 26 October 1997 pursuant to Ministerial Order No. 32 of 1997 made under the Financial Institutions Act No. 20 of 1996, the GCIS was registered as a Public Company, limited by shares under the new name GCIS Incorporated. On the 18 November 1998, the Hand-in-Hand Fire Insurance Company Limited acquired 66.7% of shares in GCIS Inc.

The Company's activities include insurance covering fire, motor, marine, miscellaneous business and life assurance covering individual life business and group life.

On 23 February 1999 the GNCB Trust Corporation was incorporated under the Companies Act of Guyana as a public company and known as GNCB Trust Corporation Inc.

The GNCB Trust Corporation Inc. was privatized on the 20 November 2002 with the Hand-in-Hand Mutual Fire Insurance Company Limited acquiring 65% of the issued share capital.

On 25<sup>th</sup> September 2003, GNCB Trust Corporation Inc. was renamed Hand in Hand Trust Corporation Incorporated.

The Company is registered under the Financial Institutions Act 1995 as a deposit taking financial institution.

Employees

During the year the number of employees in the group was 205 (2006/2007 – 200).

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2. Adoption of new and revised standards and interpretations

**Effective for the current year**

New Standard – IFRS 7

In the current year the company adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after January 1, 2007. The impact of the adoption of IFRS 7 has been to expand the disclosures provided in these financial statements regarding the company's financial instruments.

Amendment to relevant standard

IAS 1 – Capital Disclosures

Amendment to IAS 1 has been to expand the disclosures provided in these financial statements regarding the company's capital.

Interpretations effective in the current period

The following interpretations to published standards are effective from the current financial period but they are not relevant to the company's operations:

IFRIC 7 – Applying the restatement Approach under IAS 29, Financial Reporting in  
Hyperinflationary Economies

IFRIC 8 – Scope of IFRS 2

IFRIC 9 – Re-assessment of embedded derivatives

IFRIC 10 – Interim Financial Reporting and Impairment

**Availability for early adoption in the current year**

New Standard

IFRS 8 – Operating segments

This becomes effective for periods beginning on or after January 1, 2009. IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its reportable segments, which are operating segments or aggregations of operating segments that meet specified criteria.

Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision makers in deciding how to allocate resources and in assessing performance.

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2. New and revised standards and interpretations - cont'd

Management is reviewing the provisions of this standard to determine the impact, if any, against current practices and disclosures

When this standard is adopted it is not expected to have a material impact on the company's financial statements.

**Amendments to standards**

IAS 23 – (Revised) Borrowing costs

IAS1 – (Revised) Presentation of financial statements

IAS 23 – (Revised) Borrowing costs

This becomes effective for periods beginning on and after January 1, 2009. The revisions to IAS 23 have had no impact on the company's accounting policies.

IAS1 – (Revised) Presentation of financial statements

This becomes effective for periods beginning on and after January 1, 2009. Many textual changes have been made to IAS 1 (revised), including changes to the titles of individual financial statements (e.g. a "balance sheet" will in future be referred to as a "statement of financial position"). The majority of changes made are not substantive.

**New Interpretation**

IFRIC 11 – IFRS 2: Group and treasury share transactions (effective March 1, 2007)

IFRIC 12 – Service concession arrangements (effective January 1, 2008)

IFRIC 13 – Customer loyalty programmes (effective July 1, 2008)

IFRIC 14 – IAS 19 – The limit on a defined benefit asset, minimum funding requirement and their interactions (effective January 1, 2008)

2.1. Summary of significant accounting policies

(a) Accounting convention

The financial statements have been prepared under the historical cost convention, modified by the revaluation of land and buildings and investments and the accounting policies conform with International Financial Reporting Standards adopted by the Institute of Chartered Accountants of Guyana.

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2.1. Summary of significant accounting policies – cont'd

(b) Investments

Investments are recognized in the financial statements to comply with International Accounting Standards No. 39 – Financial Instruments – Recognition and measurement.

The Company and Group's investments have been classified as "Held to maturity", "Available for sale" and "Loans and receivables".

"Held to maturity" investments are carried at amortised cost. Any gains or losses on these investments are recognized in the revenue account when the assets are de-recognised or impaired.

"Available for sale" investments are initially recognized at cost and adjusted to fair value at subsequent periods.

Gains or losses on "available for sale financial assets" are recognised through the Investment reserves until the asset is sold or otherwise disposed, at which time previously recognised gains or losses are transferred to the statement of income and expenditure for that period.

