SAGICOR FINANCIAL CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2009

INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009 **Amounts expressed in US$000**

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Sagicor Financial Corporation

We have audited the accompanying consolidated financial statements of **Sagicor Financial Corporation and its subsidiaries (the "Group")**, which comprise the consolidated statement of financial position as of December 31, 2009 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

PRICEWATERHOUSECOOPERS

Independent Auditors' Report

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants

April 6, 2010

Eckler Ltd.
110 Sheppard Avenue East, Suite 900
Toronto, Ontario, Canada M2N 7A3

SAGICOR FINANCIAL CORPORATION

APPOINTED ACTUARY'S
2009 REPORT TO THE SHAREHOLDERS AND POLICYHOLDERS

I have performed or reviewed the valuation of the consolidated policy liabilities of Sagicor Financial Corporation ("Sagicor") which includes the policy liabilities of its life insurance subsidiaries:

- Sagicor Life Inc. (Barbados),
- Sagicor Life Jamaica Limited (Jamaica) *,
- Sagicor Capital Life Insurance Company Limited (Bahamas),
- Capital Life Insurance Company Bahamas Limited (Bahamas),
- Sagicor Life Aruba NV (Aruba),
- Sagicor Panamá SA (Panama),
- Nationwide Insurance Company Limited (Trinidad & Tobago),
- Sagicor Life of the Cayman Islands Limited (Cayman Islands) *,
- Sagicor Allnation Insurance Company (Delaware, USA),
- Sagicor Life Insurance Company (Texas, USA) *, and
- Laurel Life Insurance Company (Texas, USA) *,

for the balance sheet, at 31st December 2009, and their change in the consolidated statement of operations, for the year then ended, for each organization and on a consolidated basis in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

The valuation of Sagicor and its Life Insurance Subsidiaries was conducted by myself or other actuaries (indicated by a "*" above), using either the Policy Premium Method ("PPM") as an approximation to the Canadian Asset Liability Method ("CALM"), or using CALM directly, assuming best-estimate assumptions together with margins for adverse deviations in accordance with the Standards of Practice (Life) of the Canadian Institute of Actuaries. For those where other actuaries completed the valuation, I have reviewed and accepted their valuation and have relied on them in order to issue this certificate.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly represent the results of the valuation.

Sylvain Goulet, FSA, FCIA, MAAA
Affiliate Member of the (British) Institute of Actuaries
Affiliate Member of the Caribbean Actuarial Association

Appointed Actuary for Sagicor Financial Corporation

31st March 2010

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2009 **Amounts expressed in US$000**

	Notes	2009	2008
ASSETS			
Investment property	5	116,845	107,390
Property, plant and equipment	6	128,883	148,279
Investment in associated companies	7	32,674	31,893
Intangible assets	8	129,428	134,922
Financial investments	9	3,274,442	2,880,206
Reinsurance assets	10	294,879	307,713
Income tax assets	11	31,790	31,757
Miscellaneous assets and receivables	12	255,011	214,914
Cash resources		196,020	122,242
Total assets		**4,459,972**	**3,979,316**
LIABILITIES			
Actuarial liabilities	13	1,612,531	1,450,219
Other insurance liabilities	14	501,769	385,554
Investment contract liabilities	15	304,397	267,474
Total policy liabilities		2,418,697	2,103,247
Notes and loans payable	16	200,844	164,306
Deposit and security liabilities	17	907,487	917,143
Provisions	18	32,892	28,038
Income tax liabilities	19	16,490	16,674
Accounts payable and accrued liabilities	20	202,134	168,261
Total liabilities		3,778,544	3,397,669
EQUITY			
Share capital	21	278,252	258,153
Reserves	22	(38,238)	(85,272)
Retained earnings		296,927	274,870
Total shareholders' equity		536,941	447,751
Participating accounts	23	6,984	12,499
Minority interest in subsidiaries		137,503	121,397
Total equity		681,428	581,647
Total equity and liabilities		**4,459,972**	**3,979,316**

These financial statements have been approved for issue by the Board of Directors on March 30, 2010.

Director D. Miller **Director**

CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 2009 **Amounts expressed in US$000**

	Notes	2009	2008
REVENUE			
Premium revenue	24	1,007,526	849,756
Reinsurance premium expense	24	(164,584)	(137,710)
Net premium revenue		842,942	712,046
Net investment income	25	294,216	242,033
Fees and other revenue	26	68,176	94,744
Gains arising on acquisitions	37.2	-	18,786
Total revenue		1,205,334	1,067,609
BENEFITS			
Policy benefits and change in actuarial liabilities	27	681,985	542,022
Policy benefits and change in actuarial liabilities reinsured	27	(51,389)	(61,353)
Net policy benefits and change in actuarial liabilities		630,596	480,669
Interest expense	28	101,899	92,711
Total benefits		732,495	573,380
EXPENSES			
Administrative expenses		198,362	180,322
Commissions and related compensation		149,685	124,661
Premium taxes		8,123	7,652
Finance costs		15,375	14,418
Depreciation and amortisation		18,659	16,298
Total expenses		390,204	343,351
INCOME BEFORE TAXES		82,635	150,878
Income taxes	32	(12,184)	(25,635)
NET INCOME FOR THE YEAR		**70,451**	**125,243**
NET INCOME ATTRIBUTABLE TO:			
Shareholders		50,502	96,111
Participating policyholders		(5,113)	3,565
Minority interest		25,062	25,567
		70,451	125,243
Net income attributable to shareholders - EPS			
Basic earnings per common share	34.1	18.1 cents	34.7 cents
Fully diluted earnings per common share	34.1	18.1 cents	34.6 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2009 **Amounts expressed in US $000**

	Notes	2009	2008
NET INCOME FOR THE YEAR		70,451	125,243
OTHER COMPREHENSIVE INCOME	35		
Changes in fair value reserves:			
Owner occupied property		1,331	4,312
Available for sale financial assets		44,107	(96,540)
Cash flow hedges		(1,701)	2,760
		43,737	(89,468)
Retranslation of foreign currency operations		(12,996)	(51,681)
Other items		(346)	504
Other comprehensive income / (loss) for the year, net of tax		30,395	(140,645)
TOTAL COMPREHENSIVE INCOME / (LOSS), NET OF TAX		**100,846**	**(15,402)**
TOTAL COMPREHENSIVE INCOME / (LOSS) ATTRIBUTABLE TO:			
Shareholders		83,775	(16,208)
Participating policyholders		(5,255)	3,365
Minority interest		22,326	(2,559)
		100,846	(15,402)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2009 **Amounts expressed in US $000**

	Share capital	Reserves	Retained earnings	Par [1] accounts	Minority interest	Total
	Note 21	**Note 22**		**Note 23**		
Year ended December 31, 2009						
Balance, beginning of year	258,153	(85,272)	274,870	12,499	121,397	581,647
Total comprehensive income	-	33,402	50,373	(5,255)	22,326	100,846
Issue of shares	20,981	-	-	-	630	21,611
Dividends declared (note 34.2)	-	-	(11,117)	-	(11,333)	(22,450)
Changes in the ownership interest of subsidiaries (note 37.1)	-	6,756	(11,363)	-	4,332	(275)
Other movements	(882)	6,876	(5,836)	(260)	151	49
Balance, end of year	278,252	(38,238)	296,927	6,984	137,503	681,428
Year ended December 31, 2008						
Balance, beginning of year	231,695	21,735	201,744	9,396	122,137	586,707
Total comprehensive income	-	(112,121)	95,913	3,365	(2,559)	(15,402)
Issue of shares	27,625	-	-	-	(334)	27,291
Dividends declared (note 34.2)	-	-	(19,416)	-	(10,946)	(30,362)
Acquisition of subsidiaries and insurance businesses	-	-	-	-	12,859	12,859
Other movements	(1,167)	5,114	(3,371)	(262)	240	554
Balance, end of year	258,153	(85,272)	274,870	12,499	121,397	581,647

[1] Participating

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2009 **Amounts expressed in US $000**

	Notes	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before taxes		82,635	150,878
Adjustments for non-cash items, interest and dividends	36.1	62,393	45,335
Interest and dividends received		246,714	228,702
Interest paid		(112,908)	(106,280)
Income taxes paid		(16,436)	(18,022)
Changes in operating assets	36.1	(352,485)	(347,576)
Changes in operating liabilities	36.1	164,081	249,076
Net cash from operating activities		73,994	202,113
CASH FLOWS FROM INVESTING ACTIVITIES			
Property, plant and equipment, net	36.2	(9,634)	(13,018)
Investment in associated companies, net		(337)	1,139
Intangible assets, net		(2,684)	(4,264)
Acquisition of subsidiaries and insurance businesses, net of cash and cash equivalents		(442)	(31,902)
Net cash used in investing activities		(13,097)	(48,045)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common shares issued		19,562	357
Net purchase of treasury shares		(882)	(1,167)
Dividends paid to shareholders		(10,606)	(19,234)
Shares issued to minority interest		762	1,654
Dividends paid to minority interest		(11,248)	(10,889)
Notes and loans payable, net	36.3	36,833	12,776
Net cash from / (used in) financing activities		34,421	(16,503)
Effects of exchange rate changes		2,815	(24,205)
NET CHANGE IN CASH AND CASH EQUIVALENTS		98,133	113,360
Cash and cash equivalents, beginning of year		226,852	113,492
CASH AND CASH EQUIVALENTS, END OF YEAR	36.4	324,985	226,852

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Sagicor Financial Corporation was incorporated on December 6, 2002 under the Companies Act of Barbados as a public limited liability holding company. On December 6, 2002, Sagicor Life Inc was formed following its conversion from The Barbados Mutual Life Assurance Society (The Society). On December 30, 2002, Sagicor Financial Corporation allotted common shares to the eligible policyholders of The Society and became the holding company of Sagicor Life Inc.

The principal activities of the Sagicor Group are as follows:

- Life and health insurance
- Annuities and pension administration services
- Property and casualty insurance
- Banking, investment management and other financial services

The Group operates across the Caribbean, in the United States of America (USA) and in the United Kingdom (UK). Further details of the Group's holdings and operations are set out in note 4.

For ease of reference, when the term "insurer" is used in the following notes, it refers to either one or more Group subsidiaries that engages in insurance business.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS).

The Group has adopted accounting policies for the computation of actuarial liabilities on life insurance and annuity contracts which comply with the Canadian Asset Liability Method (CALM). As no specific guidance is provided by IFRS for computing actuarial liabilities, management has judged that CALM should continue to be applied. The adoption of IFRS 4 – Insurance Contracts, permits the Group to continue with this accounting policy, with the modification required by IFRS 4 that rights under reinsurance contracts are measured separately.

The consolidated financial statements are prepared under the historical cost convention except as modified by the revaluation of investment property, owner-occupied property, available for sale investment securities, financial assets and liabilities held at fair value through income, actuarial liabilities and associated reinsurance assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas when assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

All amounts in these financial statements are shown in thousands of United States dollars, unless otherwise stated.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Amendments to IFRS

The standards which are new or which have substantive amendments that are effective for the accounting period beginning January 1, 2009 and that have a significant impact on these financial statements are as follows.

(i) IFRS 8 Operating Segments

The standard requires a management approach to segment reporting. This represents a change in the Group's segment reporting which was previously prepared by geographic location and by business line. The new disclosure is set out in notes 2.4 and 4.

(ii) IAS 1 (Revised) Presentation of Financial Statements

A statement of comprehensive income is required to be presented. Total recognised gains and losses, which are included in the statement of changes in equity, are detailed in the statement of comprehensive income and in note 35.

(iii) IFRS 7 (Amended) Financial Instruments: Disclosures

IFRS 7 was amended in March 2009 to require disclosure of a fair value hierarchy of the financial instruments that are carried at fair values in the statement of financial position. This disclosure is set out in note 41.5.

(iv) IFRS 3 (Revised) Business Combinations and IAS 27 (Amended) Consolidated and Separate Financial Statements

For the 2009 financial statements, the Group has early adopted these revisions and amendments for the 2009 financial year, ahead of the required July 1, 2009 date for adoption.

IAS 27 has been amended to require that transactions with minority interests be recorded in the statement of equity if there is no change in control of a subsidiary. These transactions will no longer result in goodwill or gains and losses being reflected in income. The amendment also specifies the accounting when control of a subsidiary is lost. In such instances, a gain or loss will be recognised in income. The impact of this change is reflected in the statement of changes in equity and in note 37.1.

Changes have been made to IAS 27 in determining the cost of an investment in subsidiary and to IFRS 3 in determining the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. For example, all payments to acquire a business are to be recorded at fair value at the acquisition date, with contingent payments classified as a liability at fair value through income. Also, the standard allows on an acquisition by acquisition basis for the valuation of minority interest in the acquiree either at fair value or at the proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. These changes do not impact these financial statements.

Other amendments to standards which are effective for the 2009 financial year, but which have no significant impact on the Group's financial statements are listed in the following table.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

IFRS 2	Share-Based Payment – amendment to the definition of vesting conditions.
IAS 23	Borrowing Costs – amendment to require the capitalisation of borrowing costs attributable to the acquisition, construction or production of a qualifying asset as part of the cost of the asset.
IAS 32 and IAS 1	Financial Instruments: Presentation and Presentation of Financial Statements – amendments to allow for the classification as equity of certain puttable financial instruments and obligations arising on liquidation.

(b) Amendments to International Financial Reporting Interpretations

The International Financial Reporting Interpretations Committee (IFRIC) has issued new or revised interpretations which are effective from the 2009 reporting year. The new interpretations, which do not impact significantly the presentation, disclosure or accounting of these financial statements, are as follows:

IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a net investment in a foreign operation

(c) New standards and amendments to standards which are not yet effective

Certain new standards and amendments have been issued which were not effective at the date of the financial statements. The Group has not adopted these new standards and amendments. The changes which may have a significant effect on future presentation, disclosure or accounting are as follows:

New standard	Effective date	Comment
IFRS 9 – Financial Instruments	January 1, 2013	This standard deals with the classification and measurement of financial instruments, and replaces sections of IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. The determination is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. This standard does not address changes contemplated by the International Accounting Standards Board with respect to the following related items: • impairment methodology for financial assets • hedge accounting • financial liabilities

2. ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies generally accompanying a majority voting interest. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are de-consolidated from the date on which control ceases.

All material intra-group balances, transactions and gains are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

Minority interest balances represent the interest of minority shareholders in subsidiaries not wholly owned by the Group and are determined as the proportionate share of subsidiaries' net assets.

The Group uses the purchase method of accounting for the acquisitions of subsidiaries and insurance businesses. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the net assets acquired is recorded as goodwill. If, after reassessment of the net assets acquired, the cost of the acquisition is less than the Group's share of net assets acquired, the difference is recognised in income.

Subsequent ownership changes in a subsidiary, without loss of control, are accounted for as transactions between owners in the statement of changes in equity.

(b) Investment in associated companies

The investments in associated companies, which are not majority owned or controlled but where significant influence exists, are included in these consolidated financial statements under the equity method of accounting. Investments in associated companies are originally recorded at cost and include intangible assets identified on acquisition.

Accounting policies of associates have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

The Group recognises in income its share of associated companies' post acquisition income and its share of the amortisation and impairment of intangible assets which were identified on acquisition. Unrealised gains or losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. The Group recognises in other comprehensive income, its share of associated companies' post acquisition other comprehensive income.

(c) Joint Ventures

Interests in the assets, liabilities and earnings of jointly controlled ventures are included in these consolidated financial statements using the proportionate consolidation method, eliminating all material related party balances.

2. ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

(d) Divestitures

On the disposal of or loss of control of a subsidiary, the Group de-recognises the related assets (including goodwill), liabilities and minority interest at their carrying amounts; measures the consideration received at fair value; and records the resulting gain or loss in income. The Group also transfers to income, or directly to retained earnings if permitted under IFRS, the related amounts recognised in equity reserves in respect of the disposal or loss of control.

Realised gains or losses on the disposal of associates and joint ventures are included in income.

(e) Pension and investment funds

Insurers have issued deposit administration and unit linked contracts in which the full return of the assets supporting these contracts accrue directly to the contract-holders. As these contracts are not operated under separate legal trusts, they have been consolidated in these financial statements.

The Group manages a number of segregated pension funds, mutual funds and unit trusts. These funds are segregated and investment returns on these funds accrue directly to unit-holders. Consequently the assets, liabilities and activity of these funds are not included in these consolidated financial statements unless the Group has a significant holding in the fund. Where a significant holding exists, the Group consolidates the assets, liabilities and activity of the fund and accounts for any non-controlling interest as a financial liability.

(f) Employees share ownership plan (ESOP)

The Company has established an ESOP Trust which either acquires Company shares on the open market, or is allotted new shares by the Company. The Trust holds the shares on behalf of employees until the employees' retirement or termination from the Group. Until distribution to employees, shares held by the Trust are accounted for as treasury shares. All dividends received by the Trust shall be applied towards the purchase of additional Company shares.

2.3 Foreign currency translation

(a) Functional and presentational currency

Items included in the financial statements of each reporting unit of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). A reporting unit may be an individual subsidiary, a branch of a subsidiary or an intermediate holding company group of subsidiaries.

The consolidated financial statements are presented in thousands of United States dollars, which is the Group's presentational currency.

Year ended December 31, 2009 Amounts expressed in US $000

2. ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation (continued)

(b) Reporting units

The results and financial position of reporting units that have a functional currency other than the Group's presentational currency are translated as follows:

(i) Income, other comprehensive income, movements in equity and cash flows are translated at average exchange rates for the year.

(ii) Assets and liabilities are translated at the exchange rates ruling on December 31.

(iii) Resulting exchange differences are recognised in other comprehensive income.

Currencies which are pegged to the United States dollar are converted at the pegged rates. Currencies which float are converted to the United States dollar by reference to the average of buying and selling rates quoted by the respective central banks or in the case of pounds sterling, according to prevailing market rates.

Exchange rates of the other principal operating currencies to the United States dollar were as follows:

	December 2009 closing rate	**2009 average rate**	**December 2008 closing rate**	**2008 average rate**
Barbados dollar	2.0000	2.0000	2.0000	2.0000
Jamaica dollar	89.3088	87.8012	79.9416	72.3106
Trinidad & Tobago dollar	6.3574	6.2996	6.2728	6.2608
Pound sterling	0.6193	0.6457	0.6956	0.5342

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are recorded in other comprehensive income. On the disposal or loss of control of a foreign entity, such exchange differences are transferred to income.

Goodwill and other intangible assets recognised on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity, and are translated at the rate ruling on December 31.

(c) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses, which result from the settlement of foreign currency transactions and from the re-translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Non-monetary assets and liabilities, primarily deferred acquisition costs and unearned premiums, are maintained at the transaction rates of exchange.

The foregoing exchange gains and losses which are recognised in the income statement are included in other revenue.

2. ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation (continued)

Exchange differences on the re-translation of the fair value of non-monetary items such as equities held at fair value through income are reported as part of the fair value gain or loss. Exchange differences on the re-translation of the fair value of non-monetary items such as equities held as available for sale are reported as part of the fair value gain or loss in other comprehensive income.

2.4 Segments

The Group adopted IFRS 8 Operating segments for the 2009 financial statements. Reportable operating segments have been accordingly defined on the basis of performance and resource allocation decisions of the Group's Chief Executive Officer.

2.5 Investment property

Investment property consists of freehold lands and freehold properties which are held for rental income and/or capital appreciation.

Investment property is recorded initially at cost. In subsequent financial years, investment property is recorded at fair values determined by independent valuers, with the appreciation or depreciation in value being taken to investment income. Investment property includes property held under partnership and joint venture arrangements with third parties which are accounted for under the proportionate consolidation basis.

Transfers to or from investment property are recorded when there is a change in use of the property. Transfers to owner-occupied property or to real estate developed for resale are recorded at the fair value at the date of change in use. Transfers from owner-occupied property are recorded at their fair value and any difference with carrying value at the date of change in use is dealt with in accordance with note 2.6.

Investment property may include property of which a portion is held for rental to third parties and the other portion is occupied by the Group. In such circumstances, the property is accounted for as an investment property if the Group's occupancy level is not significant in relation to the total available occupancy. Otherwise, it is accounted for as an owner-occupied.

Rental income is recognised on an accruals basis.

2.6 Property, plant and equipment

Property, plant and equipment are recorded initially at cost. Subsequent expenditure is capitalised when it will result in future economic benefits to the Group.

Owner-occupied property is re-valued at least every three years to its fair value as determined by independent valuers. Revaluation of a property may be conducted more frequently if circumstances indicate that a significant change in fair value has occurred. Movements in fair value are reported in other comprehensive income, unless there is a cumulative depreciation in respect of an individual property, which is then recorded in income. Accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset.

2. ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment (continued)

On disposal of owner-occupied property, the amount included in the fair value reserve is transferred to retained earnings. Owner-occupied property includes property held under partnership and joint venture arrangements with third parties which are accounted for under the proportionate consolidation basis.

The Group, as lessor, enters into operating leases with third parties to lease assets. Operating leases are leases in which the Group maintains substantially the risks of ownership and the associated assets are recorded as property, plant and equipment. Income from operating leases is recognised on the straight-line basis over the term of the lease.

Depreciation is calculated on the straight-line method to write down the cost or fair value of property, plant and equipment to residual value over the estimated useful life. Estimated useful lives are reviewed annually and are as follows.

Asset	**Estimated useful life**
Buildings	40 to 50 years
Furnishings and leasehold improvements	10 years or lease term
Computer and office equipment	3 to 10 years
Vehicles	4 to 5 years
Leased equipment and vehicles	5 to 6 years

Lands are not depreciated.

The carrying amount of an asset is written down immediately through the depreciation account if the carrying amount is greater than its estimated recoverable amount.

Gains or losses recognised in income on the disposal of property, plant and equipment are determined by comparing the net sale proceeds to the carrying value.

2.7 Intangible assets

(a) Goodwill

Goodwill (defined in note 2.2(a)) arising from an acquisition of a subsidiary or insurance business is allocated to appropriate cash generating units which are defined by the Group's operating segments. Goodwill arising in a reportable operating segment is allocated to that segment. Goodwill arising in a Group entity, which is not within a reportable operating segment, is allocated to that entity's own operations, or, if that entity is managed in conjunction with another Group entity, to their combined operations. In the prior year, goodwill was allocated to cash generating units which were determined by geographical and / or business segments.

Goodwill arising from an investment in an associate is included in the carrying value of the investment.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment.

2. ACCOUNTING POLICIES (continued)

2.7 Intangible assets (continued)

(b) Other intangible assets

Other intangible assets identified on acquisition are recognised only if future economic benefits attributable to the asset will flow to the Group and if the fair value of the asset can be measured reliably. In addition, for the purposes of recognition, the intangible asset must be separable from the business being acquired or must arise from contractual or legal rights. Intangible assets acquired in a business combination are initially recognised at their fair value.

Other intangible assets, which have been acquired directly, are recorded initially at cost.

On acquisition, the useful life of the asset is estimated. If the estimated useful life is definite, then the cost of the asset is amortised over its life, and is tested for impairment when there is evidence of same. If the estimated useful life is indefinite, the asset is tested annually for impairment.

The estimated useful lives of recognised intangible assets are as follows:

Class of intangible asset	Asset	Estimated useful life
Customer related	Customer relationships	4 - 20 years
	Broker relationships	10 years
Marketing related	Trade names	4 – 10 years
Contract based	Syndicate capacity	Indefinite
	Licences	15 years
Technology based	Software	2 – 10 years

2.8 Financial assets

(a) Classification

The Group classifies its financial assets into four categories:

- held to maturity financial assets;
- available for sale financial assets;
- financial assets at fair value through income;
- loans and receivables.

Management determines the appropriate classification of these assets on initial recognition.

Held to maturity financial assets are non-derivative financial instruments with fixed or determinable payments and fixed maturities that management has both the intent and ability to hold to maturity.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

2. ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

Financial assets in the category at fair value through income comprise designated assets or held for trading assets. These are set out below.

- Assets designated by management on acquisition form part of managed portfolios whose performance is evaluated on a fair value basis in accordance with documented investment strategies. They comprise investment portfolios backing deposit administration and unit linked policy contracts for which the full return on the portfolios accrue to the contract-holders.

- Held for trading securities are acquired principally for the purpose of selling in the short-term or if they form part of a portfolio of financial assets in which there is evidence of short-term profit taking. Derivatives are also classified as held for trading unless designated as hedges.

Available for sale financial assets are non-derivative financial instruments intended to be held for an indefinite period of time and which may be sold in response to liquidity needs or changes in interest rates, exchange rates and equity prices.

(b) Recognition and measurement

Purchases and sales of financial investments are recognised on the trade date. Cost of purchases includes transaction costs. Interest income arising on investments is accrued using the effective yield method. Dividends are recorded in revenue when due.

Held to maturity assets, loans and receivables are carried at amortised cost less provision for impairment.

Financial assets in the category at fair value through income are measured initially at fair value and are subsequently re-measured at their fair value based on quoted prices or internal valuation techniques. Realised and unrealised gains and losses are recorded as net gains in investment income. Interest and dividend income are recorded under their respective heads in investment income.

Financial assets in the available for sale category are measured initially at fair value and are subsequently re-measured at their fair value based on quoted prices or internal valuation techniques. Unrealised gains and losses, net of deferred income taxes, are reported in other comprehensive income. Either on the disposal of the asset or if the asset is determined to be impaired, the previously recorded unrealised gain or loss is transferred to investment income. Discounts and premiums on available for sale securities are amortised using the effective yield method.

(c) Fair value

Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists.

2. ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

The estimated fair values of financial assets are based on quoted bid prices of securities as at December 31 where available. In estimating the fair value of non-traded financial assets, the Group uses a variety of methods such as obtaining dealer quotes and using discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are discounted at market derived rates for government securities in the same country of issue as the security; for non-government securities, an interest spread is added to the derived rate for a similar government security rate according to the perceived additional risk of the non-government security.

(d) Impaired financial assets

A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount.

An impairment loss for assets carried at amortised cost is calculated as the difference between the carrying amount and the present value of expected future cash flows discounted at the original effective interest rate. The carrying value of impaired financial assets is reduced by impairment losses.

The recoverable amount for an available for sale security is its fair value.

For an available for sale equity security, an impairment loss is recognised in income if there has been a significant or prolonged decline in its fair value below its cost. Any subsequent increase in fair value occurring after the recognition of an impairment loss is reported in other comprehensive income.

For an available for sale security other than an equity security, if the Group assesses that there is objective evidence that the security is impaired, an impairment loss is recognised for the amount by which the instrument’s amortised cost exceeds its fair value. If in a subsequent period the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, and the amount of the reversal is recognised in revenue.

(e) Securities purchased under agreements to resell

Securities purchased under agreements to resell are recognised initially at fair value and are subsequently stated at amortised cost. Securities purchased under agreements to resell are treated as collateralised financing transactions. The difference between the purchase and resale price is treated as interest and is accrued over the life of the agreements using the effective yield method.

(f) Finance leases

The Group, as lessor, enters into finance leases with third parties to lease assets. Finance leases are leases in which the Group has transferred substantially the risks of ownership to the lessee. The finance lease, net of unearned finance income, is recorded as a receivable and the finance income is recognised over the term of the lease using the effective yield method.

2. ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

(g) Derivative financial instruments and hedging activities

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risk. The Group transacts derivatives for three primary purposes: to create risk management solutions for customers, for proprietary trading purposes, and to manage its own exposure to credit and market risk.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into, and subsequently are re-measured at their fair value at each financial statement date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates its interest rate swaps as cash flow hedges. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as risk management objectives and strategies for undertaking various hedging transactions. The Group also documents its assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

For cash flow hedges, gains and losses relating to the effective portion of changes in the fair value of derivatives are initially recognised in other comprehensive income, and are transferred to revenue when the forecast cash flows affect income. The gain or loss relating to the ineffective portion is recognised immediately in income.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are included in income.

(h) Embedded derivatives

The Group holds certain bonds and preferred equity securities that contain options to convert into common shares of the issuer. These options are considered embedded derivatives.

If the measurement of an embedded derivative can be separated from its host contract, the embedded derivative is carried at current market value and is presented with its related host contract. Unrealised gains and losses are recorded as investment income.

If the measurement of an embedded derivative cannot be separated from its host contract, the full contract is accounted for as a financial asset at fair value through income.

(i) Financial assets held in trust under modified coinsurance arrangements

These assets are held in trust for a reinsurer and are in respect of policy liabilities ceded to the reinsurer. The assets are recognised in the financial statements along with a corresponding account payable to the reinsurer. The income statement includes the interest income from these assets and a corresponding interest expense due to the reinsurer.

2. ACCOUNTING POLICIES (continued)

2.9 Real estate developed or held for resale

Lands being made ready for resale along with the cost of infrastructural works are classified as real estate held for resale and are stated at the lower of carrying value and fair value less costs to sell.

Real estate acquired through foreclosure is classified as real estate held for resale and is stated at the lower of carrying value and fair value less costs to sell.

Gains and losses realised on the sale of real estate are included in revenue at the time of sale.

2.10 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

2.11 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise:

- cash balances,
- call deposits,
- other liquid balances with maturities of three months or less from the acquisition date,
- less bank overdrafts which are repayable on demand,
- less other borrowings from financial institutions made for the purpose of meeting cash commitments and which have maturities of three months or less from origination.

Cash equivalents are subject to an insignificant risk of change in value.

2.12 Policy contracts

(a) Classification

The Group issues policy contracts that transfer insurance risk and / or financial risk from the policyholder.

The Group defines insurance risk as an insured event that could cause an insurer to pay significant additional benefits in a scenario that has a discernable effect on the economics of the transaction.

Insurance contracts transfer insurance risk and may also transfer financial risk. Once a contract has been classified as an insurance contract, it remains an insurance contract for its duration, even if the insurance risk reduces significantly over time. Investment contracts transfer financial risk and no significant insurance risk. Financial risk includes credit risk, liquidity risk and market risk.

A reinsurance contract is an insurance contract in which an insurance entity cedes assumed risks to another insurance entity.

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

A number of insurance contracts contain a discretionary participation feature. A discretionary participation feature entitles the holder to receive, supplementary to the main benefit, additional benefits or bonuses:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of management; and
- that are contractually based on
  - the performance of a specified pool of contracts;
  - investment returns on a specified pool of assets held by the insurer; or
  - the profit or loss of a fund or insurer issuing the contract.

Policy bonuses and policy dividends constitute discretionary participation features which the Group classifies as liabilities.

Residual gains in the participating accounts constitute discretionary participation features which the Group classifies as equity (see also note 2.20).

(b) Recognition and measurement

Policy contracts issued by the Group are summarised below.

(i) Property and casualty insurance contracts

Property and casualty insurance contracts are generally one year renewable contracts issued by the insurer covering insurance risks over property, motor, accident, liability and marine.

Property insurance contracts provide coverage for the risk of property damage or of loss of property. Commercial property, homeowners' property, motor and certain marine property are common types of risks covered. For commercial policyholders insurance may include coverage for loss of earnings arising from the inability to use property which has been damaged or lost.

Casualty insurance contracts provide coverage for the risk of causing physical harm or financial loss to third parties. Personal accident, employers' liability, public liability, product liability and professional indemnity are common types of casualty insurance.

Premium revenue is recognised as earned on a pro-rated basis over the term of the respective policy coverage. If alternative insurance risk exposure patterns have been established over the term of the policy coverage, then premium revenue is recognised in accordance with the risk exposure. The provision for unearned premiums represents the portion of premiums written relating to the unexpired terms of coverage.

Claims and loss adjustment expenses are recorded as incurred. Claim reserves are established for both reported and un-reported claims. Claim reserves represent estimates of future payments of claims and related expenses less anticipated recoveries with respect to insured events that have occurred up to the date of the financial statements.

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

Reserving involves uncertainty and the use of statistical techniques of estimation. These techniques generally involve projecting from past experience, the development of claims over time to form a view of the likely ultimate claims to be experienced, having regard to variations in business written and the underlying terms and conditions. The claim reserve is discounted for separate classes of insurance where the expected average interval between the dates of incurral and settlement is at least 4 years. The claim reserve is not discounted for other classes of insurance. In the prior year, claims reserves were not discounted as there were no material classes of insurance with these characteristics. Claim reserves are presented in other insurance liabilities.

An insurer may obtain reinsurance coverage for its property and casualty insurance risks. The reinsurance ceded premium is expensed on a pro-rata basis over the term of the respective policy coverage or of the reinsurance contract as appropriate. Reinsurance claim recoveries are established at the time of the recording of the claim liability and are computed on a basis which is consistent with the computation of the claim liability. Profit sharing commission due to the Group is accrued as commission income when there is reasonable certainty of earned profit.

Commissions and premium taxes payable are recognised on the same basis as premiums earned. At the date of the financial statements, commissions and premium taxes arising on unearned premiums are recorded as deferred policy acquisition costs. Profit sharing commission payable by the Group arises from contracts between an insurer and a broker; it is accrued on an aggregate basis and it is adjusted to actual in respect of each individual contract when due.

(ii) *Health insurance contracts*

Health insurance contracts are generally one year renewable contracts issued by the insurer covering insurance risks for medical expenses of insured persons.

Premium revenue is recognised when due for contracts where the premium is billed monthly. For contracts where the premium is billed annually or semi-annually, premium revenue is recognised as earned on a pro-rata basis over the term of the respective policy coverage. The provision for unearned premiums represents the portion of premiums written relating to the unexpired terms of coverage.

Claims are recorded on settlement. Reserves are recorded as described in note 2.13.

An insurer may obtain reinsurance coverage for its health insurance risks. The reinsurance ceded premium is expensed on a pro-rata basis over the term of the respective policy coverage or of the reinsurance contract as appropriate.

Commissions and premium taxes payable are recognised on the same basis as premiums earned. At the date of the financial statements, commissions and premium taxes arising on unearned premiums are recorded as deferred policy acquisition costs.

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

(iii) Long-term traditional insurance contracts

Long-term traditional insurance contracts are generally issued for fixed terms of five years or more, or for the remaining life of the insured. Benefits are typically a death, disability or critical illness benefit, a cash value on termination and/or a monthly annuity. Annuities are generally payable until the death of the beneficiaries with a proviso for a minimum number of payments. Some of these contracts have a discretionary participation feature in the form of regular bonuses or dividends. Other benefits such as disability and waiver of premium on disability may also be included in these contracts. Some contracts may allow for the advance of policy loans to the policyholder and may also allow for dividend withdrawals by the policyholder during the life of the contract.

Premium revenue is recognised when due. Typically, premiums are fixed and are required to be paid within the due period for payment. If premiums are unpaid, either the contract may terminate, an automatic premium loan may settle the premium, or the contract may continue at a reduced value.

Policy benefits are recognised on the notification of death, disability or critical illness, on the termination or maturity date of the contract, on the declaration of a cash bonus or dividend or on the annuity payment date. Policy loans advanced are recorded as loans and receivables in the financial statements and are secured by the cash values of the respective policies. Policy bonuses may be “non-cash” and utilised to purchase additional amounts of insurance coverage. Accumulated cash bonuses and dividends are recorded as interest bearing policy balances.

Reserves for future policy liabilities are recorded as described in note 2.13.

An insurer may obtain reinsurance coverage for death benefit insurance risks. Typically, coverage is obtained for individual coverage exceeding prescribed limits. The reinsurance premium is expensed when due, which generally coincides with when the policy premium is due. Reinsurance claims recoveries are established at the time of claim notification.

Commissions and premium taxes payable are recognised on the same basis as earned premiums.

(iv) Long-term universal life and unit linked insurance contracts

Universal life and unit linked insurance contracts are generally issued for fixed terms or for the remaining life of the insured. Benefits are typically a death, disability or critical illness benefit, a cash value on termination and/or a monthly annuity. Annuities are generally payable until the death of the beneficiaries with a proviso for a minimum number of payments. Benefits may include amounts for disability or waiver of premium on disability.

Universal life and unit linked contracts have either an interest bearing investment account or unit linked investment accounts. Either gross premiums or gross premiums net of allowances are deposited to the investment accounts. Investment returns are credited to the investment accounts and expenses, not included in the aforementioned allowances, are debited to the investment accounts. Interest bearing investment accounts may include provisions for minimum guaranteed returns or returns based on specified investment indices. Allowances and expense charges are in respect of applicable commissions, cost of insurance, administrative expenses and premium taxes. Fund withdrawals may be permitted.

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

Premium revenue is recognised when received and consists of all monies received from the policyholders. Typically, premiums are fixed at the inception of the contract or periodically thereafter but additional non-recurring premiums may be paid.

Policy benefits are recognised on the notification of death, disability or critical illness, on the receipt of a withdrawal request, on the termination or maturity of the contract or on the annuity payment date. Reserves for future policy liabilities are recorded as described in note 2.13.

An insurer may obtain reinsurance coverage for death benefit insurance risks. Typically, coverage is obtained for individual coverage exceeding prescribed limits. The reinsurance premium is expensed when due. Reinsurance claims recoveries are established at the time of claim notification.

Commissions and premium taxes payable are generally recognised only on settlement of premiums.

(v) *Reinsurance contracts assumed*

Reinsurance contracts assumed by an insurer are accounted for in a similar manner as if the insurer has assumed the risk direct from a policyholder.

Reinsurance contracts assumed include blocks of life and annuity policies assumed from third party insurers. In some instances, the Group also administers these policies.

(vi) *Reinsurance contracts held*

As noted in sections (i) to (iv) above, an insurer may obtain reinsurance coverage for insurance risks underwritten. The Group cedes insurance premiums and risk in the normal course of business in order to limit the potential for losses arising from its exposures. Reinsurance does not relieve the originating insurer of its liability.

Reinsurance contracts held by an insurer are recognised and measured in a similar manner to the originating insurance contracts and in accordance with the contract terms. Reinsurance premium ceded and reinsurance recoveries on claims are offset against premium revenue and policy benefits in the income statement.

The benefits to which an insurer is entitled under its reinsurance contracts held are recognised as reinsurance assets or receivables. Reinsurance assets and receivables are assessed for impairment. If there is evidence that the asset or receivable is impaired, the impairment is recorded in the statement of income. The obligations of an insurer under reinsurance contracts held are included under accounts payable and accrued liabilities or actuarial liabilities.

Policy liabilities include blocks of life and annuity policies ceded to reinsurers on coinsurance or modified coinsurance bases. The Group records as a receivable the reinsurer’s share of the insurer’s liabilities on these policies.

Reinsurance balances are measured consistently with the insurance liabilities to which they relate.

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

(vii) Deposit administration and other investment contracts

Deposit administration contracts are issued by an insurer to registered pension schemes for the deposit of pension plan assets with the insurer.

Deposit administration liabilities are recognised initially at fair value and are subsequently stated at:

- amortised cost where the insurer is obligated to provide investment returns to the pension scheme in the form of interest;
- fair value through income where the insurer is obligated to provide investment returns to the pension scheme in direct proportion to the investment returns on specified blocks of assets.

Deposit administration contributions are recorded directly as liabilities. Withdrawals are deducted directly from the liability. The interest or investment return provided is recorded as an interest expense.

In addition, the Group may provide pension administration services to the pension schemes. The Group earns fee income for both pension administration and investment services.

Other investment contracts are recognised initially at fair value and are subsequently stated at amortised cost and are accounted for in the same manner as deposit administration contracts which are similarly classified.

(c) Embedded derivatives

Certain insurance contracts contain embedded derivatives which are options whose value may vary in response to changes in interest rates or other market variables.

The Group does not separately measure embedded derivatives that are closely related to the host insurance contract or that meet the definition of an insurance contract. Options to surrender an insurance contract for a fixed amount are also not measured separately. In these cases, the entire contract liability is measured as set out in note 2.13.

(d) Liability adequacy tests

At the date of the financial statements, liability adequacy tests are performed by each insurer to ensure the adequacy of insurance contract liabilities, using current estimates of the related expected future cash flows. If a test indicates that the carrying value of insurance contract liabilities is inadequate, then the liabilities are adjusted to correct the deficiency. The deficiency is included in the income statement under benefits.

2. ACCOUNTING POLICIES (continued)

2.13 Actuarial liabilities

(a) Life insurance and annuity contracts

The Canadian Asset Liability Method (CALM) is used for the determination of actuarial liabilities of long-term insurance contracts. These liabilities consist of amounts that, together with future premiums and investment income, are required to provide for future policy benefits, expenses and taxes on insurance and annuity contracts.

The process of calculating life insurance and annuity actuarial liabilities for future policy benefits necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields, future expense levels and persistency, including reasonable margins for adverse deviations. As experience unfolds, these provisions for adverse deviations will be included in future income to the extent they are no longer required to cover adverse experience. Assumptions used to project benefits, expenses and taxes are based on Group and industry experience and are updated annually.

CALM is based on an explicit projection of cash flows using best estimate assumptions for each material cash flow item and contingency. Investment returns are based on projected investment income using the current asset portfolios and projected re-investment strategies. Each assumption is adjusted by a margin for adverse deviation.

Certain life insurance policies issued by the insurer contain equity linked policy side funds. The investment returns on these unitised funds accrue directly to the policies with the insurer assuming no credit risk. Investments held in these side funds are accounted for as financial assets at fair value through income and unit values of each fund are determined by dividing the value of the assets in the fund at the date of the financial statements by the number of units in the fund. The resulting liability is included in actuarial liabilities.

(b) Health insurance contracts

The actuarial liabilities of health insurance policies are estimated in respect of claims that have been incurred but not yet reported and claims that have been reported but not yet paid, due to the time taken to process the claim.

2.14 Financial liabilities

During the ordinary course of business, the Group issues investment contracts or otherwise assumes financial liabilities that expose the Group to financial risk. The recognition and measurement of the Group's principal types of financial liabilities are disclosed in note 2.12(b) (vii) and in the following paragraphs.

(a) Securities sold under agreements to repurchase

Securities sold under agreements to repurchase are recognised initially at fair value and are subsequently stated at amortised cost. Securities sold under agreements to repurchase are treated as collateralised financing transactions. The difference between the sale and repurchase price is treated as interest and is accrued over the life of the agreements using the effective yield method.

2. ACCOUNTING POLICIES (continued)

2.14 Financial liabilities (continued)

(b) Deposit liabilities

Deposits are recognised initially at fair value and are subsequently stated at amortised cost using the effective yield method.

(c) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds, net of transaction costs incurred. Subsequently, borrowings are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective yield method.

Borrowings undertaken for the purposes of Group expansion are classified as notes or loans payable and the associated cost is classified as finance costs. Borrowings undertaken for the purposes of providing funds for on-lending, leasing or portfolio investments are classified as deposit and security liabilities and the associated cost is included in interest expense.

(d) Fair value

Fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists.

The estimated fair values of financial liabilities are based on market values of quoted securities as at December 31 where available. In assessing the fair value of non-traded financial liabilities, the Group uses a variety of methods including obtaining dealer quotes for specific or similar instruments and the use of internally developed pricing models, such as the use of discounted cash flows. If the non-traded liability is backed by a pool of assets, then its value is equivalent to the value of the underlying assets.

2.15 Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, if it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

2.16 Interest income and expenses

Interest income and expenses are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the initial transaction price. Interest includes coupon interest and accrued discount and premium on financial instruments.

2. ACCOUNTING POLICIES (continued)

2.17 Fees and other revenue

Fees and non-insurance commission income are recognised on an accrual basis when the service has been provided. Fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided. Performance linked fees or fee components are recognised when the performance criteria are fulfilled. Other revenue is recognised on an accrual basis when the related service has been provided.

2.18 Employee benefits

(a) Pension benefits

Group companies have various pension schemes in place for their employees. Some schemes are defined benefit plans and others are defined contribution plans.

The liability in respect of defined benefit plans is the present value of the defined benefit obligation at December 31 minus the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is computed using the projected unit credit method. The present value of the defined benefit obligation is determined by the estimated future cash outflows using appropriate interest rates for the maturity dates and location of the related liability.

Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions, and amendments to pension plans are charged or credited to the income statement over the average service lives of the related employees. Past service costs are charged to the income statement on a straight line basis over the average period until the benefits become vested. Past service costs are recognised immediately if the benefits vest immediately.

For defined contribution plans, the Group pays contributions to the pension schemes on a mandatory or contractual basis. Once paid, the Group has no further payment obligations. The regular contributions constitute net periodic costs for the year in which they are due and as such are included in expenses in the income statement.

(b) Other retirement benefits

Certain Group subsidiaries provide supplementary health, dental and life insurance benefits to qualifying employees upon retirement. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans.

(c) Profit sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit sharing, based on various profit and other objectives of the Group as a whole or of individual subsidiaries. An accrual is recognised where there are contractual obligations or where past practice has created a constructive obligation.

2. ACCOUNTING POLICIES (continued)

2.18 Employee benefits (continued)

(d) Equity compensation benefits

The Group has a number of share-based compensation plans in place for administrative, sales and managerial staff.

(i) Equity-settled share-based transactions with staff

The services received in an equity-settled transaction with staff are measured at the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date.

If the equity instruments granted vest immediately and the individual is not required to complete a further period of service before becoming entitled to those instruments, the services received are recognised in full on grant date in the income statement for the period, with a corresponding increase in equity.

Where the equity instruments do not vest until the individual has completed a further period of service, the services received are expensed in the income statement during the vesting period, with a corresponding increase in the share based payment reserve or in minority interest.

Non-market vesting conditions are included in assumptions about the number of instruments that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each reporting financial statement date, the Group revises its estimates of the number of instruments that are expected to vest based on the non-marketing vesting conditions and adjusts the expense accordingly.

Amounts held in the share based payment reserve are transferred to share capital or minority interest either on the distribution of share grants or on the exercise of share options.

The grant by the Company of its equity instruments to employees of Group subsidiaries is treated as a capital contribution in the financial statements of the subsidiary. The full expense relating to the grant is recorded in the subsidiary's income statement.

(ii) Cash-settled share-based transactions with staff

The services received in a cash-settled transaction with staff and the liability to pay for those services, are recognised at fair value as the individual renders services. Until the liability is settled, the fair value of the liability is re-measured at the date of the financial statements and at the date of settlement, with any changes in fair value recognised in income during that period.

(iii) Measurement of the fair value of equity instruments granted

The equity instruments granted consist either of grants of, or options to purchase, common shares of listed entities within the Group. For common shares granted, the listed price prevailing on the grant date determines the fair value. For options granted, the fair value is determined by reference to the Black-Scholes valuation model, which incorporates factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

Year ended December 31, 2009 Amounts expressed in US $000

2. ACCOUNTING POLICIES (continued)

2.18 Employee benefits (continued)

(e) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve months after the date of the financial statements are discounted to present value.

2.19 Taxes

(a) Premium taxes

Insurers are subject to tax on premium revenues generated in certain jurisdictions. The principal rates of premium tax are as follows:

	Life insurance and non-registered annuities	Health insurance	Property and casualty insurance
Barbados	3% - 6%	3%	3.75% - 5%
Jamaica	3%	Nil	Nil
Trinidad and Tobago	Nil	Nil	6%
United Kingdom	n/a	n/a	5%
United States of America	0.75% - 3.5%	Nil	Nil

(b) Income taxes

The Group is subject to taxes on income in the jurisdictions in which business operations are conducted. Rates of taxation in the principal jurisdictions for income year 2009 are as follows:

	Life insurance and non-registered annuities	Registered annuities	Other lines of business
Barbados	5% of gross investment income	Nil	25% of net income
Jamaica	15% of investment income	Nil	15% - 33.33% of net income
Trinidad and Tobago	15% of investment income	Nil	25% of net income
United Kingdom	28% of net income	n/a	28% of net income
United States of America	34% - 35%of net income	34% - 35% of net income	34% - 35% of net income

2. ACCOUNTING POLICIES (continued)

2.19 Taxes (continued)

(i) *Current income taxes*

Current tax is the expected tax payable on the taxable income for the year, using the tax rates in effect for the year. Adjustments to tax payable from prior years are also included in current tax.