Investment in subsidiaries is stated at cost in the books of the Company.

"Loans and receivables" are carried at amortised cost.

(c) Loan provisioning

Losses or impaired loans are recognized promptly when there is objective evidence that impairment of a loan or loan portfolio of loans has occurred.

Impairment losses are calculated on individual loans and on loans assessed collectively.

Throughout the year the Group assesses on a case by case basis whether there is objective evidence that a loan is impaired.

The Group reviews its portfolio annually. This normally includes a review of collateral held (including reconfirmation of its enforceability) and an assessment of actual and anticipated receipts.

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2.1. Summary of significant accounting policies – cont'd

(c) Loan provisioning cont'd

Collateral

It is the Company and Group's policy that all facilities are fully and tangibly secured.

Classification

Hand-In-Hand Trust Corporation Inc., one of the subsidiaries of the Group classifies its loans according the Financial Institutions Act of 1995.

Loans are classified as non-accrual whenever there is reasonable doubt regarding the collectibility of principal or interest.

Provisioning for each classification categories are made based on the following minimum level:

<u>Classification</u>	<u>Level of Provision</u>
Current	0%
Past due but not impaired	10% - 50%
Impaired	100%

A general provision of 1% of the portion of the loan portfolio not individually assessed is also made.

Renegotiated Loans

Hand-In-Hand Trust Corporation Inc. policy in relation to renegotiated loans is in accordance with the Financial Institutions Act of 1995 – Supervision Guideline No.5, paragraph No.14. Loans are renegotiated because of weakness in the borrower's financial position or the non servicing of debt as arranged or where it is determined that the terms of the loan be renegotiated to remedy the specific difficulties faced by the borrower.

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2.1. Summary of significant accounting policies – cont'd

(d) Fixed assets and depreciation

Freehold land and buildings held for use in the supply of services or for administrative purposes are stated in the balance sheet at their revalued amounts. Revalued amounts are taken as the fair value at the date of revaluation less any subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet.

Any revaluation increase arising on the revaluation of such land and buildings is credited to capital reserve.

Depreciation on revalued land and buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the capital reserve is transferred directly to retained earnings.

Furniture, equipment, machinery and motor vehicles are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of fixed assets is calculated on the reducing balance method at the rates specified below, which are estimated to write off the cost or valuation of these assets to their residual values over their estimated useful lives.

	<u>Hand-in- Hand</u> %	<u>GCIS Inc.</u> %	<u>HIH Trust Corporation</u> %
Building (i)	-	3	3
Office equipment and machinery	2 – 25	5 – 10	5 – 20
Motor vehicles	20	25	25
Computers	50	33 $\frac{1}{3}$	20

No depreciation is charged on the parent company's building since the estimated useful life of the building is such that any depreciation would be immaterial.

The gain or loss arising on the disposal or retirement of an item of fixed assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

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2.1. Summary of significant accounting policies – cont'd

(e) Pension plan

The plan was established on January 1, 1967 and is administered under a Trust Deed executed on that date amended later by supplemental deeds. It is a Defined Benefit Plan and covers the employees of Hand-in-Hand Mutual Fire Insurance Company Limited and GCIS Inc.

The main objective and purpose of the plan is to establish a fund for the provision of pension and other benefits for the employees of the Companies as shall become entitled thereto in accordance with the rules. All employees are eligible to join the plan provided they have completed one year of continuous service with the group and have attained the age of 18 years and are under the age of 50 if males or 45 if females. During the year, the companies' contribution to the pension plan was G\$12,351,972 (2006/2007 - G\$12,786,230).

The last actuarial valuation was done as at 31 December 2006 and revealed a surplus of G\$7.93M. The companies estimate that there would be insignificant (if any) net benefit obligations after taking into account the value of the plan assets. While the current service cost is a fair reflection of the cost to the companies, because of the nature of the company's business i.e. underwriting risks, management will ensure the necessary actuarial valuation is done and effect any adjustment to the books when advised by the actuaries.

The Hand-in-Hand Trust Corporation Inc. established a defined contribution pension plan for its employees in 2000. The contributions are held in a self administered fund which is separate from the Corporation's finances. Retirement benefits are determined by contributions to the fund together with investment earnings thereon. During 2007/2008 the corporation's contribution to the Plan was G\$2,686,815 (2006/2007 - G\$1,969,176). The fund balance was G\$21.3M as at 30 June 2008 (30 June 2007 –G\$17.8M).