(ii) *Deferred income taxes*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income taxes are computed at tax rates that are expected to apply to the period when the asset is realised or the liability settled. Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the asset may be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to do so.

Deferred tax, related to fair value re-measurement of available for sale investments and cash flow hedges which are recorded in other comprehensive income, is recorded in other comprehensive income and is subsequently recognised in income together with the deferred gain or loss.

2.20 Participating accounts

(a) “Closed” participating account

For participating policies of Sagicor Life Inc in force at de-mutualisation, Sagicor Life Inc established a closed participating account in order to protect the guaranteed benefits and future policy dividends, bonuses and other non-guaranteed benefits of the afore-mentioned policies. The rules of this account require that premiums, benefits, actuarial reserve movements, investment returns, expenses and taxes, attributable to the said policies, are recorded in a closed participating fund. Policy dividends and bonuses of the said policies are paid from the participating fund on a basis substantially the same as prior to de-mutualisation.

Distributable profits of the closed participating account are distributed to the participating policies in the form of declared bonuses and dividends. Undistributed profits remain in the participating account for the benefit of participating policyholders.

The participating account also includes an ancillary fund comprising the required provisions for adverse deviations as determined in the computation of actuarial liabilities of the said policies. Changes in the ancillary fund are not recorded in the participating account, but are borne by the general operations of Sagicor Life Inc.

(b) “Open” participating account

Sagicor Life Inc also established an open participating account for participating policies it issues after de-mutualisation. The rules of this account require that premiums, benefits, actuarial reserve movements, investment returns, expenses and taxes, attributable to the said policies are recorded in an open participating account.

2. ACCOUNTING POLICIES (continued)

2.20 Participating accounts (continued)

The open participating account was established at de-mutualisation. On February 1, 2005, Sagicor Life Inc amalgamated with Life of Barbados Limited, and participating policies of the latter were transferred to the open participating account. Accordingly, the liabilities of these participating policies and matching assets were transferred to the open participating account. The liabilities transferred included an ancillary fund comprising the provisions for adverse deviations on the transferred policies. Changes in the ancillary fund are not recorded in the participating account, but are borne by the general operations of Sagicor Life Inc.

Additional assets to support the profit distribution to shareholders (see below) were also transferred to the account.

Distributable profits of the open participating account are shared between participating policies and shareholders in a ratio of 90:10. Profits are distributed to the participating policies in the form of declared bonuses and dividends. Profits which are distributed to shareholders are included in the allocation of Group net income to shareholders. Undistributed profits / (losses) remain in the participating account in equity.

(c) Financial statement presentation

The assets and liabilities of the participating accounts are included but not presented separately in the financial statements. The revenues, benefits and expenses of the participating accounts are also included but not presented separately in the financial statements. However, the overall surplus of assets held in the participating funds over the associated liabilities is presented in equity as the participating accounts. The overall net income and other comprehensive income that are attributable to the participating funds are disclosed as allocations.

The initial allocation of additional assets to the participating funds is recognised in equity as a transfer from retained earnings to the participating accounts. Returns of additional assets from the participating funds are accounted for similarly.

2.21 Share capital

In exchange for consideration received, the Company has issued common shares that are classified as equity. Incremental costs directly attributable to the issue of common shares are recorded in share capital as a deduction from the share issue proceeds.

Where a Group entity purchases the Company's common shares, the consideration paid, including any directly attributable cost, is deducted from share capital and is recorded as treasury shares. Where such shares are subsequently sold to a third party, the deduction from share capital is reversed, and any difference with net consideration received is recorded in retained earnings.

2.22 Dividend distributions

Dividend distributions on the Company's common shares are recorded in the period during which the dividend declaration has been approved by the directors.

2. ACCOUNTING POLICIES (continued)

2.23 Statutory reserves

Statutory reserves are established when regulatory accounting requirements result in lower distributable profits or when an appropriation of retained earnings is required or permitted by law to protect policyholders, insureds or depositors.

2.24 Presentation of current and non-current assets and liabilities

In note 41.2, the maturity profiles of financial and insurance assets and liabilities are identified. For other assets and liabilities, balances presented in notes 5 to 8, 10 to 12, and 18, 19, 31 and 33 are non-current unless otherwise stated in those notes.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The development of estimates and the exercise of judgment in applying accounting polices may have a material impact on the Group's reported assets, liabilities, income and other comprehensive income. The items which may have the most effect on the Group's financial statements are set out below.

3.1 Impairment of financial assets

An available for sale debt security, a loan or a receivable is considered impaired when management determines that it is probable that all amounts due according to the original contract terms will not be collected. This determination is made after considering the payment history of the borrower, the discounted value of collateral and guarantees, and the financial condition and financial viability of the borrower.

An available for sale equity investment is considered impaired when there is a significant or prolonged decline in the fair value below cost. Determination of what is significant or prolonged requires judgement which includes consideration of the volatility of the fair value, and the financial condition and financial viability of the investee. In this context, management considers a 40% decline in fair value below cost to be significant.

The determination of impairment may either be considered by individual asset or by a grouping of assets with similar relevant characteristics.

3.2 Recognition and measurement of intangible assets

The recognition and measurement of intangible assets, other than goodwill, in a business combination involve the utilisation of valuation techniques which may be very sensitive to the underlying assumptions utilised. These intangibles may be marketing related, customer related, contract based or technology based.

For significant amounts of intangibles arising from a business combination, the Group utilises independent professional advisors to assist management in determining the recognition and measurement of these assets.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.3 Impairment of intangible assets

(a) Goodwill

The assessment of goodwill impairment involves the determination of the fair value of the cash generating business units to which the goodwill has been allocated. Determination of fair value involves the estimation of future cash flows or of income before taxes of these business units and the expected returns to providers of capital to the business units and / or to the Group as a whole.

The Group updates its business unit financial projections annually and applies discounted cash flow or earnings multiple models to these projections to determine if there is any impairment of goodwill.

(b) Other intangible assets

The assessment of impairment of other intangible assets involves the determination of the intangible's fair value or value in use. In the absence of an active market for an intangible, its fair value may need to be estimated. In determining an intangible's value in use, estimates are required of future cash flows generated as a result of holding the asset.

3.4 Actuarial liabilities

(a) Canadian asset liability method (CALM)

The objective of the valuation of policy liabilities is to determine the amount of the insurer's assets that, in the opinion of the Appointed Actuary (AA) and taking into account the other pertinent items in the financial statements, will be sufficient without being excessive to provide for the policy liabilities over their respective terms. The amounts set aside for future benefits are dependent on the timing of future asset and liability cash flows.

The actuarial liabilities are determined by the amount of assets required to ensure that sufficient monies are available to mature the policy liabilities as they become due, even under adverse economic circumstances.

The AA identifies the current economic scenario and the existing investment portfolio as at the date of the actuarial valuation. The investments required to support the policy liabilities are then determined under a variety of future interest rate environments using scenario testing. The total policy liability is determined as the amount of assets required to ensure that sufficient monies are available to meet the liabilities as they become due under the "worst case" economic scenario, that is, the scenario that produces the highest investment requirement.

The CALM methodology produces the total reserve requirement for each CALM fund. In general, the CALM methodology is used to determine the net overall actuarial liabilities required by the insurer. Policy premium method (PPM) equivalents are used to determine the amount of reinsurance balances in the reserve, the distribution of the total reserve by country (for statutory reporting), and the distribution of the reserve by policy. PPM equivalents and other approximations to CALM have also been used in calculating certain components in the actuarial liabilities.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.4 Actuarial liabilities (continued)

(b) Best estimate reserve assumptions & provisions for adverse deviations

Actuarial liabilities include two major components: a best estimate reserve and a provision for adverse deviations. This latter provision is established in recognition of the uncertainty in computing best estimate reserves, to allow for possible deterioration in experience and to provide greater comfort that reserves are adequate to pay future benefits.

For the respective reserve assumptions for mortality and morbidity, lapse, future investment yields, operating expenses and taxes, best estimate reserve assumptions are determined where appropriate. The assumption for operating expenses and taxes is in some instances split by participating, non-participating and universal life / unit linked business.

Provisions for adverse deviations are established in accordance with the risk profiles of the business, and are, as far as is practicable, standardised across geographical areas. Provisions are determined within a specific range established by the Canadian Standards of Practice.

The principal assumptions and margins used in the determination of actuarial liabilities are summarised in note 13.3. However, the liability resulting from the application of these assumptions can never be definitive as to the ultimate timing or the amount of benefits payable and is therefore subject to future re-assessment.

3.5 Property and casualty insurance contracts

(a) Policy benefits payable

The estimation of the ultimate liability arising from claims incurred under property and casualty insurance contracts is subject to several sources of uncertainty that need to be considered in determining the amount that the insurer will ultimately pay for such claims.

Claim liabilities are based on estimates due to the fact that the ultimate disposition of claims incurred prior to the date of the financial statements, whether reported or not, is subject to the outcome of events that may not yet have occurred. Significant delays are experienced in the notification and settlement of certain types of claims, particularly in respect of casualty contracts. Events which may affect the ultimate outcome of claims include inter alia, jury decisions, court interpretations, legislative changes and changes in the medical condition of claimants.

Any estimate of future losses is subject to the inherent uncertainties in predicting the course of future events. The two most critical assumptions made to determine claim liabilities are that the past is a reasonable predictor of the likely level of claims development and that the statistical estimation models used are fair reflections of the likely level of ultimate claims to be incurred. Consequently, the amounts recorded in respect of unpaid losses may change significantly in the short term.

Management engages independent actuaries, either to assist in making or to confirm the estimate of claim liabilities. The ultimate liability arising from claims incurred under property and casualty insurance contracts may be mitigated by recovery arising from reinsurance contracts held.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.5 Property and casualty insurance contracts (continued)

(b) Premium income

Sagicor at Lloyd's insurance syndicate 1206 writes a significant proportion of its premium by delegated authority to insurance intermediaries. Due to delays in the notification of complete and accurate premium income written, the premium income earned and the associated reinsurance and commission balances may have to be estimated. Accordingly, premium income written has to be re-assessed in future periods and adjustments made to earned premium, reinsurance and commissions.

4. SEGMENTS

The management structure of Sagicor consists of the parent company Board of Directors, the Group Chief Executive Officer (CEO), subsidiary company Boards of Directors and subsidiary company CEOs. For the parent company and principal subsidiaries, there are executive management committees made up of senior management who advise the respective CEOs. The principal subsidiaries have a full management governance structure, a consequence of their being regulated insurance and financial services entities and of the range and diversity of their products and services.

The Group CEO serves as Board Chairman of the principal subsidiaries, and through subsidiary company reporting, the Group CEO obtains details of company performance and of resource allocation needs. Summarisation of planning and results and prioritisation of resource allocation is done at the parent company level where strategic decisions are taken.

In accordance with the relevant financial reporting standard, the Group has determined that there are four principal subsidiary Groups which represent the reportable operating segments of Sagicor. These segments and other Group companies are set out in the following sections.

Year ended December 31, 2009 Amounts expressed in US $000

4. SEGMENTS (continued)

(a) Sagicor Life Inc

This segment comprises Group subsidiaries conducting life, health and annuity insurance business, and pension administration services in the Caribbean region, excluding Jamaica and Cayman Islands. The companies comprising this segment are as follows.

Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Inc	Life and health insurance, annuities and pension administration services	Barbados	100%
Sagicor Capital Life Insurance Company Limited	Life and health insurance, annuities and pension administration services	The Bahamas	100%
Sagicor Life Aruba NV	Life and health insurance, annuities and pension administration services	Aruba	100%
Capital Life Insurance Company Bahamas Limited	Life insurance	The Bahamas	100%
Sagicor Panamá, SA	Life and health insurance	Panamá	100%
Nationwide Insurance Company Limited	Life insurance	Trinidad & Tobago	100%

Associated companies within the segment:	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
RGM Limited	Property ownership and management	Trinidad & Tobago	33%
FamGuard Corporation Limited	Investment holding company	Bahamas	20%
Family Guardian Insurance Company Limited	Life and health insurance and annuities	Bahamas	20%
Family Guardian General Insurance Agency Limited	General insurance brokerage	Bahamas	20%
BahamaHealth Insurance Brokers and Benefit Consultants Limited	Insurance brokers and benefit consultants	Bahamas	20%
Primo Holding Limited	Property investment	Barbados	38%

Year ended December 31, 2009 Amounts expressed in US $000

4. SEGMENTS (continued)

(b) Sagicor Life Jamaica

This segment comprises Group subsidiaries conducting life, health, annuity, property and casualty insurance business, and pension administration services and financial services in Jamaica and Cayman Islands. The companies comprising this segment are as follows.

Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Jamaica Limited	Life and health insurance and annuities	Jamaica	59%
Sagicor Life of the Cayman Islands Limited	Life insurance	The Cayman Islands	59%
Sagicor Pooled Investment Funds Limited	Pension fund management	Jamaica	59%
Employee Benefits Administrator Limited	Pension administration services	Jamaica	59%
Sagicor Re Insurance Limited	Property and casualty insurance	The Cayman Islands	59%
Sagicor General Insurance (Cayman) Limited	Property, casualty and health insurance	The Cayman Islands	45% (2)
Sagicor Insurance Brokers Limited	Insurance brokerage	Jamaica	59%
Sagicor International Administrators Limited (4)	Insurance brokerage	Jamaica	59%
Sagicor Insurance Managers Limited	Captive insurance management services	The Cayman Islands	45% (2)
Pan Caribbean Financial Services Limited	Development banking and investment management	Jamaica	51% (3)
PanCaribbeanBank Limited	Commercial and merchant banking	Jamaica	51% (3)
Pan Caribbean Asset Management Limited	Investment management	Jamaica	51% (3)
Manufacturers Investments Limited	Investment management	Jamaica	51% (3)
Sagicor Property Services Limited	Property management	Jamaica	59%
LOJ Holdings Limited	Insurance holding company	Jamaica	100%

(2) Through control of Sagicor Life Jamaica Limited, the Group has a voting interest of 75% in the subsidiary
(3) 64% until November 2009 (see note 37) (4) Commenced operations in 2009

Year ended December 31, 2009 Amounts expressed in US $000

4. SEGMENTS (continued)

(c) Sagicor Europe

This segment comprises the Sagicor at Lloyd's insurance operations in the UK and comprises the following.

Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor at Lloyd's Limited	Managing agent of Lloyd's of London insurance syndicates	UK	100%
Sagicor Corporate Capital Limited - Lloyd's of London corporate underwriting member participating in Syndicate 1206	Property and casualty insurance	UK	100%
Sagicor Cayman Reinsurance Company Limited (4)	Property and casualty reinsurance	The Cayman Islands	100%
Sagicor Corporate Capital Two Limited (5) - Lloyd's of London corporate underwriting member participating in Syndicate 44	Life insurance	UK	100%
Sagicor Syndicate Services Limited	Property and casualty insurance agency	UK	100%
Sagicor Underwriting Limited	Property and casualty insurance agency	UK	100%
Sagicor Syndicate Holdings Limited	Service company	UK	100%
Sagicor Claims Management Inc (6)	Property and casualty insurance claims management	California, USA	100%
Sagicor Europe Limited	Insurance holding company	The Cayman Islands	100%
(4) Commenced operations in 2009 (5) Acquired April 1, 2008 (6) Acquired December 31, 2008			

(d) Sagicor USA

This segment comprises the Sagicor's life insurance operations in the USA and comprises the following.

Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Insurance Company	Life insurance and annuities	Texas, USA	100%
Laurel Life Insurance Company	Life insurance	Texas, USA	100%
Sagicor USA Inc	Insurance holding company	Delaware, USA	100%

Year ended December 31, 2009 Amounts expressed in US $000

4. SEGMENTS (continued)

(e) Head office function and other operating companies

These comprise the following:

Other Group Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Financial Corporation	Group parent company	Barbados	100%
Sagicor General Insurance Inc	Property and casualty insurance	Barbados	53%
Sagicor Finance Inc	Loan and lease financing, and deposit taking	St. Lucia	70%
Sagicor Merchant Limited	Investment management	Trinidad & Tobago	100%
Sagicor Asset Management Inc	Investment management	Barbados	100%
Barbados Farms Limited (1)	Farming and real estate development	Barbados	77%
Sagicor Funds Incorporated	Mutual fund holding company	Barbados	100%
Globe Finance Inc	Loan and lease financing, and deposit taking	Barbados	51%
The Mutual Financial Services Inc	Financial services holding company	Barbados	73%
Sagicor Allnation Insurance Company	Health insurance	Delaware, USA	100%
Sagicor Finance Limited	Group financing vehicle	The Cayman Islands	100%

(1) Acquired February 8, 2008

Year ended December 31, 2009 Amounts expressed in US $000

4. SEGMENTS (continued)

4.1 Statement of income by segment

A summary statement of income by segment is set out below. Consolidation and elimination adjustments are included to arrive at the Group consolidated total. Total comprehensive income by segment is also included.

	Summary statement of income by segment						
2009	**Sagicor Life Inc**	**Sagicor Life Jamaica**	**Sagicor Europe**	**Sagicor USA**	**Head office & other**	**Adjust-ments**	**Total**
Net premium revenue	208,588	231,516	248,776	152,848	14,299	(13,085)	842,942
Interest income	65,788	149,535	2,230	29,859	10,854	-	258,266
Non-interest investment income	11,625	17,353	(401)	4,765	2,608	-	35,950
Fees and other revenues	11,062	32,345	2,801	2,224	29,121	(9,377)	68,176
Loss on disposal of interest in subsidiary	-	-	-	-	(9,493)	9,493	-
Inter-segment revenues	3,344	714	-	-	33,055	(37,113)	-
	300,407	431,463	253,406	189,696	80,444	(50,082)	1,205,334
Net policy benefits	136,096	131,657	129,583	39,344	5,881	-	442,561
Net change in actuarial liabilities	24,550	46,901	(2,895)	119,679	(200)	-	188,035
Interest expense	16,224	73,375	-	6,309	5,991	-	101,899
Administrative expenses	48,539	68,705	26,665	20,312	31,640	2,501	198,362
Commissions and premium taxes	31,490	35,737	73,845	13,616	6,659	(3,539)	157,808
Finance costs	-	2,209	13	-	13,153	-	15,375
Depreciation and amortisation	5,477	6,087	1,386	1,632	4,077	-	18,659
Inter-segment expenses	364	2,022	5,015	824	4,630	(12,855)	-
	262,740	366,693	233,612	201,716	71,831	(13,893)	1,122,699
Segment income / (loss) before taxes	37,667	64,770	19,794	(12,020)	8,613	(36,189)	82,635
Income taxes	(5,413)	(9,182)	(3,430)	4,207	(1,974)	3,608	(12,184)
Segment income before foreign exchange unwinding	32,254	55,588	16,364	(7,813)	6,639	(32,581)	70,451
Foreign exchange unwinding (1)	-	-	(9,280)	-	-	9,280	-
Net income for the year	32,254	55,588	7,084	(7,813)	6,639	(23,301)	70,451
Net income attributable to shareholders	37,367	34,155	7,084	(7,813)	3,010	(23,301)	50,502
Total comprehensive income by segment attributable to shareholders	44,534	31,172	11,231	10,085	4,757	(18,004)	83,775

Year ended December 31, 2009 Amounts expressed in US $000

4. SEGMENTS (continued)

4.1 Statement of income by segment (continued)

	Summary statement of income by segment						
2008	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor Europe	Sagicor USA	Head office & other	Adjust-ments	Total
Net premium revenue	201,896	305,684	153,417	34,237	15,801	1,011	712,046
Interest income	62,268	127,753	6,037	26,372	10,326	-	232,756
Non-interest investment income	16,114	(7,295)	1,097	(3,561)	2,922	-	9,277
Fees and other revenues	10,119	52,562	2,451	4,029	(1,304)	26,887	94,744
Gains arising on acquisitions	5,357	222	5,682	-	7,525	-	18,786
Inter-segment revenues	1,655	118	-	568	44,330	(46,671)	-
	297,409	479,044	168,684	61,645	79,600	(18,773)	1,067,609
Net policy benefits	127,663	115,625	84,637	36,057	6,743	-	370,725
Net change in actuarial liabilities	12,892	116,611	3,390	(21,528)	(1,421)	-	109,944
Interest expense	14,606	64,514	-	8,063	5,528	-	92,711
Administrative expenses	44,337	64,635	21,627	17,841	28,510	3,372	180,322
Commissions and premium taxes	34,136	34,164	52,071	4,922	6,709	311	132,313
Finance costs	-	2,236	-	-	12,182	-	14,418
Depreciation and amortisation	4,363	6,166	863	1,548	3,358	-	16,298
Inter-segment expenses	960	1,646	5,002	1,064	1,402	(10,074)	-
	238,957	405,597	167,590	47,967	63,011	(6,391)	916,731
Segment income before taxes	58,452	73,447	1,094	13,678	16,589	(12,382)	150,878
Income taxes	(5,242)	(11,025)	988	(3,988)	(2,126)	(4,242)	(25,635)
Segment income before foreign exchange unwinding	53,210	62,422	2,082	9,690	14,463	(16,624)	125,243
Foreign exchange unwinding (1)	-	-	10,914	-	-	(10,914)	-
Net income for the year	53,210	62,422	12,996	9,690	14,463	(27,538)	125,243
Net income attributable to shareholders	49,645	37,824	12,996	9,690	10,680	(24,724)	96,111
Total comprehensive income / (loss) by segment attributable to shareholders	21,739	(6,340)	595	(1,673)	7,923	(38,452)	(16,208)

Year ended December 31, 2009 Amounts expressed in US $000

4. SEGMENTS (continued)

4.1 Statement of income by segment (continued)

(1) Foreign exchange unwinding represents the impact to segment income of translating unearned premium and deferred acquisition costs at historic rates of exchange instead of at current rates of exchange. This basis of foreign exchange translation within the segment is reported for management purposes. The Group's accounting policy is explained in note 2.3(c) and the difference in measurement basis is further discussed in note 41.4 (a). The unwinding comprises the items in the following table which have also been added back in the adjustments column.

	2009	2008
Net premium revenue	(13,085)	1,011
Commissions	3,539	(311)
Exchange gains / losses	(3,342)	14,456
Income tax	3,608	(4,242)
Foreign exchange unwinding	(9,280)	10,914

Variations in segment income may arise from non-recurring or other significant factors. The most common factors contributing to variations in segment income are as follows.

(i) Investment gains

Fair value investment gains are recognised on:
- the revaluation of investment property;
- the revaluation of debt and equity securities classified as at fair value through income;
- the disposal of debt and equity securities classified as available for sale or loans and receivables.

Therefore, significant gains and losses may be triggered by changes in market prices and / or by decisions to dispose of investments.

(ii) Allowances for impairment of financial investments

Significant impairment losses may be triggered by changes in market prices and economic conditions.

(iii) Foreign exchange gains and losses

Movements in foreign exchange rates may generate significant exchange gains or losses when the foreign currency denominated monetary assets and liabilities are re-translated at the date of the financial statements.

(iv) Gains arising on acquisitions

Gains arising on acquisitions may be significant and are non-recurring.

Year ended December 31, 2009 Amounts expressed in US $000

4. SEGMENTS (continued)

4.1 Statement of income by segment (continued)

(v) Movements in actuarial liabilities arising from changes in assumptions

The change in actuarial liabilities for the year includes the effects arising from changes in assumptions. The principal assumptions in computing the actuarial liabilities on life and annuity contracts relate to mortality and morbidity, lapse, investment yields and operating expenses and taxes. Because the process of changes in assumptions is applied to all affected insurance contracts, changes in assumptions may have a significant effect in the period in which they are recorded.

The table below summarises by segment the individual line items in the statement of income impacted by the foregoing factors.

	Variations in income by segment						
	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor Europe	Sagicor USA	Head office & other	Adjust-ments	Total
2009							
Investment gains / (losses)	8,084	12,997	(401)	9,357	2,309	-	32,346
Allowances for impairment of financial investments	2,572	1,449	-	4,741	222	-	8,984
Foreign exchange gains / (losses)	629	6,289	(3,396)	-	7,106	(6,105)	4,523
Gains on acquisitions	-	-	-	-	-	-	-
Decrease in policy liabilities from actuarial assumptions	(32,334)	(11,521)	-	5,282	-	-	(38,573)
2008							
Investment gains / (losses)	25,374	(8,207)	1,097	(3,894)	2,724	-	17,094
Allowances for impairment of financial investments	15,767	3,802	-	-	307	-	19,876
Foreign exchange gains / (losses)	(870)	20,460	14,592	-	(18,202)	12,561	28,541
Gains on acquisitions	5,357	222	5,682	-	7,525	-	18,786
Decrease in policy liabilities from actuarial assumptions	(35,988)	(25,654)	-	(22,627)	-	-	(84,269)

Year ended December 31, 2009 Amounts expressed in US $000

4. SEGMENTS (continued)

4.2 Other comprehensive income

Variations in other comprehensive income may arise also from non-recurring or other significant factors. The most common are as follows.

(i) Unrealised investment gains

Fair value investment gains are recognised on the revaluation of debt and equity securities classified as available for sale. Therefore, significant gains and losses may be triggered by changes in market prices.

(ii) Foreign exchange gains and losses

Movements in foreign exchange rates may generate significant exchange gains or losses on the re-translation of the financial statements of foreign currency reporting units.

The table below summarises by segment the individual line items in the other comprehensive income impacted by the foregoing factors.

	Variations in other comprehensive income by segment					
	Sagicor Life Inc	**Sagicor Life Jamaica**	**Sagicor Europe**	**Sagicor USA**	**Head office & other**	**Total**
2009						
Unrealised investment gains / (losses)	12,835	21,364	(257)	11,573	2,423	47,938
Retranslation of foreign currency operations	(1,150)	(21,459)	9,821	-	(208)	(12,996)
2008						
Unrealised investment gains / (losses)	(18,395)	(48,416)	(367)	(11,704)	(1,619)	(80,501)
Retranslation of foreign currency operations	587	(26,582)	(25,844)	-	158	(51,681)

Year ended December 31, 2009 Amounts expressed in US $000

4. SEGMENTS (continued)

4.3 Statement of financial position by segment

A summary statement of financial position by segment is set out below. Consolidation and elimination adjustments are included to arrive at the Group consolidated total.

	Summary statement of financial position by segment						
	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor Europe	Sagicor USA	Head office & other	Adjust-ments	Total
2009							
Financial investments	979,805	1,248,706	192,596	685,454	167,881	-	3,274,442
Other investments & assets	281,942	245,022	269,785	225,696	163,085	-	1,185,530
Inter-segment assets	64,684	19,612	-	1,256	122,704	(208,256)	-
Total assets	1,326,431	1,513,340	462,381	912,406	453,670	(208,256)	4,459,972
Policy liabilities	971,288	488,264	323,200	594,882	41,063	-	2,418,697
Other liabilities	65,450	777,683	24,975	177,601	314,138	-	1,359,847
Inter-segment liabilities	10,222	4,830	69,855	22,669	100,680	(208,256)	-
Total liabilities	1,046,960	1,270,777	418,030	795,152	455,881	(208,256)	3,778,544
Net assets	279,471	242,563	44,351	117,254	(2,211)	-	681,428
2008							
Financial investments	914,875	1,185,670	131,330	520,131	128,200	-	2,880,206
Other investments & assets	288,503	261,317	169,156	236,298	143,836	-	1,099,110
Inter-segment assets	47,544	22,253	-	1,225	84,711	(155,733)	-
Total assets	1,250,922	1,469,240	300,486	757,654	356,747	(155,733)	3,979,316
Policy liabilities	941,642	437,648	200,030	481,154	42,773	-	2,103,247
Other liabilities	65,227	772,060	13,000	179,015	265,120	-	1,294,422
Inter-segment liabilities	15,391	10,972	53,928	23,346	52,096	(155,733)	-
Total liabilities	1,022,260	1,220,680	266,958	683,515	359,989	(155,733)	3,397,669
Net assets	228,662	248,560	33,528	74,139	(3,242)	-	581,647

Year ended December 31, 2009 Amounts expressed in US $000

4. SEGMENTS (continued)

4.4 Additions to non-current assets by segment

Segment operations include certain non-current assets comprising investment property, property, plant and equipment, investment in associated companies and intangible assets. Additions to these categories for the year are as follows:

	Additions to non-current assets by segment					
	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor Europe	Sagicor USA	Head office & other	Total
2009	7,054	3,094	1,134	705	4,713	16,700
2008	6,311	6,139	237	2,152	5,569	20,408

4.5 Products and services

Total external revenues relating to the Group's products and services are summarised in the following table.

	2009	2008
Life, health and annuity insurance contracts issued to individuals	537,684	390,179
Life, health and annuity insurance and pension administration contracts issued to groups	251,615	319,286
Property and casualty insurance	265,517	230,694
Banking, investment management and other financial services	128,047	134,149
Farming and unallocated revenues	22,471	(6,699)
	1,205,334	1,067,609

4.6 Geographical areas

The Group operates in certain geographical areas which are determined by the location of the subsidiary or branch initiating the business. Except for the Sagicor at Lloyd's Syndicate 1206 business which underwrites risks inside and outside of the UK, the location of the subsidiary or branch is not materially different from the location of customers.

Group operations in geographical areas include certain non-current assets comprising investment property, property, plant and equipment, investment in associated companies and intangible assets.

Year ended December 31, 2009 Amounts expressed in US $000

4. SEGMENTS (continued)

4.6 Geographical areas (continued)

Total external revenues and non-current assets (as defined in the foregoing paragraph) by geographical area are summarised in the following table.

	External revenues		Non-current assets	
	2009	**2008**	**2009**	**2008**
Barbados	135,699	117,810	181,305	192,689
Jamaica	376,102	442,399	84,690	94,964
Trinidad & Tobago	109,940	113,625	60,797	59,016
Other Caribbean	163,020	149,394	43,805	41,133
United Kingdom	230,875	182,914	33,862	30,384
USA	189,698	61,467	3,371	4,298
	1,205,334	1,067,609	407,830	422,484

5. INVESTMENT PROPERTY

Investment property is carried at fair value as determined by independent valuers using internationally recognised valuation techniques. Direct sales comparisons, when such data is available, and income capitalisation methods, when appropriate, are included in the assessment of fair values.

For some tracts of land which are currently un-developed or which are leased to third parties, the fair value may reflect the potential for development within a reasonable period of time.

The movement in investment property for the year is as follows:

	2009	**2008**
Balance, beginning of year	107,390	97,522
Assumed on acquisition	-	15,713
Additions at cost	806	1,738
Transfers to real estate developed for resale	(2,642)	-
Transfers from / (to) property, plant and equipment	13,231	(4,002)
Disposals	(3,875)	(4,125)
Appreciation in fair values	3,077	2,865
Effects of exchange rate changes	(1,142)	(2,321)
Balance, end of year	116,845	107,390

Year ended December 31, 2009 Amounts expressed in US $000

5. INVESTMENT PROPERTY (continued)

Investment property includes $17,273 (2008 - $16,241) which represents the Group's proportionate interest in joint ventures summarised in the following table.

Country	Description of property	Percentage owned by the Group
Barbados	Freehold lands	50%
	Freehold office buildings	10%, 33%
Trinidad & Tobago	Freehold office building	60%

Pension Funds managed by the Group own the remaining 50% interests of freehold lands in Barbados, and a 33% interest in a freehold office building in Barbados.

6. PROPERTY, PLANT AND EQUIPMENT

2009	Owner-occupied properties: Land	Owner-occupied properties: Land & buildings	Office furnishing, equipment & vehicles	Operating lease vehicles & equipment	Total
Net book value, beginning of year	40,079	73,282	23,492	11,426	148,279
Additions at cost	-	91	9,001	2,512	11,604
Transfers to investment property	(1,581)	(11,650)	-	-	(13,231)
Transfers to intangible assets	-	-	(1,914)	-	(1,914)
Transfers (to) / from real estate developed or held for sale	(2,676)	109	-	-	(2,567)
Other Transfers	-	270	(270)	-	-
Disposals	-	-	(384)	(1,364)	(1,748)
(Depreciation) / appreciation in fair values	(128)	1,304	-	-	1,176
Depreciation charge	-	(917)	(6,608)	(2,524)	(10,049)
Effects of exchange rate changes	-	(2,046)	(623)	2	(2,667)
Net book value, end of year	35,694	60,443	22,694	10,052	128,883
Represented by:					
Cost or valuation	35,694	62,069	76,060	15,903	189,726
Accumulated depreciation	-	(1,626)	(53,366)	(5,851)	(60,843)
	35,694	60,443	22,694	10,052	128,883

Year ended December 31, 2009 Amounts expressed in US $000

6. PROPERTY, PLANT AND EQUIPMENT (continued)

2008	Owner-occupied properties: Land	Owner-occupied properties: Land & buildings	Office furnishing, equipment & vehicles	Operating lease vehicles & equipment	Total
Net book value, beginning of year	-	59,665	23,120	10,153	92,938
Additions at cost	-	56	9,496	4,844	14,396
Assumed on acquisitions	40,079	7,358	1,578	-	49,015
Transfers from investment property	-	4,002	-	-	4,002
Transfers to intangible assets	-	-	(3,641)	-	(3,641)
Disposals	-	-	(154)	(1,171)	(1,325)
Appreciation in fair values	-	4,479	-	-	4,479
Depreciation charge	-	(914)	(5,887)	(2,385)	(9,186)
Effects of exchange rate changes	-	(1,364)	(1,020)	(15)	(2,399)
Net book value, end of year	40,079	73,282	23,492	11,426	148,279
Represented by:					
Cost or valuation	40,079	74,208	73,009	17,225	204,521
Accumulated depreciation	-	(926)	(49,517)	(5,799)	(56,242)
	40,079	73,282	23,492	11,426	148,279

Owner occupied property is carried at fair value as determined by independent valuers using internationally recognised valuation techniques. Direct sales comparisons, when such data is available, and income capitalisation methods, when appropriate, are included in the assessment of fair values.

Lands are largely utilised for farming operations. In determining the fair value of lands, their potential for development within a reasonable period is assessed, and if such potential exists, the fair value reflects that potential.

Land and buildings consist largely of properties containing occupied office buildings. This category includes $622 (2008 – $1,841) which represents the Group’s proportionate interest in office buildings in Belize and Grenada.

Year ended December 31, 2009 Amounts expressed in US $000

7. INVESTMENT IN ASSOCIATED COMPANIES

	2009	2008
Investment, beginning of year	31,893	30,334
Additions	1,606	10
Dividends received	(1,269)	(1,149)
Share of:		
Income before taxes	2,125	2,304
Amortisation of intangible assets identified on acquisition	(557)	(557)
Income taxes	(621)	137
Other comprehensive income / (loss)	(217)	702
Effects of exchange rate changes	(286)	112
Investment, end of year	32,674	31,893

The aggregate balances and results in respect of associated companies for the period are set out below.

	2009	2008
Total assets	351,511	352,215
Total liabilities	230,444	234,664
Total revenue	115,128	97,593
Net income for the year	5,518	9,467

Year ended December 31, 2009 Amounts expressed in US $000

8. INTANGIBLE ASSETS

(a) Analysis and changes for the year

2009	Goodwill	Customer & broker relation-ships	Syndicate capacity & licences	Software	Total
Net book value, beginning of year	59,703	43,293	18,758	13,168	134,922
Additions at cost	-	-	-	2,684	2,684
Identified on acquisitions	7	-	-	-	7
Transfer from property, plant and equipment (note 6)	-	-	-	1,914	1,914
Amortisation and other charges	-	(3,441)	(47)	(4,565)	(8,053)
Effects of exchange rate changes	(1,421)	(2,874)	2,310	(61)	(2,046)
Net book value, end of year	58,289	36,978	21,021	13,140	129,428
Represented by:					
Cost	60,102	49,439	21,129	28,325	158,995
Accumulated charges and amortisation	(1,813)	(12,461)	(108)	(15,185)	(29,567)
	58,289	36,978	21,021	13,140	129,428

Year ended December 31, 2009 Amounts expressed in US $000

8. INTANGIBLE ASSETS (continued)

2008	Goodwill	Customer & broker relation-ships	Syndicate capacity & licences	Software	Total
Net book value, beginning of year	63,250	40,949	24,895	9,430	138,524
Additions at cost	-	-	-	4,264	4,264
Assumed on acquisitions	-	-	-	52	52
Identified on acquisitions:					
Insurance businesses (note 37.2)	-	5,246	-	-	5,246
Sagicor at Lloyd's (note 37.2)	586	6,535	1,049	154	8,324
Transfer from property, plant and equipment (Note 6)	-	-	-	3,641	3,641
Amortisation and other charges	34	(2,980)	(36)	(3,573)	(6,555)
Effects of exchange rate changes	(4,167)	(6,457)	(7,150)	(800)	(18,574)
Net book value, end of year	59,703	43,293	18,758	13,168	134,922
Represented by:					
Cost	61,516	53,177	18,811	24,419	157,923
Accumulated charges and amortisation	(1,813)	(9,884)	(53)	(11,251)	(23,001)
	59,703	43,293	18,758	13,168	134,922

(b) Impairment of intangible assets

Goodwill arises from past acquisitions and is allocated to cash generating units (CGUs). Goodwill and intangible assets with an indefinite useful life are tested annually for impairment. CGUs and intangible assets with an indefinite useful life by segment are as follows:

	Goodwill		Intangible assets with indefinite useful life	
Operating Segment	**2009**	**2008**	**2009**	**2008**
Sagicor Life Inc	27,116	27,181	-	-
Sagicor Life Jamaica	21,880	23,715	-	-
Sagicor Europe	4,425	3,939	20,406	18,167
Other operating companies	4,868	4,868	-	-
	58,289	59,703	20,406	18,167

Year ended December 31, 2009 Amounts expressed in US $000

8. INTANGIBLE ASSETS (continued)

The recoverable amount of a CGU is determined as the higher of its value in use or its fair value less costs to sell.

A CGU's value in use is estimated using cash flow projections prepared by management. Detailed cash flow projections are prepared for three or four years and are extrapolated for subsequent years. The fair value of a CGU is estimated by capitalising its expected earnings over time.

Syndicate capacity, which has an indefinite useful life, is also tested for impairment by its value in use.

Cash flow discount factors, residual growth rates and earnings multiples utilised in the assessment of recoverable amounts as of December 31, 2009 have been obtained with the assistance of independent professional valuers and were as follows:

	Cash flow discount factors	Cash flow residual growth rates	Earnings multiples
2009:			
Sagicor Life Inc	n/a	n/a	9.9
Sagicor Life Jamaica	n/a	n/a	5.7
Sagicor Europe	12.9%, 12.2%	1.9%, 2.5%	n/a
Other operating companies	14.8%, 12.8%	4.6%, 4.2%	n/a
2008:			
Sagicor Life Inc	n/a	n/a	6.2 – 8.0
Sagicor Life Jamaica – Jamaica	25.9% - 27.2%	9.2%	3.9 - 4.2
Sagicor Life Jamaica – Cayman Islands	12.3% - 13.1%	2.7	7.7 – 8.3
Sagicor Europe	12.9%, 12.2%	1.9%, 2.5%	n/a
Other operating companies	12.8% - 15.3%	4.0% - 4.2%	n/a

Sensitivity

Applying adjusted earnings multiples to the Sagicor Life Inc and Sagicor Life Jamaica segments, would produce the following results.

	Sagicor Life Inc segment		
Earnings multiples	9.9	7.88	7.5
Excess of recoverable amount over carrying amount / (impairment)	72,462	-	(13,877)

	Sagicor Life Jamaica segment		
Earnings multiples	5.7	4.19	4.0
Excess of recoverable amount over carrying amount / (impairment)	57,981	-	(7,333)

Year ended December 31, 2009 Amounts expressed in US $000

9. FINANCIAL INVESTMENTS

9.1 Analysis of financial investments

	2009		2008	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Held to maturity securities:				
Debt securities	19,547	16,682	19,448	18,756
Available for sale securities:				
Debt securities	1,458,765	1,458,765	1,167,894	1,167,894
Equity securities	99,788	99,788	112,594	112,594
	1,558,553	1,558,553	1,280,488	1,280,488
Financial assets at fair value through income:				
Derivative financial instruments (note 41.6)	4,105	4,105	36,994	36,994
Debt securities	71,314	71,314	66,021	66,021
Equity securities	17,058	17,058	12,595	12,595
Mortgage loans	48,180	48,180	47,804	47,804
Securities purchased under agreements to resell	10,020	10,020	14,844	14,844
	150,677	150,677	178,258	178,258
Loans and receivables:				
Debt securities	674,663	696,966	620,843	562,967
Mortgage loans	265,096	262,726	268,395	265,521
Policy loans	124,017	129,676	122,761	134,368
Finance loans and finance leases	135,078	144,918	147,305	132,948
Securities purchased under agreements to resell	72,295	72,295	45,589	45,589
Deposits	274,516	274,516	197,119	197,119
	1,545,665	1,581,097	1,402,012	1,338,512
Total financial investments	3,274,442	3,307,009	2,880,206	2,816,014

Year ended December 31, 2009 Amounts expressed in US $000

9. FINANCIAL INVESTMENTS (continued)

9.1 Analysis of financial investments (continued)

	2009	2008
Non-derivative financial assets at fair value through income comprise:		
Assets designated at fair value upon initial recognition	146,572	137,257
Held for trading financial assets	-	4,007
	146,572	141,264
Debt securities comprise:		
Government and government-guaranteed debt securities	1,350,052	1,147,569
Collateralised mortgage obligations	193,487	223,562
Corporate debt securities	632,867	433,027
Other securities	47,883	70,048
	2,224,289	1,874,206

Debt securities include $3,042 (2008 - $1,473) that contain options to convert to common shares of the issuer.

Corporate debt securities include:

(i) convertible loans totalling $5,199 (2008 - $10,075) issued to the Group by an associated company. These loans can be converted into equity or bonds issued by the associated company.

(ii) $14,741 (2008 - $10,592) in bonds issued by an associated company.

Equity securities include $6,333 (2008 - $6,208) in mutual funds managed by the Group.

9.2 Pledged assets

Debt securities include $21,268 (2008 - $22,539) and policy loans include $25,153 (2008 - $26,774) in assets held in trust for a reinsurer (note 20). The income from these assets accrues to the reinsurer.

Debt and equity securities include $229,450 (2008 - $151,203) as collateral for loans payable.

Collateral for the obligation to the Federal Home Loan Bank of Dallas (FHLB) which is included in other funding instruments (note 17), consists of an equity holding in the FHLB with a market value of $5,442 (2008 - $5,514), and mortgages and mortgage backed securities having a total market value of $124,715 (2008 - $124,624).

Debt securities are pledged as collateral under repurchase agreements with customers and other financial institutions and for security relating to overdraft and other facilities with other financial institutions. As of December 31, 2009, these pledged assets totalled $526,273 (2008 - $653,768). Of these assets pledged as security, $204,027 (2008 – $259,345) represents collateral for securities sold under agreements to repurchase in instances when the transferee has the right by contract or by custom to sell or re-pledge the collateral.

Deposits include $48,352 (2008 – $42,848) pledged as collateral for a letter of credit facility obtained by the Group.

Year ended December 31, 2009 Amounts expressed in US $000

9. FINANCIAL INVESTMENTS (continued)

9.3 Returns accruing to the benefit of contract-holders

Financial investments include the following amounts for which the full income and capital returns accrue to the holders of unit linked policy and deposit administration contracts.

	2009	2008
Debt securities	70,690	61,475
Equity securities	12,208	9,996
Mortgage loans	48,180	47,804
Securities purchased under agreements to resell	10,020	14,844
	141,098	134,119

9.4 Reclassification of financial investments

In 2008, the Group reclassified certain securities from the available for sale classification to the loans and receivables classification. The assets reclassified were primarily:

- Government of Jamaica debt securities with a maturity date of 2018 and after, which are held to back long-term insurance liabilities; and
- Non-agency collateralised mortgage obligations in the USA.

The reclassifications were made because the markets for these securities were considered by management to have become inactive.

The following disclosures are in respect of these reclassified assets.

	2009		2008	
	Carrying value	Fair Value	Carrying value	Fair value
Government debt securities maturing after September 2018	134,387	114,233	150,619	114,641
Other debt securities	27,059	25,234	54,853	44,088
	161,446	139,467	205,472	158,729

Cumulative net fair value gain / (loss)	**2009**	**2008**
Cumulative net fair value loss, beginning of year	(71,210)	(4,379)
Net fair value losses prior to restatement	-	(24,594)
Net fair value gains/ (losses) subsequent to restatement	25,623	(46,787)
Disposals	2,209	(194)
Effect of exchange rate changes	1,573	4,744
Cumulative net fair value loss, end of year	(41,805)	(71,210)

Year ended December 31, 2009 Amounts expressed in US $000

9. FINANCIAL INVESTMENTS (continued)

9.4 Reclassification of financial investments (continued)

For 2009, the net fair value gains subsequent to restatement approximate the fair value gains that would have been recorded in total comprehensive income in 2009 had the reclassification not been made. The disposal amount represents the net loss that would have been reclassified from other comprehensive income to income on disposal.

10. REINSURANCE ASSETS

	2009	2008
Reinsurers' share of:		
Actuarial liabilities (note 13.1)	207,696	215,240
Policy benefits payable (note 14.2)	35,900	50,861
Provision for unearned premiums (note 14.3)	45,766	36,271
Other items	5,517	5,341
	294,879	307,713

The provision for unearned premiums and other items disclosed above are expected to mature within one year of the financial statements date.

11. INCOME TAX ASSETS

	2009	2008
Deferred income tax assets (note 33)	15,272	19,126
Income and withholding taxes recoverable	16,518	12,631
	31,790	31,757

Income and withholding taxes recoverable are expected to be recovered within one year of the financial statements date.

12. MISCELLANEOUS ASSETS AND RECEIVABLES

	2009	2008
Pension plan assets (note 31)	5,087	4,253
Real estate developed or held for resale	11,869	7,611
Deferred policy acquisition costs	46,525	28,227
Premiums receivable	128,794	105,517
Other accounts receivable	62,736	69,306
	255,011	214,914

Other accounts receivable include $ 2,814 (2008 – $3,285) due from managed funds.

Year ended December 31, 2009 Amounts expressed in US $000

12. MISCELLANEOUS ASSETS AND RECEIVABLES (continued)

(a) Real estate developed or held for resale

Real estate developed for resale includes $6,290 (2008 - $1,297) which is expected to be realised within one year of the financial statements date. These balances also include $417 (2008 - $538) which represents the Group's proportionate interest in joint ventures.