(f) Reserve for unexpired risks

The Company's reserve for unexpired risks represents the proportion of the premiums written in a year which relates to periods of insurance subsequent to the balance sheet date and have been computed on the basis of 50% of the premium income on non-profit policies.

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2.1. Summary of significant accounting policies – cont'd

(f) Reserve for unexpired risks cont'd

GCIS Incorporated reserve for unexpired risks is on the 60:40 method whereby 60% of the net premium written for the financial year is treated as earned and 40% as relating to the following year.

(g) Consolidation

The consolidated financial statements comprise the financial statements of Hand-in-Hand Mutual Fire Insurance Company Limited (the company) and its controlled subsidiaries, after the elimination of all material inter-company transactions. Control is achieved where the parent company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities. Subsidiaries are consolidated from the date the parent company obtains control until such time as control ceases.

The consolidated financial statements incorporate the financial statements of GCIS Incorporated, and HHH Trust Corporation in which Hand in Hand Mutual Fire Insurance Company Limited owns 66.7% and 65% respectively of the issued share capital.

Acquisitions of subsidiaries are accounted for using the purchase method of accounting. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to conform any dissimilar material accounting policies that may exist.

Minority interests represent the interest not held by the company in GCIS Incorporated and Hand-in-Hand Trust Corporation.

(h) Management fees and expenses

Management fees are charged to GCIS Incorporated to equitably spread overhead in relation to the management services rendered to this company.

These expenses are allocated based on the gross premium written on each class of business for the year.

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2.1. Summary of significant accounting policies – cont'd

(i) Commissions and allowances

This represents expenses incurred in the acquisition of insurance business contracts mainly through sales representatives and brokers. Various rates are used in the computation of commission and allowances paid.

(j) Financial instruments

Fair values

The estimated fair values of certain financial instruments have been determined using available market information or other appropriate valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the group could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

Short term financial assets and liabilities

The carrying amounts of short term financial assets and liabilities comprising of the company's cash and bank balances, short term borrowings, trade and other receivables and trade and other payables approximate their fair values because of the short term maturities of these instruments.

(k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable in the normal course of business.

Interest income is accrued on a time basis by reference to the principal outstanding and the effective interest rate.

Dividend income from investments is recognized when the shareholders rights to receive payment have been established.

(l) Goodwill

Goodwill is tested annually for impairment.

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2.1. Summary of significant accounting policies – cont'd

(m) Cash and cash equivalents

Cash and cash equivalents in the cash flow statement consist of cash at bank and on hand, cash on deposit and bank overdraft.

(n) Taxation

**Income Tax**

Income tax expense represents the sum of tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The group's liability for current tax is calculated using tax rates that have been enacted in Guyana at the balance sheet date.

**Deferred Tax**

Deferred tax is recognized on the differences between the carrying amount of the assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor accounting profit.

The carrying amount of the deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable sufficient taxable profit will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, and when they relate to income taxes levied by the same taxation authority, and the company intends to settle its current tax assets and liabilities on a net basis.

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2.1. Summary of significant accounting policies – cont'd

(o) Properties on hand

These properties relate to mortgages that were foreclosed and purchased at public action. Provision is made for diminution in value through the revenue account. These are stated at fair value.

(p) Foreign Currencies

Transactions in currencies other than Guyana dollars are recorded at the rates of exchange prevailing on the dates of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in the net surplus or deficit for the period, except for exchange differences arising on non-monetary assets and liabilities where the exchanges in fair value are recognized directly in equity.

(q) Reinsurance

The group transfers some of its insurance risk to other insurers through reinsurance both locally and overseas. The reinsurer assumes part of the risk and part of the premium originally taken by the group. Reinsurer reimburses the group for claims paid to policyholders according to various standing agreements reached. The group has both treaty and facultative reinsurance. Under a treaty each party automatically accepts specific percentage of the insurers' business. Facultative reinsurance covers specific individual risks that are unusual or so large that it cannot be covered in the group's reinsurance treaties. Reinsurance premium paid and reinsurance recoveries that are netted against claims are accounted for in the revenue account. Reinsurance recoveries on outstanding claims are shown as current asset in the balance sheet.

(r) Insurance contract – Hand In Hand Fire

The company issues contracts that transfer insurance risk or financial risk or both.