(b) Deferred policy acquisition costs

Deferred policy acquisitions costs are expected to mature within one year of the financial statements date. The movement in these balances for the year was as follows:

	Gross amount	
	2009	**2008**
Balance, beginning of year	28,227	25,917
Assumed on acquisitions	-	65
Expensed	(81,322)	(63,329)
Additions	97,007	72,776
Effect of exchange rate changes	2,613	(7,202)
Balance, end of year	46,525	28,227

13. ACTUARIAL LIABILITIES

13.1 Analysis of actuarial liabilities

	Gross liability		Reinsurers' share	
	2009	**2008**	**2009**	**2008**
Contracts issued to individuals:				
Life insurance - participating policies	306,015	295,428	1,992	2,449
Life insurance and annuity - non-participating policies	911,860	793,250	169,442	171,965
Health insurance	1,456	2,064	696	1,142
Unit linked funds	88,492	78,268	-	-
Reinsurance contracts held	12,010	7,596	-	-
	1,319,833	1,176,606	172,130	175,556
Contracts issued to groups:				
Life insurance	28,183	29,533	3,220	3,145
Annuities	228,763	203,757	31,754	35,499
Health insurance	35,752	40,323	592	1,040
	292,698	273,613	35,566	39,684
Total actuarial liabilities	1,612,531	1,450,219	207,696	215,240

Year ended December 31, 2009 Amounts expressed in US $000

13. ACTUARIAL LIABILITIES (continued)

13.1 Analysis of actuarial liabilities (continued)

The following notes are in respect of the foregoing table:

- Life insurance includes coverage for disability and critical illness.
- Actuarial liabilities include $121,163 (2008 - $124,314) in assumed reinsurance.
- Liabilities for reinsurance contracts held occur because the reinsurance premium costs exceed the mortality costs assumed in determining the gross liability of the policy.

13.2 Movement in actuarial liabilities

The movement in actuarial liabilities for the year is as follows:

	Gross amount		Reinsurers' share	
	2009	**2008**	**2009**	**2008**
Balance, beginning of year	1,450,219	1,364,304	215,240	247,760
Assumed on acquisitions	1,549	39,318	-	89
Change in actuarial liabilities (note 27)	180,539	77,557	(7,496)	(32,387)
Effect of exchange rate changes	(19,776)	(30,960)	(48)	(222)
Balance, end of year	1,612,531	1,450,219	207,696	215,240

13.3 Assumptions – life insurance and annuity contracts

(a) Process used to set actuarial assumptions and margins for adverse deviations

At each date for valuation of actuarial liabilities, the Appointed Actuary (AA) of each insurer reviews the assumptions made at the last valuation date. The AA tests the validity of each assumption by reference to current data, and where appropriate, changes the assumptions for the current valuation. A similar process of review and assessment is conducted in the determination of margins for adverse deviations.

Any recent changes in actuarial standards and practice are also incorporated in the current valuation.

(b) Assumptions for mortality and morbidity

Mortality rates are related to the incidence of death in the insured population. Morbidity rates are related to the incidence of sickness and disability in the insured population.

For the 2009 valuation, insurers updated studies of recent mortality experience. The resulting experience was compared to external mortality studies including the Canadian Institute of Actuaries (CIA) 1986 - 1992 tables. Appropriate modification factors were selected and applied to underwritten and non-underwritten business respectively. Annuitant mortality was determined by reference to CIA tables or to other established scales.

Assumptions for morbidity are determined after taking into account insurer and industry experience and established guidelines from Actuarial Institutes.

Year ended December 31, 2009 Amounts expressed in US $000

13. ACTUARIAL LIABILITIES (continued)

13.3 Assumptions – life insurance and annuity contracts (continued)

(c) Assumptions for lapse

Lapses relate to the forced termination of policies due to non-payment of premium or to the voluntary termination of policies by policyholders.

Lapse studies were updated by insurers for the 2009 valuation, to determine the most recent experience of persistency. Appropriate rates of termination by policy duration were determined and applied in the actuarial valuations.

(d) Assumptions for investment yields

Returns on existing variable rate securities, shares, investment property and policy loans are linked to the current economic scenario. Yields on reinvested assets are also tied to the current economic scenario. Returns are however assumed to decrease and it is assumed that at the end of twenty years from the valuation date, all investments, except policy loans, are reinvested in long-term, default free government bonds.

As summarised in note 38.2, Sagicor Life Jamaica (SLJ) participated in the JDX programme. Therefore for the 2009 valuation, SLJ did not use the assets as of December 31 which were to be exchanged but instead used the assets it opted for in the JDX programme.

The ultimate rate of return is the assumed rate that will ultimately be earned on government bonds. It is established for each geographic area and is summarised in the following table.

Ultimate rate of return:	**2009**	**2008**
Barbados	5.0%	5.0%
Jamaica	7.0%	7.0%
Trinidad & Tobago	5.5%	5.5%
Other Caribbean	5.0 – 5.5%	5.0 – 5.25%
USA	4.0%	4.0%

(e) Assumptions for operating expenses and taxes

Policy acquisition and policy maintenance expense costs for long-term business of each insurer are measured and monitored using internal expense studies. Policy maintenance expense costs are reflected in the actuarial valuation after adjusting for expected inflation. Costs were updated for the 2009 valuations and were applied on a per policy basis.

Taxes reflect assumptions for future premium taxes and income taxes levied directly on investment income (see note 32.2). For income taxes levied on net income, actuarial liabilities are adjusted for policy related recognised deferred tax assets and liabilities.

Year ended December 31, 2009 Amounts expressed in US $000

13. ACTUARIAL LIABILITIES (continued)

13.3 Assumptions – life insurance and annuity contracts (continued)

(f) Asset defaults

The AA of each insurer includes a provision for asset default in the modelling of the cash flows. The provision is based on industry and Group experience and includes specific margins for equity securities, debt securities, mortgage loans and deposits.

(g) Margins for adverse deviations

Margins for adverse deviations are determined for the assumptions in the actuarial valuations. The application of these margins resulted in the following provisions for adverse deviations being included in the actuarial liabilities:

Provisions for adverse deviations:	**2009**	**2008**
Mortality and morbidity	41,813	34,306
Lapse	32,203	27,728
Investment yields and asset default	67,023	99,320
Operating expenses and taxes	16,969	21,968
	158,008	183,322

13.4 Assumptions – health insurance contracts

The outstanding liabilities for health insurance claims incurred but not yet reported and for claims reported but not yet paid are determined by statistical methods using expected loss ratios which have been derived from recent historical data. No material claim settlements are anticipated after one year from the date of the financial statements.

14. OTHER INSURANCE LIABILITIES

14.1 Analysis of other insurance liabilities

	2009	**2008**
Dividends on deposit and other policy balances	67,784	66,040
Policy benefits payable	232,406	183,971
Provision for unearned premiums	201,579	135,543
	501,769	385,554

The provision for unearned premiums is expected to mature within one year of the financial statements date.

Year ended December 31, 2009 Amounts expressed in US $000

14. OTHER INSURANCE LIABILITIES (continued)

14.2 Policy benefits payable

(a) Analysis of policy benefits payable

	Gross liability		Reinsurers' share	
	2009	**2008**	**2009**	**2008**
Life insurance and annuity benefits	45,884	43,930	11,134	11,093
Health claims	3,636	1,068	2,633	2,019
Property and casualty claims:				
Notified outstanding claims	92,216	83,620	12,303	29,069
Provision for claims incurred but not reported	90,670	55,353	9,830	8,680
	232,406	183,971	35,900	50,861

Property and casualty claims payable contain total discounted amounts of $4,826 in respect of the gross liability and $388 in respect of the reinsurers' share (2008 – nil). These amounts result from the discounting at rates which reflect the achievable yield over 10 years of the insurer's investment portfolio. The discount rate at 5 years is 2.27%.

(b) Movement in policy benefits payable

	Gross amount		Reinsurers' share	
	2009	**2008**	**2009**	**2008**
Balance, beginning of year	183,971	141,860	50,861	34,658
Assumed on acquisitions	-	1,554	-	-
Policy benefits incurred	500,416	434,253	58,703	90,603
Policy benefits paid	(458,092)	(380,905)	(71,964)	(71,692)
Effect of exchange rate changes	6,111	(12,791)	(1,700)	(2,708)
Balance, end of year	232,406	183,971	35,900	50,861

Year ended December 31, 2009 Amounts expressed in US $000

14. OTHER INSURANCE LIABILITIES (continued)

14.3 Provision for unearned premiums

(a) Analysis of provision for unearned premiums

	Gross liability		Reinsurers' share	
	2009	**2008**	**2009**	**2008**
Property and casualty insurance	201,571	134,934	45,766	36,271
Health insurance	8	609	-	-
	201,579	135,543	45,766	36,271

(b) Movement in provision for unearned premiums

	Gross amount		Reinsurers' share	
	2009	**2008**	**2009**	**2008**
Balance, beginning of year	135,543	108,644	36,271	31,686
Premiums written	444,835	344,555	130,107	105,539
Premium revenue	(389,078)	(290,030)	(121,773)	(99,009)
Effect of exchange rate changes	10,279	(27,626)	1,161	(1,945)
Balance, end of year	201,579	135,543	45,766	36,271

15. INVESTMENT CONTRACT LIABILITIES

	2009		2008	
	Carrying value	**Fair value**	**Carrying Value**	**Fair Value**
At amortised cost:				
Deposit administration liabilities	95,581	95,581	94,574	94,574
Other investment contracts	132,229	132,416	99,776	100,279
	227,810	227,997	194,350	194,853
At fair value through income:				
Unit linked deposit administration liabilities	76,587	76,587	73,124	73,124
	304,397	304,584	267,474	267,977

Year ended December 31, 2009 Amounts expressed in US $000

16. NOTES AND LOANS PAYABLE

	2009		2008	
	Carrying value	Fair Value	Carrying value	Fair Value
7.5% senior notes due 2016	144,520	149,771	142,554	134,529
12.5% cumulative redeemable preference shares due 2013	14,235	14,235	15,902	15,902
Bank loans and other funding instruments	42,089	42,089	5,850	5,850
	200,844	206,095	164,306	156,281

The Group issued ten year $150,000 senior notes which are repayable in 2016. The notes carry a 7.5% rate of interest fixed for the period and interest is payable semi-annually. The notes are traded and are listed on the Luxembourg Euro MTF Market.

The 12.5% cumulative redeemable preference shares were issued by Pan Caribbean Financial Services Limited in February 2008. The shares are denominated in Jamaican dollars. In December 2009, the Group received a bank loan of $25,000. Interest is variable at 3.5% above LIBOR at the date of the financial statements. The initial term of the loan is 6 months, but may be extended. Other bank loans and funding instruments carry interest rates between 4.75% and 7.5% and are repayable in June 2010 or February 2011.

The security for bank loans and other funding instruments are disclosed in note 9.2. Financial covenants in respect of the above liabilities are summarised in note 45.3.

17. DEPOSIT AND SECURITY LIABILITIES

	2009		2008	
	Carrying Value	Fair Value	Carrying value	Fair Value
At amortised cost:				
Other funding instruments	233,443	240,379	189,732	197,519
Customer deposits	162,989	146,174	158,495	139,426
Securities sold under agreements to repurchase	501,128	456,825	514,352	422,962
Bank overdrafts	2,380	2,380	7,144	7,144
	899,940	845,758	869,723	767,051
At fair value through income:				
Structured products	5,299	5,299	13,604	13,604
Derivative financial instruments (note 41.6)	2,248	2,248	33,816	33,816
	7,547	7,547	47,420	47,420
	907,487	853,305	917,143	814,471

Year ended December 31, 2009 Amounts expressed in US $000

17. DEPOSIT AND SECURITY LIABILITIES (continued)

Other funding instruments consist of loans from banks and other financial institutions and include balances of $122,990 (2008 - $122,376) due to the Federal Home Loan Bank of Dallas (FHLB). The Group participates in the FHLB program in which funds received from the Bank are invested in mortgages and mortgage backed securities.

Structured products have been designed to meet specific customer needs. Structured products comprise principal protected notes of $5,299 (2008 – $4,458) and credit linked notes of $nil (2008 – $9,146). Certain principal protected notes are linked to the equity indexed options in note 41.6. The credit linked notes are structured securities with embedded credit default swaps allowing the Group to transfer specific credit risks to the note purchaser. Under this structure, the coupon or price of the note is linked to the performance of a referenced asset. It offers the Group a hedge against the credit risk and gives the holders higher yields on the note for accepting the exposure to specified credit events.

Collateral for other funding instruments and securities sold under agreements to resell is set out in note 9.2.

18. PROVISIONS

	2009	2008
Pension plans and other retirement benefits (note 31)	27,303	24,399
Other	5,589	3,639
	32,892	28,038

19. INCOME TAX LIABILITIES

	2009	2008
Deferred income tax liabilities (note 33)	7,933	7,985
Income taxes payable	8,557	8,689
	16,490	16,674

Income taxes payable are expected to be settled within one year of the financial statements date.

20. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Amounts due to policyholders	35,119	10,607
Amounts due to reinsurers	73,132	74,355
Amounts due to managed funds	4,346	2,824
Other accounts payable and accrued liabilities	89,537	80,475
	202,134	168,261

Amounts due to reinsurers include $46,421 (2008 – $49,313) due to a reinsurer in respect of assets held in trust by the Group (see note 9.2).

21. SHARE CAPITAL

The Company is authorised to issue an unlimited number of common shares issuable in series, and an unlimited number of preference shares issuable in series.

	2009		2008	
	Number of shares '000	$000	Number of shares '000	$000
Issued and fully paid common shares of no par value:				
Balance, beginning of year	278,355	260,161	267,223	232,536
Allotments	12,548	20,981	11,132	27,625
Balance, end of year	290,903	281,142	278,355	260,161
Treasury shares:				
Balance, beginning of year	(725)	(2,008)	(369)	(841)
Net shares acquired	(476)	(882)	(356)	(1,167)
Balance, end of year	(1,201)	(2,890)	(725)	(2,008)
Total share capital	289,702	278,252	277,630	258,153

The Company's shares are listed on the Barbados, Trinidad & Tobago and London stock exchanges. From June 2008 until September 2009, the Company's shares were listed on the Jamaica stock exchange.

22. RESERVES

Shareholders' reserve components and movements for the year are as follows:

	<<<< Fair value reserves >>>>			<<<< Other reserves >>>>			
2009	Owner occupied property	Available for sale assets	Cash flow hedges	Currency trans-lation	Share based payment	Statutory	Total reserves
Balance, beginning of year	19,214	(47,010)	1,462	(73,851)	4,805	10,108	(85,272)
Other comprehensive income	1,230	38,737	(1,011)	(5,554)	-	-	33,402
Value of employee services rendered (net)	-	-	-	-	972	-	972
Changes in the ownership interest of subsidiaries (note 37.1)	-	2,022	143	5,643	(114)	(938)	6,756
Other movements	-	(57)	-	-	-	5,961	5,904
Balance, end of year	20,444	(6,308)	594	(73,762)	5,663	15,131	(38,238)

Year ended December 31, 2009 Amounts expressed in US $000

22. RESERVES (continued)

2008	<<<< Fair value reserves >>>> Owner occupied property	Available for sale assets	Cash flow hedges	<<<< Other reserves >>>> Currency trans-lation	Share based payment	Statutory	Total reserves
Balance, beginning of year	16,021	28,317	-	(31,695)	3,177	5,915	21,735
Other comprehensive income	3,193	(74,620)	1,462	(42,156)	-	-	(112,121)
Value of employee services rendered (net)	-	-	-	-	1,628	-	1,628
Other movements	-	(707)	-	-	-	4,193	3,486
Balance, end of year	19,214	(47,010)	1,462	(73,851)	4,805	10,108	(85,272)

23. PARTICIPATING ACCOUNTS

The movements in the participating accounts during the year were as follows:

	Closed participating account		Open participating account	
	2009	2008	2009	2008
Balance, beginning of year	10,311	8,510	2,188	886
Total comprehensive income / (loss)	(1,153)	1,801	(4,102)	1,564
Return of transfer to support profit distribution to shareholders	-	-	(260)	(262)
Balance, end of year	9,158	10,311	(2,174)	2,188

The amounts in the financial statements relating to participating accounts are as follows:

	Closed participating account		Open participating account	
	2009	2008	2009	2008
Assets	97,715	97,413	243,349	235,561
Liabilities	88,557	87,102	245,523	233,373
Revenues	10,202	10,996	35,223	36,666
Benefits	9,282	7,022	31,915	27,208
Expenses	1,656	1,802	6,271	7,337
Income taxes	352	171	1,063	557

Year ended December 31, 2009 Amounts expressed in US $000

24. PREMIUM REVENUE

	Gross revenue		Reinsurance expense	
	2009	**2008**	**2009**	**2008**
Life insurance	318,379	290,823	38,034	38,491
Annuities	172,763	143,806	326	285
Health insurance	146,513	148,917	5,849	5,192
Property and casualty insurance	369,871	266,210	120,375	93,742
	1,007,526	849,756	164,584	137,710

Gross revenue includes $84,504 (2008 - $58,293) in reinsurance assumed.

25. NET INVESTMENT INCOME

	2009	**2008**
Investment income:		
Interest income	258,266	232,756
Dividend income	4,623	6,653
Rental income from investment property	5,618	5,524
Net investment gains	32,346	17,094
Share of operating income of associated companies	2,125	2,304
Other investment income	3,608	2,081
	306,586	266,412
Investment expenses:		
Allowances for impairment losses	8,984	19,876
Direct operating expenses of investment property	1,623	2,545
Other direct investment expenses	1,763	1,958
	12,370	24,379
Net investment income	294,216	242,033

The Group manages its financial investments by the type of financial instrument (i.e. debt securities, equity securities, mortgage loans etc) and the income there-from is presented accordingly.

Year ended December 31, 2009 Amounts expressed in US $000

25. NET INVESTMENT INCOME (continued)

(a) Interest income

	2009	2008
Debt securities	189,702	167,782
Mortgage loans	25,954	25,255
Policy loans	8,068	8,728
Finance loans and finance leases	17,103	15,809
Securities purchased under agreements to resell	10,246	5,085
Deposits	6,753	9,469
Other balances	440	628
	258,266	232,756

Interest from debt securities includes $2,078 (2008 - $1,657) from an associated company.

(b) Net investment gains / (losses)

	2009	2008
Debt securities	22,083	(4,402)
Equity securities	7,722	15,745
Investment property	3,077	2,865
Other financial instruments	(536)	2,886
	32,346	17,094

26. FEES AND OTHER REVENUE

	2009	2008
Fee income – assets under administration	12,843	15,221
Fee income – deposit administration and policy funds	1,117	1,010
Commission income on insurance and reinsurance contracts	17,351	15,755
Other fees and commission income	13,624	13,178
Foreign exchange gains / (losses)	4,523	28,541
Other operating and miscellaneous income	18,718	21,039
	68,176	94,744

Year ended December 31, 2009 Amounts expressed in US $000

27. POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

	Gross amount		Reinsurers' share	
	2009	2008	2009	2008
Policy benefits:				
Life insurance benefits	144,225	143,300	25,695	25,852
Annuity benefits	88,277	84,340	15,058	19,956
Health insurance claims	119,324	98,655	4,317	2,501
Property & casualty insurance claims	149,620	138,170	13,815	45,431
Total policy benefits	501,446	464,465	58,885	93,740
Change in actuarial liabilities (note 13.2)	180,539	77,557	(7,496)	(32,387)
Total policy benefits and change in actuarial liabilities	681,985	542,022	51,389	61,353

Gross policy benefits include $74,073 (2008 - $47,130) arising from reinsurance assumed.

28. INTEREST EXPENSE

The Group manages its interest-bearing obligations by the type of obligation (i.e. investment contracts, securities etc) and set out below is the interest expense presented accordingly.

	2009	2008
Insurance contracts	3,010	2,733
Investment contracts	24,015	20,177
Other funding instruments	5,045	8,169
Deposits	10,397	10,225
Securities	56,750	48,582
Other Items	2,682	2,825
	101,899	92,711

Year ended December 31, 2009 Amounts expressed in US $000

29. EMPLOYEE COSTS

Included in administrative expenses, commissions and related compensation are the following:

	2009	2008
Administrative staff salaries, directors' fees and other short-term benefits	91,627	86,906
Employer contributions to social security schemes	6,949	6,751
Expense arising from equity-settled share plans (note 30.1 to 30.3)	2,618	3,325
Expense arising from cash-settled share plans (note 30.4)	672	2,025
Employer contribution to defined contribution pension schemes	1,128	1,327
Costs – defined retirement benefits	4,721	4,703
	107,715	105,037

30. EMPLOYEE SHARE BASED COMPENSATION

30.1 The Company

Effective December 31, 2005, the Company introduced a Long Term Incentive (LTI) plan for designated executives of the Sagicor Group and an Employee Share Ownership Plan (ESOP) for permanent administrative employees and sales agents of the Group. A total of 26,555,274 common shares of the Company (or 10% of shares then in issue) have been set aside for the purposes of the LTI plan and the ESOP.

(a) LTI plan – restricted share grants

Restricted share grants have been granted to designated key management of the Group during the year. Share grants may vest over a four year period beginning at the grant date. The vesting of share grants is conditional upon the relative profitability of the Group as compared to a number of peer companies. Relative profitability is measured with reference to the financial year preceding the vesting date.

The movement in restricted share grants during the year is as follows.

	2009		2008	
	Number of grants '000	Weighted average price	Number of grants '000	Weighted average price
Balance, beginning of year	374	US$2.35	409	US$1.93
Grants issued	675	US$1.57	596	US$2.46
Grants vested	(683)	US$1.97	(631)	US$2.18
Grants forfeited	(13)	US$2.34	-	-
Balance, end of year	353	US$1.59	374	US$2.35

Year ended December 31, 2009 Amounts expressed in US $000

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

30.1 The Company (continued)

(b) LTI plan – share options

Share options have been granted to designated key management of the Group during the year. Up to 2008, options were granted at the fair market price of the Company shares at the time that the option is granted. From 2009, options are granted at the fair market price of the Company shares prevailing one year before the option is granted. 25% of the options each vest on the first, second, third and fourth anniversaries of the grant date. Options are exercisable up to 10 years from the grant date.

The movement in share options during the year is as follows.

	2009		2008	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	4,211	US $2.17	2,968	US $2.00
Options granted	1,596	US $2.50	1,423	US $2.50
Options exercised	-	-	(180)	US $1.99
Balance, end of year	5,807	US $2.26	4,211	US $2.17
Exercisable at the end of the year	1,887	US $2.09	799	US $1.99

Further details of share options and the assumptions used in determining their pricing are as follows:

	2009	2008
Share price at grant date	US $1.60 – 2.50	US $1.98 – 2.50
Fair value of options at grant date	US $0.41 – 0.69	US $0.41 – 0.69
Expected volatility	19.3% - 35.8%	19.3% - 35.8%
Expected life	7.0 years	7.0 years
Expected dividend yield	2.8% - 3.1%	2.8% - 3.0%
Risk-free interest rate	4.8% – 6.5%	4.8% – 6.5%

The expected volatility is based on statistical analysis of monthly share prices over the 4 years (2008 – 2 years) prior to grant date.

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

30.2 The Company (continued)

(c) ESOP

During each of the years 2006 to 2009, the Company approved awards under the ESOP in respect of permanent administrative employees and sales agents of the Company and certain subsidiaries. The ESOP is administered by Trustees under a discretionary trust. The amount awarded is used by the Trustees to acquire company shares. Administrative employees and sales agents are required to serve a qualifying period of five years from the award date in order to qualify as a beneficiary. Shares are distributed to beneficiaries upon their retirement or termination of employment.

During the year, 476,000 common shares were acquired by the Trustees (2008 – 356,000 common shares).

30.2 Sagicor Life Jamaica Limited (SLJ)

(a) Long-term incentive plan

Effective May 1, 2003, SLJ instituted a share based long-term incentive plan for senior executives. 150,000,000 ordinary shares (or 5% of the authorised share capital at that date) have been set aside for the plan.

SLJ introduced a new Long Term Incentive (LTI) plan effective January 2007. This plan replaced the previous Stock Option plan. Under the LTI plan executives are entitled but not obliged, to purchase the company stock at a pre-specified price at some future date, once a pre-determined performance objective is met. The options are granted each year on the date of the SLJ Board of Directors Human Resources Committee meeting, following the performance year, at which the stock option awards are approved.

Stock options vest in 4 equal installments beginning the first December 31 following the grant date and for the next three December 31st dates thereafter (25% per year). Options are not exercisable after the expiration of 7 years from the date of grant. The number of stock options in each stock option award is calculated based on the LTI opportunity via stock options (percentage of applicable salary) divided by the Black-Scholes value of a stock option on SLJ stock on the date of grant. The exercise price of the options is the closing bid price on the grant date.

Under the previous Stock Option plan, options were granted on December 31, of each year. The strike price was the closing bid price on the grant date. The number of stock options in each stock option award was calculated based on a percentage of applicable salary divided by the strike price. Options were exercisable beginning one year from the date of grant and had a contractual term of six years from the date of grant.

Details of the share options outstanding are set out in the following table. J$ represents Jamaica $.

Year ended December 31, 2009 Amounts expressed in US $000

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

30.2 Sagicor Life Jamaica Limited (SLJ) (continued)

	2009		2008	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	16,194	J$7.42	19,333	J$6.79
Options granted	26,496	J$7.92	-	-
Options exercised	(2,982)	J$3.90	(2,154)	J$3.90
Options lapsed/forfeited	(13,169)	J$7.98	(985)	J$2.70
Balance, end of year	26,539	J$8.04	16,194	J$7.42
Exercisable at the end of the year	14,536	J$8.94	13,026	J$7.93

Further details of share options and the assumptions used in determining their pricing are as follows:

	2009	2008
Fair value of options outstanding	J$37,274,000	J$35,167,000
Share price at grant date	J$6.80 – 11.30	J$3.90 – 11.30
Exercise price	J$7.92 – 11.30	J$9.00 – 11.30
Standard deviation of expected share price returns	34.0%	34.0%
Weighted average remaining contractual term	3 years	2 years
Risk-free interest rate	16.8% - 17.5%	12.4% - 16.8%

The expected volatility is based on statistical analysis of daily share prices over three years.

(b) Employee share purchase plan

SLJ has in place a share purchase plan which enables its administrative and sales staff to purchase shares at a discount. The proceeds from shares issued under this plan totalled $205 (2008 – nil).

30.3 Pan Caribbean Financial Services Limited (PCFS)

PCFS offers share options to employees who have completed the minimum eligibility period of employment. Options are conditional on the employee completing a minimum service period of one year. Options are forfeited if the employee leaves PCFS before the options vest. Options vest over four years, 25% each anniversary date of the grant.

The movement in share options are set out in the following table. J$ represents Jamaica $.

Year ended December 31, 2009 Amounts expressed in US $000

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

30.3 Pan Caribbean Financial Services Limited (PCFS) (continued)

	2009		2008	
	Number of options '000	Weighted average price	Number of options '000	Weighted average price
Balance, beginning of year	5,457	J$18.91	5,949	J$16.49
Options exercised	-	-	(150)	J$19.29
Options lapsed / forfeited	(658)	J$21.82	(342)	J$18.00
Balance, end of year	4,799	J$18.53	5,457	J$18.91
Exercisable at the end of the year	2,312	J$18.66	1,694	J$19.49

Further details of share options and the assumptions used in determining their pricing are as follows:

	2009	2008
Fair value of options outstanding	J$ 52,604,000	J$ 49,435,000
Weighted average share price at grant date	J$ 16.84	J$ 16.84
Exercise price	J$ 18.00 – 21.75	J$ 18.00 – 36.50
Standard deviation of expected share price returns	10.0%	10.0%
Weighted average remaining contractual term	3 years	4 years
Risk-free interest rate	13.3%	13.3%

The expected volatility is based on statistical analysis of daily share prices over one year.

30.4 Sagicor Europe Limited (SEL)

The minority shareholders of Sagicor Europe Limited are participating employees who have subscribed in cash for shares of SEL. As of December 31, the total minority shareholding was 14% of issued shares. SEL intends to issue additional shares to future participating employees until the minority holdings total 15% of issued shares.

Each participating employee has contracted with SEL and the Company under a share subscription agreement. Under the provisions of these agreements, participating employees can exercise a put option to the Company to acquire their shares at the prevailing fair value. The put option may be exercised over the period beginning from the 5th anniversary of the agreement, with a maximum of 50% of the employee's shareholding being put on the 5th anniversary, a further maximum of 10% on the 6th anniversary, a further maximum of 10% on the 7th anniversary, and a further maximum of 30% on the tenth anniversary. The shares subscribed by participating employees, and the relevant fair values at the date of subscription are set out in the following table.

Year ended December 31, 2009 Amounts expressed in US $000

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

30.4 Sagicor Europe Limited (SEL) (continued)

	2009		2008	
	Number of shares '000	Fair value at subscription (in £ 000)	Number of Shares '000	Fair value at subscription (in £ 000)
Balance, beginning of year	344	2,488	240	1,592
Shares subscribed	2	63	104	896
Shares redeemed	(9)	(62)	-	-
Balance, end of year	337	2,489	344	2,488

The fair values of SEL shares at subscription dates were established by determining the value in use of Syndicate 1206 from 5 year internal cash flow projections. The cash flow discount factors used were 12.0% - 12.5% and the residual growth rate was 2.5%.

The put options described above have been accounted for as cash settled share based payment arrangements. As such the valuation of the put options at December 31, 2009 of $6,467 (2008 – $5,132) is recognised in the financial statements. The shares issued meet the definition of a financial liability in accordance with IAS 32 Financial Instruments: Presentation. Consequently, SEL is consolidated as a 100% subsidiary, with the increase in liability recorded as an expense (see note 29).

31. EMPLOYEE RETIREMENT BENEFITS

Certain Group subsidiaries have contributory defined benefit pension schemes in place for eligible administrative staff. Some subsidiaries also offer medical and life insurance benefits that contribute to the health care and life insurance coverage of retirees and beneficiaries.

(a) Amounts recognised in the financial statements

	2009	2008
Fair value of retirement plan assets	81,062	75,880
Present value of funded retirement obligations	(80,566)	(83,669)
	496	(7,789)
Present value of unfunded retirement obligations	(30,386)	(23,492)
Unrecognised actuarial losses	7,674	11,135
Amounts recognised in the financial statements	(22,216)	(20,146)
Represented by:		
Liabilities held on deposit with the Group as deposit administration contracts	(22,432)	(20,706)
Other recognised liabilities	(4,871)	(3,693)
Total recognised liabilities (note 18)	(27,303)	(24,399)
Recognised assets (note 12)	5,087	4,253
	(22,216)	(20,146)

Year ended December 31, 2009 Amounts expressed in US $000

31. EMPLOYEE RETIREMENT BENEFITS (continued)

The net benefit defined obligation and experience adjustments for the last 5 years are as follows:

	2009	2008	2007	2006	2005
Present value of retirement obligations	(110,952)	(107,161)	(93,329)	(75,501)	(62,048)
Fair value of plan assets	81,062	75,880	64,842	54,463	47,608
Net obligation	(29,890)	(31,281)	(28,487)	(21,038)	(14,440)
Experience adjustments on:					
Plan liabilities	(2,274)	(8,389)	1,386	5,838	744
Plan assets	(1,097)	9,389	1,034	1,254	(579)

(b) Amounts recognised in the income statement

	2009	2008
Current service cost	3,961	4,473
Interest cost	10,816	10,692
Net actuarial (gains) / losses recognised during the year	(1,052)	609
Past service cost	278	897
Curtailment gain	-	(1,207)
Expected return on retirement plan assets	(9,282)	(10,126)
Total cost	4,721	5,338

The actual return on retirement plan assets was $9,920 (2008 – $(727)).

(c) Retirement plan assets

Movement in retirement plan assets	2009	2008
Plan assets, beginning of year	75,880	76,281
Assumed on acquisitions	-	7,119
Expected return on plan assets	9,282	10,126
Actuarial gains and losses	172	(11,615)
Contributions made by the Group	4,357	4,261
Contributions made by plan participants	2,021	2,149
Benefits paid	(4,015)	(6,348)
Other	(1,331)	446
Effects of exchange rate changes	(5,304)	(6,539)
Plan assets, end of year	81,062	75,880

For the next financial year, the total employer contributions are estimated at $5,031 (2008- $4,633).

Year ended December 31, 2009 Amounts expressed in US $000

31. EMPLOYEE RETIREMENT BENEFITS (continued)

Distribution of the plan assets	2009	2008
Equity unit linked pension funds under management	78,354	73,085
Other assets	2,708	2,795
Total plan assets	81,062	75,880

(d) Movement in retirement obligations

	2009	2008
Retirement obligations, beginning of year	107,161	103,966
Assumed on acquisitions	-	6,427
Current service cost	5,566	7,926
Interest cost	10,816	10,692
Contributions made by employees	2,587	2,294
Actuarial gains and losses	(4,070)	(8,457)
Benefits paid	(5,373)	(7,427)
Past service cost	278	897
Curtailments	-	(1,207)
Other	(87)	1,701
Effects of exchange rate changes	(5,926)	(9,651)
Retirement obligations, end of year	110,952	107,161

(e) Principal assumptions

The principal actuarial assumptions by geographic area used for 2009 were as follows:

Pension benefits	Barbados	Jamaica	Trinidad	Other Caribbean
Discount rate	7.0%-7.5%	16.0%	7.5%	7.0%
Expected return on plan assets	7.0%-8.0%	10.5%	7.5%	7.0%
Future salary increases	3.0%-5.8%	12.0%	2.5%-6.0%	2.0%-3.0%
Future pension increases	1.8%-2.8%	3.5%	1.0%	1.8%
Portion of employees opting for early retirement	15.0%	-	-	-
Future changes in National Insurance Scheme Ceilings	2.8%-3.5%	-	2.0%	2.8%

Year ended December 31, 2009 Amounts expressed in US $000

31. EMPLOYEE RETIREMENT BENEFITS (continued)

Other retirement benefits	Jamaica	Other Caribbean
Discount rate	16.0%	7.0%
Expected return on plan assets	10.0%	7.0%
Future salary increases	12.0%	2.0%
Long term increase in health costs	14.5%	-

The effect of a change of 1% in the assumption for long-term increase in health costs as of December 31, 2009 is estimated as follows:

	Effect of 1% decrease in assumption	Effect of 1% increase in assumption
Revised service cost	364	587
Revised interest cost	788	1,072
Revised accumulated retirement benefit	6,217	8,497

32. INCOME TAXES

32.1 Income tax expense

	2009	2008
Current tax	15,653	16,736
Deferred tax	(4,090)	9,036
Share of tax of associated companies	621	(137)
	12,184	25,635

32.2 Derivation of income tax expense

Income tax arises from the following sources of income:

	2009	2008
Investment income subject to direct taxation	89,491	79,853
Net income subject to direct taxation	23,515	40,783
Total income subject to taxation	113,006	120,636

Year ended December 31, 2009 Amounts expressed in US $000

32. INCOME TAXES (continued)

32.2 Derivation of income tax expense (continued)

The income tax on the total income subject to taxation differs from the theoretical amount that would arise using applicable tax rates is set out in the following table.

	2009	2008
Income subject to tax	113,006	120,636
Tax calculated at the applicable rates on income subject to tax	21,123	25,104
Adjustments to current tax for items not subject to tax or not allowed for tax	(16,517)	(9,112)
Other current tax adjustments	(178)	(50)
Adjustments for current tax of prior periods	17	(886)
Movement in unrecognised deferred tax asset	5,333	4,947
Deferred tax (income) / expense relating to the origination of temporary differences	(62)	64
Deferred tax (income) / expense relating to changes in tax rates and the imposition of new taxes	8	(1)
Deferred tax expense that arises from the write down / (income from the reversal of a write down) of a deferred tax asset	(707)	2,277
Tax on distribution of profits from policyholder funds	796	1,333
Other taxes	2,371	1,959
	12,184	25,635

Year ended December 31, 2009 Amounts expressed in US $000

33. DEFERRED INCOME TAXES

	2009	2008
Analysis of deferred income tax assets:		
Pensions and other retirement benefits	1,132	623
Unrealised losses on financial investments	8,610	15,861
Unused tax losses	4,487	21,047
Off-settable deferred income tax liabilities in respect of policy liabilities timing differences and other items	(619)	(25,196)
Other items	1,662	6,791
Total (note 11)	15,272	19,126
Analysis of deferred income tax liabilities:		
Accelerated tax depreciation	2,242	2,703
Policy reserves taxable in the future	23,803	-
Pensions and other retirement benefits	645	461
Accrued interest	1,032	824
Unrealised gains on financial investments	2,771	3,838
Off-settable deferred income tax assets in respect of unused tax losses and other items	(24,017)	-
Other items	1,457	159
Total (note 19)	7,933	7,985
Deferred income tax balances include the following:		
Assets to be recovered within one year	8,890	9,546
Liabilities to be settled within one year	5,154	5,074
Unrecognised balances:		
Tax losses	110,968	85,842
Potential deferred income tax assets	28,588	22,613

34. EARNINGS AND DIVIDENDS PER COMMON SHARE

34.1 Earnings per common share

The basic earnings per common share is computed by dividing the net income for the year attributable to shareholders by the weighted average number of shares in issue during the year, after deducting treasury shares.

The computation of diluted earnings per common share recognises the dilutive impact of LTI share grants and share options and of ESOP shares grants (see note 30.1). It is calculated by dividing the net income for the year attributable to shareholders by the adjusted weighted average number of shares in issue during the year, after deducting treasury shares.

34. EARNINGS AND DIVIDENDS PER COMMON SHARE (continued)

34.1 Earnings per common share (continued)

	2009	2008
Net income for the year attributable to shareholders	50,502	96,111
Weighted average number of shares in issue in thousands	278,386	276,644
LTI restricted share grants	412	471
LTI share options	-	621
ESOP shares	467	356
Adjusted weighted average number of shares in issue	279,265	278,092
Basic earnings per common share	18.1 cents	34.7 cents
Fully diluted earnings per common share	18.1 cents	34.6 cents

34.2 Dividends per common share

	2009		2008	
	US cents per share	$000	US cents per share	$000
Dividends declared and paid:				
Final dividend in respect of the prior year	2.0	5,553	4.0	11,087
Interim dividend in respect of the current year	2.0	5,564	3.0	8,329
	4.0	11,117	7.0	19,416
Dividends declared after the date of the financial statements:				
Final dividend in respect of the current year	2.0	5,818	2.0	5,553

Year ended December 31, 2009 Amounts expressed in US $000

35. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income and the related income tax effects are as follows:

	Other comprehensive income		
2009	**Before tax**	**Tax**	**After tax**
Fair value reserves – owner occupied property:			
Unrealised gains / (losses) arising on revaluation	1,176	-	1,176
(Gains) / losses transferred to income on disposal or impairment	155	-	155
	1,331	-	1,331
Fair value reserves – available for sale assets:			
Unrealised gains / (losses) arising on revaluation	53,735	(5,797)	47,938
(Gains) / losses transferred to income on disposal or impairment	(634)	(3,197)	(3,831)
	53,101	(8,994)	44,107
Fair value reserves – cash flow hedges:			
Unrealised gains / (losses) arising on revaluation	(2,551)	850	(1,701)
Retranslation of foreign currency operations	(12,996)	-	(12,996)
Other items:			
Share of other comprehensive income of associated companies	(217)	-	(217)
Other	(129)	-	(129)
	(346)	-	(346)
Other comprehensive income for the year	38,539	(8,144)	30,395

Year ended December 31, 2009 Amounts expressed in US $000

35. OTHER COMPREHENSIVE INCOME (continued)

	Other comprehensive income		
2008	Before tax	Tax	After tax
Fair value reserves – owner occupied property:			
Unrealised gains / (losses) arising on revaluation	3,193	-	3,193
(Gains) / losses transferred to income on disposal or impairment	1,119	-	1,119
	4,312	-	4,312
Fair value reserves – available for sale assets:			
Unrealised gains / (losses) arising on revaluation	(95,149)	14,648	(80,501)
(Gains) / losses transferred to income on disposal or impairment	(16,217)	178	(16,039)
	(111,366)	14,826	(96,540)
Fair value reserves – cash flow hedges:			
Unrealised gains / (losses) arising on revaluation	4,140	(1,380)	2,760
Retranslation of foreign currency operations	(51,681)	-	(51,681)
Other items:			
Share of other comprehensive income of associated companies	702	-	702
Other	(198)	-	(198)
	504	-	504
Other comprehensive income for the year	(154,091)	13,446	(140,645)

Year ended December 31, 2009 Amounts expressed in US $000

36. CASH FLOWS

36.1 Operating activities

	2009	2008
Adjustments for non-cash items, interest and dividends:		
Interest and dividend income	(262,889)	(239,409)
Net investment gains	(32,346)	(17,094)
Gains arising on acquisition	-	(18,786)
Net increase in actuarial liabilities	188,035	109,944
Interest expense and finance costs	117,274	107,129
Depreciation and amortisation	18,659	16,298
Increase in provision for unearned premiums	44,351	54,525
Other items	(10,691)	32,728
	62,393	45,335
Changes in operating assets:		
Investment property	3,058	2,387
Debt securities	(307,352)	(274,840)
Equity securities	18,079	43,528
Mortgage loans	(697)	(25,702)
Policy loans	(1,785)	4,745
Finance loans and finance leases	7,158	(7,982)
Securities purchased under agreement to resell	1,963	12,125
Deposits	(70,528)	(22,786)
Other assets and receivables	(2,381)	(79,051)
	(352,485)	(347,576)

The gross changes in investment property, debt securities and equity securities are as follows.

	Investment property		Debt securities		Equity securities	
	2009	2008	2009	2008	2009	2008
Disbursements	(806)	(1,738)	(1,745,626)	(1,093,116)	(42,943)	(72,531)
Disposal proceeds	3,864	4,125	1,438,274	818,276	61,022	116,059
	3,058	2,387	(307,352)	(274,840)	18,079	43,528

Year ended December 31, 2009 Amounts expressed in US $000

36. CASH FLOWS (continued)

36.1 Operating activities (continued)

	2009	2008
Changes in operating liabilities:		
Insurance liabilities	41,425	83,360
Investment contract liabilities	50,503	38,310
Other funding instruments	41,501	22,640
Deposits	(314)	21,554
Securities	(12,881)	67,968
Other liabilities and payables	43,847	15,244
	164,081	249,076

36.2 Investing activities

	2009	2008
Property, plant and equipment:		
Purchases	(11,604)	(14,396)
Disposal proceeds	1,970	1,378
	(9,634)	(13,018)

36.3 Financing activities

	2009	2008
Notes and loans payable:		
Proceeds	36,833	17,485
Repayments	-	(4,709)
	36,833	12,776

36.4 Cash and cash equivalents

	2009	2008
Cash resources	188,449	99,204
Call deposits and other liquid balances	144,350	136,787
Bank overdrafts	(2,380)	(7,144)
Other short-term borrowings	(5,434)	(1,995)
	324,985	226,852

37. OWNERSHIP CHANGES AND ACQUISITIONS

37.1 Ownership changes – Pan Caribbean Financial Services (PCFS)

Effective November 11, 2009, the Company sold its direct 33% interest in PCFS to Sagicor Life Jamaica (SLJ) for cash consideration. The net disposal proceeds received by the Company amounted to $28,451 giving rise to a net loss to shareholders booked in retained earnings of $11,363. The net loss and other movements in equity are disclosed in the consolidated statement of equity.

As a consequence of the transaction the Group reduced its total interest in PCFS from 64% to 51% and SLJ increased its total interest in PCFS from 53% to 86%.

37.2 Businesses acquired in 2008

On December 1, 2008, Sagicor Life Jamaica acquired the insurance business of Blue Cross Jamaica Limited. The insurance business comprised of approximately 7,000 health insurance contracts.

On January 17, 2008 the Group acquired from Industrial Alliance Insurance and Financial Services Inc. (IA), the latter's insurance business in the Netherland Antilles, Aruba and the Cayman Islands. The business in Netherland Antilles was transferred to Sagicor Capital Life Insurance Company Limited, the business in Aruba was transferred to Sagicor Life Aruba N.V, and the business in the Cayman Islands was transferred to Sagicor Life of the Cayman Islands Limited. The insurance business comprised of approximately 10,000 life insurance and annuity contracts.

On February 8, 2008, the Group acquired a 77% interest in Barbados Farms Limited (BFL). The common shares of BFL are listed on the Barbados Stock Exchange. BFL engages in agriculture, primarily the production of sugar cane. BFL also owns lands which are utilised for agriculture along with other lands which are either leased, being developed for resale or not in use.

During 2008, two acquisitions were made by the Sagicor at Lloyd's operations.

Sagicor Syndicate Holdings Limited acquired the insurance underwriting business of Amalfi Underwriting Limited and the company, Amalfi Claims Management Inc. Amalfi Underwriting was an authorised cover-holder of Lloyd's of London which placed a substantial portion of its business with Syndicate 1206. The acquisition was effective December 31, 2008 and the acquired business is referred to as Amalfi below.

Effective April 1, 2008, Sagicor Europe Limited acquired the sole corporate member participating in Syndicate 44. In addition Sagicor at Lloyd's Limited assumed the responsibility as managing agent of the syndicate. The principal activity of Syndicate 44 is the transaction of term life insurance business, issuing contracts to individuals and to groups, predominately in the United Kingdom.

On the respective acquisition dates, the fair values of the net assets acquired, the purchase consideration, and the resulting gain or goodwill arising from these acquisitions are summarised in the following table.

Year ended December 31, 2009 Amounts expressed in US $000

37. OWNERSHIP CHANGES AND ACQUISITIONS (continued)

37.2 Businesses acquired in 2008 (continued)

	Blue Cross business	Industrial Alliance business	BFL	Amalfi	Syndicate 44
Acquiree's carrying value of net assets	22,116	-	24,625	(98)	(1,138)
Fair value of net assets acquired	27,330	7,629	62,477	6,243	259
Share of net assets acquired by the Group	27,330	7,629	48,135	6,243	259
Purchase consideration and costs:					
Cash	26,801	2,578	14,810	562	845
Issue of 10,319,819 common shares by the Company	-	-	25,800	-	-
Total purchase consideration	26,801	2,578	40,610	562	845
Gain / (goodwill) on acquisition	529	5,051	7,525	5,681	(586)

The gain arising on the Industrial Alliance business acquisition arises from the adoption of actuarial assumptions used by the Group in the Other Caribbean region. The gain arising on the BFL acquisition reflects a re-assessment of the value of the lands owned by the acquiree.

Details of the acquirees' net income for the year ended December 31, 2008 is as follows:

	Blue Cross business	Industrial Alliance business	BFL	Amalfi	Syndicate 44
Net income for the year	2,265	7,474	(65)	(105)	757
Net income consolidated by the Group in 2008	1,190	7,474	(78)	-	631

Assuming the above acquisitions were effective at the beginning of 2008, the additional total revenue to the Group in 2008 would have been $29,897 and the additional net income to the Group in 2008 would have been $1,109.

38. EVENTS AFTER DECEMBER 31, 2009

38.1 Disposal of interest in Sagicor General Insurance (Cayman) Limited (SGC)

On February 23, 2010, Sagicor Life of the Cayman Islands Ltd (SLC) entered into a Share Purchase Agreement with Bahamas First Holdings Limited for the divestiture of its 75% shareholding in SGC, effective January 1, 2010. In addition, SLC will purchase a 100% interest in Sagicor Insurance Managers Ltd from SGC. These transactions are subject to regulatory approval.