Accident and liability Insurance contracts protect the company's customer against the risk of causing harm to third parties as a result of their legitimate activities and damages covered include both contractual and non-contractual events.

Property Insurance contracts mainly compensate the company's customers for damage suffered to their properties or for the value of property lost.

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2.1. Summary of significant accounting policies – cont'd

(r) Insurance contract – Hand In Hand Fire cont'd

Liability adequacy test

The company, upon notification of the occurrence of an insured event, sets up a provision based on best estimates and/or reports received from loss adjusters. At regular intervals the amounts provided for all unpaid claims are reviewed to take into account any material changes advised of by the client and/or broker. At all times therefore, balances reflected as payable on individual claims represent the assessed liability of the company having taken all the information relevant to the individual claims into consideration. Liabilities for all claims are kept until they are discharged or cancelled, or have expired.

(s) Insurance contract – GCIS Inc

The Company has traditional long-term insurance contracts that continue through the life insured individual and for specified periods as well.

Insurance Premiums are recognized as they become payable by the contract holder. Premiums paid are recognized through the income statement and are gross of commission.

There is a concentration of insurance risk in the age range of 21-30 years. This risk is factored into the insurance premium amount. A higher premium is charged for high risk insurance contracts. The company maintains a large portfolio of similar contracts resulting in less variability in the estimated risk.

(t) Claims

Claims are made against the group for losses incurred by its various policy holders. Management minimizes this expense by prudent underwriting of policies and efficient handling and settlement of claims. Management also minimizes this expense by reinsurance. Claims that are reported but not paid are provided for in the accounts. The amount provided is based upon the estimated liabilities and limited to the coverage granted under the policy. Where the claim is subject to reinsurance, an amount is provided as recoverable from the reinsurer. Based upon the reinsurance arrangements, a claim must be made immediately and then put in writing within 14 days according to the insurance contract.

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2.1. Summary of significant accounting policies – cont'd

(u) Premium Capital

The premium capital is an accumulation of the 'with profit' premiums net of any refunds, lapses, surrenders and unexpired time. This together with any loss or gain on the profit and loss account is used in the computation of triennial cash profit for distributions amongst members at the end of each triennium period.

(v) Capital Reserve

Surplus on revaluation of fixed assets is credited to this account.

(w) General Reserve

This represents the accumulated surplus or losses of the group together with write off such as unclaimed triennial cash profit.

(x) Capital Redemption Reserve

A provision is made so as not to reduce the available funds necessary to pay creditors as a result of the redemption of ordinary and preference scrip.

(y) Triennial Profit

This represents triennial cash profit, that is, a portion of the profits of the company which is returnable to members in cash at the end of a triennial period in respect of and in proportion to their premium contributions pursuant to the By-Laws of the company. A rate of return is arrived at after taking into account the various prevailing interest rates.

(z) (i) Reserve fund

This reserve is maintained by Hand in Hand Trust Corporation Inc. in accordance with the provisions of Section 20 (1) of the Financial Institutions Act 1995 which requires that a minimum 15% of net profit as defined in the Act, be transferred to the reserve fund until the amount of the fund is equal to its paid up capital.

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2.1. Summary of significant accounting policies – cont'd

(z) (ii) Segment reporting

The group's segments are components of an entity that is engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

(z) (iii) Investment reserve

At the end of the year securities are valued using the current market rates prevailing on the Guyana Stock Exchange, London Stock Exchange and at directors' valuation. The surplus or deficit is transferred to the Investment Reserve account.

2.2 Critical accounting judgments and key sources of estimation uncertainty

In the application of the Company and Group's accounting policies which are described in note 2.1, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future and other sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the financial statements:

(i) Trade and other receivables

On a regular basis, management reviews trade and other receivables to assess impairment. Based on the information available as to the likely impairment in cash flows, decisions are taken in determining appropriate provisions to be made for bad and doubtful debts.

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2.2 Critical accounting judgments and key sources of estimation uncertainty –cont'd

- (ii) Useful lives of fixed assets  
Management reviews the estimated useful lives of fixed assets at the end of each year to determine whether the useful lives should remain the same.
- (iii) Other financial assets  
In determining the fair value of investments in the absence of a market, the Directors estimate the likelihood of impairment by using discounted cash flows.
- (iv) Transfer to Life Assurance Fund  
The transfer to the Life Assurance Fund was computed by the actuaries based on data provided by management. The computation of the transfer assumes that the data is not materially misstated.