Year ended December 31, 2009 Amounts expressed in US $000

38. EVENTS AFTER DECEMBER 31, 2009 (continued)

38.2 The Jamaica Debt Exchange (JDX) programme

The JDX is an initiative of the Government of Jamaica (GOJ) to exchange the majority of existing GOJ domestic debt instruments for new debt instruments having longer maturities and lower coupon rates. While the old debt instruments were callable by GOJ, a majority of the new debt instruments will be non-callable. The exchange date for the new debt instruments was February 24, 2010.

Group companies Sagicor Life Jamaica (SLJ), Pan Caribbean Financial Services (PCFS) and Pan Caribbean Bank (PCB) participated in the JDX in respect of debt instruments denominated in Jamaica dollars (JMD) and United States dollars (USD).

As a significant holder of GOJ debt instruments, the JDX programme had a negative impact on SLJ's 2009 actuarial liabilities and therefore on the SLJ segment income for 2009. Operating efficiencies effected during the year and conservative asset yield assumptions, softened the impact considerably. The full expected impact on actuarial liabilities was recorded in 2009. Lower interest rates and compressed purchasing power in the Jamaica market will negatively affect the SLJ segment income in future years.

Following the JDX, there has been a reduction in interest rates and a downward shift in the Jamaica sovereign debt yield curve. This shift may result in a future reduction in the discount rate used to measure SLJ's obligations under its defined benefit pension and other retirement benefit plans.

Details of the instruments exchanged by the Group are as follows.

	JMD denominated instruments	USD denominated instruments
Face value of instruments exchanged:	372,471	100,313
Average interest rates were reduced as follows:		
SLJ	18.55% to 13.54%	9.08% to 6.94%
PCFS	18.23% to 12.54%	8.83% to 8.15%
PCB	12.64% to 12.16%	7.76% to 7.51%
Average durations were increased as follows:		
SLJ	4.82 years to 6.91 years	0.93 years to 5.30 years
PCFS	0.59 years to 0.91 years	1.80 years to 2.53 years
PCB	0.89 years to 2.11 years	1.57 years to 1.91 years

The face values of debt instruments exchanged by the Group in respect of funds under management totalled $ 1,352.

Year ended December 31, 2009 Amounts expressed in US $000

39. COMMITMENTS AND CONTINGENT LIABILITIES

39.1 Commitments

In the normal course of business, the Group enters into commitments at the date of the financial statements for which no provision has been made in these financial statements. Non-cancellable commitments for loan disbursements, operating lease and rental payments are disclosed in note 41.2(a).

39.2 Contingent liabilities

Guarantee and financial facilities at the date of the financial statements for which no provision has been made in these financial statements include the following:

	2009	2008
Customer guarantees and letters of credit	13,107	11,591
Letter of credit facility	84,127	74,899
	97,234	86,490

There are equal and offsetting claims against customers in the event of a call on the above commitments for customer guarantees and letters of credit.

(a) Legal proceedings

During the normal course of business, the Group is subject to legal actions which may affect the reported amounts of liabilities, benefits and expenses. Management considers that any liability from these actions, for which provision has not been already made, will not be material.

(b) Tax assessments

The Group is also subject to tax assessments during the normal course of business. Adequate provision has been made for all assessments received to date and for tax liabilities accruing in accordance with management's understanding of tax regulations. Potential tax assessments may be received by the Group which are in addition to accrued tax liabilities. No provisions have been made in these financial statements for such potential tax assessments.

(c) Insurance contracts

The Group develops and markets insurance products under various types of insurance contracts. The design of these products is consistent with international best practice and reflects the current thinking at the time of development. The Group keeps its products under review to ensure that they meet both policyholder and company expectations.

One such insurance product is the universal life product which was developed and launched in 1987 in Jamaica. The design of a Universal Life policy is such that on realistic assumptions, the fund value built-up from premiums paid and from investment earnings is required in later years to pay the administrative costs and mortality charges.

A review of the Universal Life portfolio revealed that approximately 17,000 policies were affected by fund values which were insufficient to cover these costs through the life of the policies.

39. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

39.2 Contingent liabilities (continued)

Once the issue was recognised, the Group initiated discussion with the Regulators, the Financial Services Commission (FSC), as a result of which the affected policyholders were given the opportunity to reduce their existing coverage under the policies or to increase the premiums at their expense. Approximately 95% of these policyholders agreed to adjustments to their policies.

The Group estimates that less than 1% of the affected policyholders have filed complaints with the FSC, which carried out investigations and made a submission to the Group. The FSC suggested a number of alternatives to remedy the issue.

The Group is in discussions with the FSC on the matter. The cost, if any, of resolving this issue cannot be quantified at this time.

(d) Hurricane Ivan claims

Effective November 30, 2005, Sagicor Life of the Cayman Islands (SLC), a subsidiary of the Company, acquired a 51% stake in Sagicor General Insurance Cayman Ltd (SGC) (formerly Cayman General Insurance Ltd) from Cayman National Corporation Ltd (CNC). On October 22, 2007, SLC purchased an additional 24.2% interest in SGC from CNC. Under the terms of the initial Sale and Purchase Agreement, CNC provided certain warranties to SLC including amounts in relation to Hurricane Ivan claims, not finally settled.

SGC filed suit in February 2006 against certain third parties to recover sums paid for work done in respect of Hurricane Ivan (the "Windsor Village litigation"). The understanding of the parties (SLC and CNC) based on discussions held was that CNC would be entitled to retain any benefits realised from the Windsor Village litigation and as a consequence SLC's position is that CNC would be responsible for all liabilities that might arise from it. CNC has also been responsible for the conduct of the litigation.

In December 2008, SGC withdrew its claims against the third parties and the third parties have now lodged counterclaims against SGC. Indemnity costs, unpaid invoices, damages and Court awards were paid. The Court has yet to quantify the final costs related to a portion of awards made to date against SGC. Based on discussions with legal counsel, SGC recorded a provision of $4,750 at December 31, 2009 for the amount not yet fully quantified.

In addition, counterclaims related to abuse of process were lodged by third parties against SGC. The Court has yet to rule on such counterclaims. Although SGC believes that the likelihood of a favourable outcome is probable, certain contingent liabilities could attach if the Court ruled in favour of the third parties and if CNC seeks to deny responsibility for any of these counterclaims.

It is the Group's view, supported by legal advice received, that there is legal basis for relying on the warranty under the agreement in respect of certain of the counterclaims in the "Windsor Village litigation". The Group also intends to rely on the understanding arrived at between the parties prior to law suits being filed.

40. RELATED PARTY TRANSACTIONS

Certain related party transactions and balances are included in notes 5, 9, 12, 20, 26, 30, 37 and 47 of the financial statements. Key management related party transactions and balances are summarised below.

Year ended December 31, 2009 Amounts expressed in US $000

40. RELATED PARTY TRANSACTIONS (continued)

(a) Key management

Key management comprises directors and senior management of the Company and of Group subsidiaries. Key management includes those persons at or above the level of Vice President or its equivalent. Compensation of, and loans to these individuals are summarised in the following tables:

Compensation	2009	2008
Salaries, directors' fees and other short-term benefits	18,334	18,677
Equity-settled and cash settled compensation benefits	2,943	4,811
Pension and other retirement benefits	928	845
	22,205	24,333

	Mortgage loans	Other loans	Total loans
Balance, beginning of year	3,899	142	4,041
Advances	1,128	126	1,254
Repayments	(499)	(51)	(550)
Effects of exchange rate changes	-	(8)	(8)
Balance, end of year	4,528	209	4,737
Interest rates prevailing during the year	5% - 8.5%	5% - 10%	

41. FINANCIAL RISK

The Group's activities of issuing insurance contracts, of accepting funds from depositors, of investing insurance premium and deposit receipts in a variety of financial and other assets, banking and dealing in securities, exposes the Group to various insurance and financial risks. Financial risks include credit, liquidity and market risks. Market risks arise from changes in interest rates, equity prices, currency exchange rates or other market factors.

The overriding objective of the Group's risk management framework is to enhance its capital base through competitive earnings growth and to protect capital against inherent business risks. This means that the Group accepts certain levels of risk in order to generate returns, and the Group manages the levels of risk assumed through enterprise wide risk management policies and procedures. Identified risks are assessed as to their potential financial impact and as to their likelihood of occurrence.

The effects of financial and insurance risks are disclosed in the sections below and in notes 42, 43 and 44.

41. FINANCIAL RISK (continued)

41.1 Credit risk

Credit risk is the exposure that the counterparty to a financial instrument is unable to meet an obligation, thereby causing a financial loss to the Group. Credit risks are primarily associated with financial investments and reinsurance contracts held.

Credit risk from financial investments is minimised through holding a diversified portfolio of investments, purchasing securities and advancing loans only after careful assessment of the borrower, obtaining collateral before advancing loans, and placing deposits with financial institutions with a strong capital base. Limits may be placed on the amount of risk accepted in relation to one borrower.

The maximum exposures of the Group to credit risk without taking into account any collateral or any credit enhancements are set out in the following table.

	2009		2008	
	$000	%	$000	%
Government and government-guaranteed securities	1,350,052	35.2%	1,147,569	34.1%
Collateralised mortgage obligations	193,487	5.0%	223,562	6.6%
Corporate debt securities	632,867	16.5%	433,027	12.9%
Other securities	47,883	1.3%	70,048	2.1%
Total debt securities	2,224,289	58.0%	1,874,206	55.7%
Mortgage loans	313,276	8.2%	316,199	9.4%
Policy loans	124,017	3.2%	122,761	3.6%
Finance loans and finance leases	135,078	3.5%	147,305	4.4%
Securities purchased under agreements to resell	82,315	2.1%	60,433	1.8%
Derivative financial instruments	4,105	0.1%	36,994	1.1%
Deposits	274,516	7.2%	197,119	5.9%
Reinsurance assets	249,113	6.5%	271,442	8.1%
Premiums receivable	128,794	3.4%	105,517	3.1%
Other accounts receivable	62,736	1.6%	69,306	2.1%
Cash resources	196,020	5.1%	122,242	3.6%
Total financial statements exposures	3,794,259	98.9%	3,323,524	98.8%
Loan commitments	31,029	0.8%	28,654	0.9%
Customer guarantees and letters of credit	13,107	0.3%	11,591	0.3%
Total off financial statements exposures	44,136	1.1%	40,245	1.2%
Total	3,838,395	100.0%	3,363,769	100.0%

The amounts in respect of customer guarantees and letters of credit represent potential claims against customers in the event of a call on customer guarantees and letters of credit issued by the Group.

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

Commencing in 2009, the Group has developed an internal credit rating for its financial assets and reinsurance exposures. The internal rating is a 10 point scale which allows for distinctions in risk characteristics and is referenced to the rating scales of international credit rating agencies. The scale is set out in the following table.

Category		Sagicor Risk Rating	Classification	S&P	Moody's	Fitch	AM Best
Non-default	Investment grade	1	Minimal risk	AAA, AA	Aaa, Aa	AAA, AA	aaa, aa
		2	Low risk	A	A	A	a
		3	Moderate risk	BBB	Baa	BBB	bbb
	Non-investment grade	4	Acceptable risk	BB	Ba	BB	bb
		5	Average risk	B	B	B	b
	Watch	6	Higher risk	CCC, CC	Caa, Ca	CCC, CC	ccc, cc
		7	Special mention	C	C	C	C
Default		8	Substandard			DDD	
		9	Doubtful	D	C	DD	D
		10	Loss			D	

The 3 default grades are for the Group's lending portfolios (i.e. mortgage loans, policy loans, finance loans and finance leases). Investment securities and reinsurance exposures use one default grade.

As internal credit ratings have only been done by the larger subsidiaries within the Group, approximately 91% by value of financial investments and cash balances have been covered. The results are as follows:

Category		Sagicor Risk Rating	Classification	Exposure $000	Exposure %
Non-default	Investment grade	1	Minimal risk	749,236	24
		2	Low risk	556,182	18
		3	Moderate risk	646,834	20
	Non-investment grade	4	Acceptable risk	255,034	7
		5	Average risk	89,827	3
	Watch	6	Higher risk	854,125	27
		7	Special mention	12,630	-
Default		8	Substandard	22,882	1
		9	Doubtful	5,041	-
		10	Loss	1,634	-
			TOTALS	3,163,425	100

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

Reinsurance exposures are best assessed under realistic disaster scenarios. Therefore the internal rating assessments of reinsurance assets arising from property and casualty insurance risks are set out in note 42.1(e).

As of the date of the financial statements, the Group's largest exposures to individual counterparty credit risks are set out below.

	Sagicor Risk Rating	2009	2008
Debt securities:			
Government of Jamaica [(1)]	6	769,958	743,894
Federal government of USA	1	132,363	113,340
Federal agencies of the USA	1	143,377	155,129
Government of Barbados	3	113,541	84,110
Government of Trinidad and Tobago	2	150,056	62,144
Deposits & cash:			
The Bank of Nova Scotia	1	102,235	88,867
Reinsurance assets:			
Scottish Re (U.S.) Inc [(2)]	Not rated	128,563	130,614
Washington National Insurance Company [(3)]	5	63,113	70,559

[(1)] As a consequence of the successful implementation of the JDX programme (see note 38.2), the Government of Jamaica debt securities were re-rated to 5 in February 2010.

[(2)] The reinsurance asset held in the name of Scottish Re is secured by assets held in trust by a third party and by the Group (see note 9.2). The total assets held in trust amount to $178,362 (2008 - $174,592).

[(3)] The reinsurance asset arises from reinsurance assumed on a block of life insurance policies.

Exposure to credit risk is also managed in part by obtaining collateral and guarantees for mortgage loans and finance loans and finance leases. For mortgage loans, the collateral is real estate property, and the approved loan limit is 75% to 95% of collateral value. For finance loans and finance leases, the collateral often comprises a vehicle or other form of security and the approved loan / lease limit is 80% to 100% of the collateral value. Unsecured finance loans and finance leases are only granted when the initial amount is less than $15.

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

Exposure to mortgage loans and finance loans and finance leases by geographic area is as follows.

	2009	2008
Barbados	144,344	152,085
Jamaica	120,886	129,999
Trinidad & Tobago	106,401	107,303
Other Caribbean	47,681	44,266
USA	29,042	29,851
	448,354	463,504

Policy loans are advanced on the security of the underlying insurance policy cash values. Cash loans are advanced to a maximum of 80% to 100% of the cash surrender value. Automatic premium loans are advanced to the extent of available cash surrender value.

For securities purchased under agreement to resell, title to the securities are transferred to the Group for the duration of the agreement.

For property casualty insurance premiums receivable, insurers frequently provide settlement terms to customers and intermediaries which extend up to 11 months.

(a) Past due and impaired financial investments

A financial asset is past due when a counterparty has failed to make payment when contractually due.

The Group is most exposed to the risk of past due assets with respect to its financial investments namely, its debt securities, mortgage loans, finance loans and finance leases.

Debt securities are assessed for impairment when amounts are past due, when the borrower is experiencing cash flow difficulties, or when the borrower’s credit rating has been downgraded. Mortgage loans less than 90 to 180 days past due and finance loans and finance leases less than 90 days past due are not assessed for impairment unless other information is available to indicate the contrary.

The assessment for impairment includes a review of the collateral. If the past due period is less than the trigger for impairment review, the collateral is not normally reviewed and re-assessed but is included in the amounts for collateral.

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

The tables below summarise the carrying value of financial investments which are past due, but are not considered to be impaired and the estimated fair value of collateral.

	Debt securities	Mortgage loans	Finance loans /leases
2009			
With amounts past due up to 3 months	21,164	20,237	18,447
With amounts past due up to 12 months	2,220	6,837	434
With amounts past due up to 5 years	766	6,086	-
With amounts past due over 5 years	52	6,100	-
Total	24,202	39,260	18,881
Estimated fair value of collateral	-	112,789	54,036
2008			
With amounts past due up to 3 months	19,998	34,186	26,723
With amounts past due up to 12 months	2,039	6,443	704
With amounts past due up to 5 years	232	11,797	184
With amounts past due over 5 years	241	6,987	-
Total	22,510	59,413	27,611
Estimated fair value of collateral	-	122,454	88,943

Balances relating to impaired financial investments are summarised in the following table. The accumulated allowance for impairment reflects the Group's assessment of total individually impaired investments at the date of the financial statements.

	Gross carrying value	Accumulated allowance for impairment	Net carrying value	Estimated fair value of collateral
2009				
Debt securities	14,415	(7,651)	6,764	5,931
Mortgage loans	18,806	(2,310)	16,496	26,884
Finance loans and finance leases	4,184	(2,301)	1,883	6,329
Total	37,406	(12,262)	25,143	39,144

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

2008	Gross carrying value	Accumulated allowance for impairment	Net carrying value	Estimated fair value of collateral
Debt securities	2,859	(2,249)	610	396
Mortgage loans	11,319	(1,912)	9,407	15,704
Finance loans and finance leases	2,568	(1,538)	1,030	5,360
Total	16,746	(5,699)	11,047	21,460

Interest of $423 (2008 - $384) has been accrued on impaired financial investments.

The Group is also exposed to impaired premiums receivable. However, under the terms of insurance contracts, insurers can usually lapse an insurance policy for non-payment of premium, or if there is a claim, recover any unpaid premiums from the claim proceeds.

(b) Repossessed assets

The Group may foreclose on overdue mortgage loans and finance loans and finance leases by repossessing the pledged asset. The pledged asset may consist of real estate, equipment or vehicles which the Group will seek to dispose of by sale. In some instances, the Group may provide re-financing to a new purchaser on customary terms.

(c) Renegotiated assets

The Group may renegotiate the terms of any financial investment to facilitate borrowers in financial difficulty. Arrangements to waive, adjust or postpone scheduled amounts due may be entered into. The Group classifies these amounts as past due, unless the original agreement is formally revised, modified or substituted, in which case, the financial investment is classified as renegotiated. The carrying value of financial investments at the date of the financial statements which were renegotiated during the year totalled $1,190 (2008 - $3,063).

41.2 Liquidity risk

Liquidity risk is the exposure that the Group may encounter difficulty in meeting obligations associated with financial or insurance liabilities that are settled by cash or by another financial asset. Liquidity risk also arises when excess funds accumulate resulting in the loss of opportunity to increase investment returns. Group companies monitor cash inflows and outflows in each operating currency. Through experience and monitoring, the Group is able to maintain sufficient liquid resources to meet current obligations.

Asset liability matching is a tool used by the Group to mitigate liquidity risks particularly in operations with significant maturing short-term liabilities.

Certain investment portfolios within the Group contain debt and equity securities which can only be disposed of over a period of time. In such instances, the Group generally maintains higher levels of short-term instruments to compensate for the relative illiquidity of the aforementioned securities.

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.2 Liquidity risk (continued)

Investment property may be held to back insurance liabilities. As these assets are relatively illiquid, the insurers hold less than 10% of their total assets in investment property.

(a) Financial liabilities and commitments

Contractual cash flow obligations of the Group in respect of its financial liabilities and commitments are summarised in the following tables. Amounts are analysed by their earliest contractual maturity dates and consist of the contractual un-discounted cash flows. Where the interest rate of an instrument for a future period has not been determined as of the date of the financial statements, it is assumed that the interest rate then prevailing continues until final maturity.

	Contractual cash flows			
2009	**Within 1 year**	**1 to 5 years**	**After 5 years**	**Total**
Financial liabilities:				
Investment contract liabilities	286,627	17,405	3,166	307,198
Notes and loans payable	48,713	73,992	162,134	284,839
Deposit and security liabilities:				
Other funding instruments	170,777	44,430	37,208	252,415
Customer deposits	128,382	32,489	13,064	173,935
Structured products	-	4,071	2,573	6,644
Securities sold under agreements to repurchase	507,664	359	-	508,023
Derivative financial instruments	-	199	2,049	2,248
Bank overdrafts	2,380	-	-	2,380
Accounts payable and accrued liabilities	156,205	15,241	30,688	202,134
Total financial liabilities	1,300,748	188,186	250,882	1,739,816
Off financial statement commitments:				
Loan commitments	27,479	3,433	117	31,029
Operating lease and rental payments	4,585	9,253	3	13,841
Total off financial statements commitments	32,064	12,686	120	44,870
Total	1,332,812	200,872	251,002	1,784,686

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.2 Liquidity risk (continued)

	Contractual cash flows			
2008	**Within 1 year**	**1 to 5 years**	**After 5 years**	**Total**
Financial liabilities:				
Investment contract liabilities	251,936	15,460	2,453	269,849
Notes and loans payable	13,634	77,113	178,125	268,872
Deposit and security liabilities:				
Other funding instruments	127,008	36,962	52,195	216,165
Customer deposits	120,362	37,995	12,997	171,354
Structured products	-	14,046	2,336	16,382
Securities sold under agreements to repurchase	508,262	14,862	-	523,124
Derivative financial instruments	32,964	-	852	33,816
Bank overdrafts	7,144	-	-	7,144
Accounts payable and accrued liabilities	127,495	10,814	29,952	168,261
Total financial liabilities	1,188,805	207,252	278,910	1,674,967
Off financial statement commitments:				
Loan commitments	24,886	3,289	479	28,654
Operating lease and rental payments	3,235	8,556	-	11,791
Total off financial statements commitments	28,121	11,845	479	40,445
Total	1,216,926	219,097	279,389	1,715,412

(b) Insurance liabilities

The Group's insurance liabilities mature in periods which are summarised in the following table. Amounts are stated at their carrying values recognised in the financial statements and are analysed by their expected due periods, which have been estimated by actuarial or other statistical methods.

2009	**Maturing within 1 year**	**Maturing 1 to 5 years**	**Maturing after 5 years**	**Total**
Actuarial liabilities	93,497	284,890	1,234,144	1,612,531
Other insurance liabilities [1]	156,785	66,177	77,228	300,190
Total	250,282	351,067	1,311,372	1,912,721

[1] Consists of monetary items

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.2 Liquidity risk (continued)

2008	**Maturing within 1 year**	**Maturing 1 to 5 years**	**Maturing after 5 years**	**Total**
Actuarial liabilities	222,068	242,019	986,132	1,450,219
Other insurance liabilities [(1)]	136,929	53,884	59,198	250,011
Total	358,997	295,903	1,045,330	1,700,230

[(1)] Consists of monetary items

(c) Financial and insurance assets

The Group's monetary financial and insurance assets mature in periods which are summarised in the following tables. Amounts are stated at their carrying values recognised in the financial statements and are analysed by their contractual maturity dates.

2009	**Maturing within 1 year**	**Maturing 1 to 5 years**	**Maturing after 5 years**	**Total**
Debt securities	433,425	576,966	1,213,898	2,224,289
Mortgage loans	22,081	27,471	263,724	313,276
Policy loans	4,251	12,294	107,472	124,017
Finance loans and finance leases	56,466	51,631	26,981	135,078
Securities purchased under agreements to resell	82,315	-	-	82,315
Deposits	229,098	44,900	518	274,516
Derivative financial instruments	274	3,345	486	4,105
Reinsurance assets: share of actuarial liabilities	25,148	66,934	115,614	207,696
Reinsurance assets: other	33,794	3,084	4,539	41,417
Premiums receivable	128,043	751	-	128,794
Other accounts receivable	58,567	653	3,516	62,736
Cash resources	196,020	-	-	196,020
Total	1,269,482	788,029	1,736,748	3,794,259

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.2 Liquidity risk (continued)

2008	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
Debt securities	488,370	473,503	912,333	1,874,206
Mortgage loans	24,188	26,378	265,633	316,199
Policy loans	4,497	13,343	104,921	122,761
Finance loans and finance leases	52,091	65,279	29,935	147,305
Securities purchased under agreements to resell	60,433	-	-	60,433
Deposits	194,733	1,859	527	197,119
Derivative financial instruments	36,142	281	571	36,994
Reinsurance assets: share of actuarial liabilities	26,685	69,151	119,404	215,240
Reinsurance assets: other	48,858	2,636	4,708	56,202
Premiums receivable	103,400	2,117	-	105,517
Other accounts receivable	59,363	715	9,228	69,306
Cash resources	122,242	-	-	122,242
Total	1,221,002	655,262	1,447,260	3,323,524

41.3 Interest rate risk

The Group is exposed to interest rate risks. Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. The occurrence of an adverse change in interest rates on invested assets may result in financial loss to the Group in fulfilling the contractual returns on insurance and financial liabilities.

The return on investments may be variable, fixed for a term or fixed to maturity. On reinvestment of a matured investment, the returns available on the new investment may be significantly different from the returns formerly achieved. This is known as reinvestment risk.

Guaranteed minimum returns exist within cash values of long term traditional insurance contracts, long term universal life insurance contracts, annuity options, deposit administration liabilities and policy funds on deposit. Where the returns credited exceed the guaranteed minima, the insurer usually has the option to adjust the return from period to period. For other financial liabilities, returns are usually contractual and may only be adjusted on contract renewal or contract re-pricing.

The Group is therefore exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease as a result of such changes. Interest rate changes may also result in losses if asset and liability cash flows are not closely matched with respect to timing and amount.

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

The Group is exposed to risk under embedded derivatives contained in a host insurance contract. These risks include exposures to investment returns which may produce losses to the insurer arising from the following contract features:

- minimum annuity rates which are guaranteed to be applied at some future date;
- minimum guaranteed death benefits which are applicable when the performance of an interest bearing or unit linked fund falls below expectations;
- minimum guaranteed returns in respect of cash values and universal life investment accounts.

The Group manages its interest rate risk by a number of measures, including where feasible the selection of assets which best match the maturity of liabilities, the offering of investment contracts which match the maturity profile of assets, the re-pricing of interest rates on loans receivable, policy contracts and financial liabilities in response to market changes. In certain Caribbean markets, where availability of suitable investments is often a challenge, the Group holds many of its fixed rate debt securities to maturity and therefore mitigates the transient interest rate changes in these markets.

The tables following summarise the exposures to interest rates on the Group's insurance and financial liabilities (excluding actuarial liabilities which are disclosed in note 43). It includes liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Insurance liabilities are categorised by their expected maturities.

2009	**Exposure within 1 year**	**Exposure of 1 to 5 years**	**Exposure after 5 years**	**Not exposed to interest**	**Total**
Other insurance liabilities [1]	29,483	4,604	54,990	211,113	300,190
Investment contract liabilities	284,954	16,541	2,738	164	304,397
Notes and loans payable	36,513	20,005	146,811	(2,485)	200,844
Deposit and security liabilities:					
Other funding instruments	174,177	28,742	30,187	337	233,443
Customer deposits	122,735	27,963	10,658	1,633	162,989
Structured products	-	3,765	1,534	-	5,299
Securities sold under agreements to repurchase	492,177	283	-	8,668	501,128
Derivative financial instruments	-	-	-	2,248	2,248
Bank overdrafts	2,380	-	-	-	2,380
Accounts payable and accruals	153	-	-	201,981	202,134
Total	1,142,572	101,903	246,918	423,659	1,915,052

[1] Consists of monetary items

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

2008	**Exposure within 1 year**	**Exposure of 1 to 5 years**	**Exposure after 5 years**	**Not exposed to interest**	**Total**
Other insurance liabilities [(1)]	26,713	3,534	54,520	165,244	250,011
Investment contract liabilities	250,594	14,759	2,121	-	267,474
Notes and loans payable	-	21,666	145,255	(2,615)	164,306
Deposit and security liabilities:					
Other funding instruments	125,919	25,106	37,354	1,353	189,732
Customer deposits	113,373	42,561	840	1,721	158,495
Structured products	-	-	13,604	-	13,604
Securities sold under agreements to repurchase	496,734	8,051	-	9,567	514,352
Derivative financial instruments	-	-	-	33,816	33,816
Bank overdrafts	7,144	-	-	-	7,144
Accounts payable and accruals	195	-	-	168,066	168,261
Total	1,020,672	115,677	253,694	377,152	1,767,195

[(1)] Consists of monetary items

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

The tables following summarise the exposures to interest rate and reinvestment risks of the Group's insurance and financial assets. Assets are stated at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Reinsurance assets and policy loans are categorised by their expected maturities.

2009	Exposure within 1 year	Exposure of 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Debt securities	595,890	527,013	1,056,989	44,397	2,224,289
Equity securities	-	-	-	116,846	116,846
Mortgage loans	90,812	23,554	194,604	4,306	313,276
Policy loans	3,418	12,166	104,441	3,992	124,017
Finance loans and leases	58,399	50,687	24,875	1,117	135,078
Securities purchased under agreements to resell	81,911	-	-	404	82,315
Deposits	268,806	-	304	5,406	274,516
Derivative financial instruments	196	648	-	3,261	4,105
Reinsurance assets: other	64	182	4,539	36,632	41,417
Premiums receivable	-	-	-	128,794	128,794
Other accounts receivable	398	564	-	61,774	62,736
Cash resources	153,089	-	-	42,931	196,020
Total	1,252,983	614,814	1,385,752	449,860	3,703,409

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

2008	Exposure within 1 year	Exposure of 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Debt securities	731,535	343,885	767,555	31,231	1,874,206
Equity securities	-	-	-	125,189	125,189
Mortgage loans	91,027	21,302	198,759	5,111	316,199
Policy loans	3,599	13,228	101,865	4,069	122,761
Finance loans and leases	52,310	62,600	31,489	906	147,305
Securities purchased under agreements to resell	60,159	-	-	274	60,433
Deposits	192,953	1,820	156	2,190	197,119
Derivative financial instruments	3,743	-	-	33,251	36,994
Reinsurance assets: other	159	156	4,708	51,179	56,202
Premiums receivable	-	-	-	105,517	105,517
Other accounts receivable	425	643	43	68,195	69,306
Cash resources	73,693	-	-	48,549	122,242
Total	1,209,603	443,634	1,104,575	475,661	3,233,473

The Group is exposed to fair value interest rate risk from its financial instruments. The Group generally holds to maturity the investment contracts, customer deposits, and the mortgage, policy and finance loans it originates, unless the customer requests early cancellation, which normally results in settlement at par. The following table sets out the Group's principal financial assets and liabilities with fixed interest rates and which are exposed to fair value interest risk. Amounts are categorised by maturity date.

Fixed rate instruments	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
2009				
Notes and loans payable	13,102	20,005	142,988	176,095
Other funding instruments	305	3,062	4,858	8,225
	13,407	23,067	147,846	184,320
Debt securities	330,033	427,549	973,269	1,730,851
2008				
Notes and loans payable	1,609	21,666	141,031	164,306
Other funding instruments	6,327	4,258	7,847	18,432
	7,936	25,924	148,878	182,738
Debt securities	195,905	230,533	612,888	1,039,326

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

The table below summarises the average interest yields on financial assets and liabilities held during the year.

	2009	2008
Financial assets:		
Debt securities	9.8%	10.0%
Mortgage loans	8.6%	8.5%
Policy loans	8.6%	9.5%
Finance loans and finance leases	12.9%	11.6%
Securities purchased under agreements to resell	15.5%	14.3%
Deposits	2.9%	5.4%
Financial liabilities		
Investment contract liabilities	8.1%	7.6%
Notes and loans payable	8.7%	8.7%
Other funding instruments	2.4%	4.7%
Customer deposits	6.7%	6.9%
Securities sold under agreements to repurchase	11.8%	10.2%

(a) Sensitivity

Sensitivity to interest rate risk is considered by operating subsidiaries. The effects of changes in interest rates of assets backing actuarial liabilities are disclosed in note 43.2.

The Group's property and casualty operations are not exposed to a significant degree of interest rate risk, since the majority of its interest bearing instruments have short-term maturities.

The sensitivity of the Group's principal operating subsidiaries engaged in banking, investment management and other financial services are considered below.

Pan Caribbean Financial Services Limited and its subsidiaries (PCFS)

The following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on net income and total comprehensive income (TCI) of PCFS.

The sensitivity of income is the effect of the assumed changes in interest rates on net income based on the floating rate of financial assets and financial liabilities. The sensitivity of TCI is calculated by revaluing fixed rate available-for-sale financial assets for the effects of the assumed changes in interest rates. The correlation of a number of variables will have an impact on market risk. It should be noted that movements in these variables are non-linear and are assessed individually.

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

2009				2008		
Change in interest rate		Effect on net income	Effect on TCI	Change in interest rate	Effect on net income	Effect on TCI
JMD	USD					
- 8%	- 3%	8,394	35,379	- 8%	3,311	59,086
+ 2%	+ 1%	(2,617)	(8,471)	+ 5%	(1,316)	(26,474)

41.4 Foreign exchange risk

The Group is exposed to foreign exchange risk as a result of fluctuations in exchange rates since its financial assets and liabilities are denominated in a number of different currencies.

In order to manage the risk associated with movements in currency exchange rates, the Group seeks to maintain investments and cash in each operating currency, which are sufficient to match liabilities denominated in the same currency.

Exceptions are made to invest limited proportions in United States dollar assets which are held to back liabilities in Caribbean currencies. Management considers that these assets diversify the range of investments available in the Caribbean, and in the long-term are likely to either maintain capital value and/or provide satisfactory returns.

Assets and liabilities by currency are summarised in the following tables.

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

	US$ 000 equivalents of balances denominated in					
2009	**Barbados $**	**Jamaica $**	**Trinidad $**	**UK £**	**US $**	**Other currencies**
ASSETS						
Financial investments[1]	325,176	492,749	299,953	62,810	1,673,319	303,589
Reinsurance assets	3,766	600	5,722	4,860	225,238	8,927
Receivables [1]	7,365	21,500	7,804	52,769	61,249	40,843
Cash resources	24,450	19,057	11,420	39,392	76,187	25,514
	360,757	533,906	324,899	159,831	2,035,993	378,873
Other assets [2]	223,658	146,180	80,219	63,604	84,478	67,574
Total assets	584,415	680,086	405,118	223,435	2,120,471	446,447
LIABILITIES						
Actuarial liabilities	385,487	201,290	220,299	1,260	685,917	118,278
Other insurance liabilities[1]	59,314	18,027	16,011	74,498	94,751	37,589
Investment contracts	29,839	53,346	85,648	-	100,845	34,719
Notes and loans payable	-	14,235	-	-	186,609	-
Deposits and securities	55,373	258,379	19,269	-	557,165	17,301
Accounts payable and accruals	26,713	57,869	12,783	16,727	79,645	8,397
	556,726	603,146	354,010	92,485	1,704,932	216,284
Other liabilities [2]	25,186	14,736	20,148	63,969	79,649	47,273
Total liabilities	581,912	617,882	374,158	156,454	1,784,581	263,557
Net position	2,503	62,204	30,960	66,981	335,890	182,890

[1] Consists of monetary items [2] Consists of non-monetary, income tax and retirement plan balances

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

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	US$ 000 equivalents of balances denominated in					
2008	Barbados $	Jamaica $	Trinidad $	UK £	US $	Other currencies
ASSETS						
Financial investments[(1)]	300,046	584,414	288,410	47,864	1,262,611	271,672
Reinsurance assets	4,822	1,401	5,567	1,528	233,586	24,538
Receivables [(1)]	16,010	24,096	3,840	28,832	62,581	39,464
Cash resources	12,462	13,200	9,045	10,036	43,732	33,767
	333,340	623,111	306,862	88,260	1,602,510	369,441
Other assets [(2)]	233,099	146,087	81,056	43,734	84,934	66,882
Total assets	566,439	769,198	387,918	131,994	1,687,444	436,323
LIABILITIES						
Actuarial liabilities	365,345	160,250	214,962	3,810	578,943	126,909
Other insurance liabilities[(1)]	58,289	15,529	13,974	26,919	89,686	45,614
Investment contracts	30,799	51,804	83,242	-	69,490	32,139
Notes / loans payable	-	15,902	-	-	148,404	-
Deposits and securities	57,602	250,369	21,323	-	547,442	40,407
Accounts payable and accruals	21,607	26,471	7,950	10,443	70,967	25,422
	533,642	520,325	341,451	41,172	1,504,932	270,491
Other liabilities [(2)]	24,931	17,267	21,939	28,824	57,259	35,436
Total liabilities	558,573	537,592	363,390	69,996	1,562,191	305,927
Net position	7,866	231,606	24,528	61,998	125,253	130,396

[(1)] Consists of monetary items [(2)] Consists of non-monetary, income tax and retirement plan balances

(a) Sensitivity

The matching of assets and liabilities by currency prevents economic exposure to currency risk, but it does not prevent exposure to exchange gains or losses in the income statement created as a result of the accounting treatment of monetary and non-monetary items. The gross and reinsurers' share of the provision for unearned premiums, and the gross and reinsurers share of deferred acquisition costs are non-monetary assets and liabilities which are translated at their average historic rate. This means that these items in the statement of financial position are carried at a different exchange rate to the related assets and liabilities, such as policy benefits payable, premium receivables and cash, with the resulting exchange differences that are created being recognised in the income statement.

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

The phenomenon in the foregoing paragraph occurs in the Sagicor at Lloyd's Syndicate 1206 operations, which writes a significant proportion of its insurance business in currencies other than the pound sterling, which is its functional currency. Its impact on reported net income is disclosed in note 4.1 as foreign exchange unwinding.

The Group is exposed to currency risk in its operating currencies whose values have noticeably fluctuated against the United States dollar (USD).

The exposure to currency risk may result in three types of risk, namely:

- Currency risk relating to the future cash flows of monetary balances

This occurs when a monetary balance is denominated in a currency other than the functional currency of the reporting unit to which it belongs. In this instance, a change in currency exchange rates results in the monetary balances being retranslated at the date of the financial statements and the exchange gain or loss is taken to income (note 26).

- Currency risk of reported results of foreign operations

This occurs when a reporting unit's functional currency depreciates or appreciates in value when retranslated to the USD, which is the Group's presentational currency. In this instance, the conversion of the reporting unit's results at a different rate of exchange results in either less or more income being consolidated in the Group's income statement.

- Currency risk of the Group's investment in foreign operations

This occurs when a reporting unit's functional currency depreciates or appreciates in value when retranslated to the USD, which is the Group's presentational currency. In this instance, the conversion of the reporting unit's assets and liabilities at a different rate of exchange results in a currency loss or gain which is recorded in the currency translation reserve (note 22). If the reporting unit was disposed of, either wholly or in part, then the corresponding accumulated loss or gain in the currency translation reserve would be transferred to income.

The operating currencies whose values noticeably fluctuate against the USD are the Jamaica dollar (JMD) and the Pound Sterling (GBP). The theoretical impact of JMD and GBP currency risk on reported results and of the Group's investment in foreign operations is considered below.

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

(i) JMD currency risk

The effects of a 10% depreciation in the JMD relative to the USD arising from JMD reporting units as of December 31, 2009 and for the year then ended are considered in the following tables.

	Amounts denominated in		Total amounts	Effect of a 10% depreciation
	JMD	USD		
Financial position:				
Assets	677,478	563,336	1,240,814	(61,589)
Liabilities	617,703	410,963	1,028,666	(56,155)
Net position	59,775	152,373	212,148	(5,434)
Represented by:				
Currency risk of the Group's investment in foreign operations				(5,434)
Income statement:				
Revenue	279,023	43,182	322,205	(14,773)
Benefits	(177,457)	(7,778)	(185,235)	16,132
Expenses	(84,668)	(1,493)	(86,161)	7,697
Income taxes	(10,077)	-	(10,077)	916
Net income	6,821	33,911	40,732	9,972
Represented by:				
Currency risk relating to the future cash flows of monetary balances				10,593
Currency risk of reported results of foreign operations				(621)
				9,972

An 8.33% appreciation in the JMD relative to the USD would have equal and opposite effects to those disclosed above.

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

(ii) GBP currency risk

The effects of a 15% depreciation in the GBP relative to the USD arising from GBP reporting units as of December 31, 2009 and for the year then ended are considered in the following tables.

	Amounts denominated in		Total amounts	Effect of a 15% depreciation
	GBP	USD		
Financial position:				
Assets	222,883	194,119	417,002	(29,073)
Liabilities	149,735	160,720	310,455	(19,532)
Net position	73,148	33,399	106,547	(9,541)
Represented by:				
Currency risk of the Group's investment in foreign operations				(9,541)
Income statement:				
Revenue	89,342	118,226	207,568	(964)
Benefits	(61,638)	(48,020)	(109,658)	8,043
Expenses	(53,056)	(35,955)	(89,011)	6,923
Income taxes	178	-	178	(23)
Net income	(25,174)	34,251	9,077	13,979
Represented by:				
Currency risk relating to the future cash flows of monetary balances				10,694
Currency risk of reported results of foreign operations				3,285
				13,979

An 11.54% appreciation in the GBP relative to the USD would have equal and opposite effects to that disclosed above.

41.5 Fair value of financial instruments

Financial instruments carried at fair value in the financial statements are measured in accordance with a fair value hierarchy. This hierarchy is as follows:

(a) Level 1 – unadjusted quoted prices in active markets for identical instruments.
(b) Level 2 – inputs other than quoted prices in Level 1 that are observable for the instrument, either directly or indirectly.
(c) Level 3 – inputs for the instrument that are not based on observable market data.

41. FINANCIAL RISK (continued)

41.5 Fair value of financial instruments (continued)

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other independent source, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group considers that market transactions should occur with sufficient frequency that is appropriate for the particular market, when measured over a continuous period preceding the date of the financial statements. If there is no data available to substantiate the frequency of market transactions of a financial instrument, then the Group does not consider the instrument to be traded in an active market.

Certain investment portfolios of the Group which are classified as available for sale contain corporate and government debt securities which are not quoted and which have been valued using internal models which contain inputs that are not based on observable market data. These assets are classified as Level 3 in the fair value hierarchy.

Included in the assets designated at fair value through income are mortgage loans and securities purchased under agreements to resell for which the full income return and capital returns accrue to holders of unit linked policy and deposit administration contracts. As these assets are valued with inputs other than observable market data, they are classified as Level 3 in the fair value hierarchy.

Certain of the group's policy liabilities are unit linked, i.e. derive their value from a pool of assets which are carried at fair value. The Group assigns a fair value hierarchy of Level 2 to the contract liability if the liability represents the unadjusted fair value of the underlying pool of assets.

The following table shows financial assets and financial liabilities carried at fair value by level of the fair value hierarchy.

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.5 Fair value of financial instruments (continued)

2009	Level 1	Level 2	Level 3	Total
Available for sale securities:				
Debt securities	367,245	1,006,847	84,673	1,458,765
Equity securities	64,554	27,219	8,015	99,788
	431,799	1,034,066	92,688	1,558,553
Financial assets designated at fair value:				
Debt securities	2,179	66,462	2,673	71,314
Equity securities	10,628	1,580	4,850	17,058
Mortgage loans	-	-	48,180	48,180
Securities purchased under agreements to resell	-	-	10,020	10,020
	12,807	68,042	65,723	146,572
Derivative financial assets:				
Equity indexed and foreign currency put options	-	897	2,365	3,262
Interest rate swap	-	-	843	843
	-	897	3,208	4,105
Total assets	444,606	1,103,005	161,619	1,709,230
Total assets by percentage	26%	65%	9%	100%
Policy liabilities:				
Unit linked deposit administration liabilities	-	76,587	-	76,587
Non-derivative financial liabilities:				
Structured products	-	-	5,299	5,299
Derivative financial liabilities:				
Exchange traded funds	1,431	-	-	1,431
Equity indexed options	-	817	-	817
	1,431	817	-	2,248
Total liabilities	1,431	77,404	5,299	84,134
Total liabilities by percentage	2%	92%	6%	100%

During the year, there have been no material transfers between Level 1 and Level 2.

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.5 Fair value of financial instruments (continued)

For Level 3 instruments, reasonable changes in inputs which could be applied to the valuation of available for sale instruments would affect other comprehensive income. Level 3 available for sale securities comprise primarily of corporate and government agency debt instruments issued in the Caribbean, with significant amounts in Jamaica and Trinidad. The fair values of these instruments have been derived from December 31 market yields of government instruments of similar durations in the country of issue of the instruments.

Reasonable changes in inputs which could be applied to the valuations of assets designated at fair value are largely offset in income, since the changes in fair value are borne by contract holders.

The following table presents the movement in Level 3 instruments for the year.

	Assets	Liabilities
Balance, beginning of year	165,201	13,604
Gains / (losses) recorded in income	3,685	-
Gains / (losses) recorded in other comprehensive income	1,849	-
Disbursements	31,055	-
Disposals	(39,917)	-
Issues	-	532
Settlements	-	(10,009)
Transfers into Level 3	8,706	-
Effect of exchange rate changes	(8,960)	1,153
Balance, end of year	161,619	5,299

The carrying values of the Group's financial assets and financial liabilities carried at amortised cost approximate their fair value, except as disclosed in notes 9, 15, 16 and 17.

The Group is exposed to other price risk arising from changes in equity prices. The group mitigates this risk by holding a diversified portfolio and by minimising the use of equity securities to back its insurance and financial liabilities.

(a) Sensitivity

The sensitivity to fair value changes in equity securities arises from those instruments classified as available for sale. There is no significant sensitivity to those instruments classified at fair value through income, since fair value changes are borne by policy contract holders.

The effects of an across the board 20% change in equity prices of the Group's available for sale equity securities as of December 31, 2009 on total comprehensive income before tax (TCIBT) are as follows.

Year ended December 31, 2009 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.5 Fair value of financial instruments (continued)

Available for sale equities	Carrying value	Effect of a 20% change on TCIBT
Listed on Caribbean stock exchanges and markets	47,603	9,521
Listed on US stock exchanges and markets	41,874	8,375
Listed on other exchanges and markets	10,311	2,062
	99,788	19,958

41.6 Derivative financial instruments and hedging activities

Derivatives are carried at fair value and presented in the financial statements as separate assets and liabilities. Asset values represent the cost to the Group of replacing all transactions with a fair value in the Group's favour assuming that all relevant counterparties default at the same time, and that transactions can be replaced instantaneously. Liability values represent the cost to the Group counterparties of replacing all their transactions with the Group with a fair value in their favour if the Group were to default.

Derivative assets and liabilities on different transactions are only set off if the transactions are with the same counterparty, a legal right of set-off exists and the cash flows are intended to be settled on a net basis. The fair values are set out below.

	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Derivatives held for trading:				
Currency forwards	-	-	32,399	32,964
Exchange traded funds – short sale	-	1,431	-	-
Foreign currency put option	80	-	-	-
Equity indexed options	3,182	817	852	852
	3,262	2,248	33,251	33,816
Derivatives designated as cash flow hedges:				
Interest rate swap	843	-	3,743	-
	4,105	2,248	36,994	33,816

(i) Currency forwards

Currency forwards represent commitments to buy and sell foreign currencies on a gross basis at future dates at specified prices. The credit risk is evaluated for each contract and is collateralised where deemed necessary. The currency forward contracts are settled on a gross basis. These contracts expired during the year.

41. FINANCIAL RISK (continued)

41.6 Derivative financial instruments and hedging activities (continued)

(ii) Exchange traded funds – short sale

During the year, the Group entered into transactions to sell euro currencies that were borrowed from a broker. The Group benefits if there is a decline in the asset price between the sale and the repurchase date.

(iii) Foreign currency put option

The Group has one currency put in place at the end of the year to sell a notional amount of £3,850,000. The contract expires in January 2010.

(iv) Equity indexed options

The Group has purchased equity indexed options in respect of structured products and in respect of life and annuity insurance contracts.

For certain structured product contracts with customers (note 17), equity indexed options give the holder the ability to participate in the upward movement of an equity index while being protected from downward risk. The Group is exposed to credit risk on purchased options only, and only to the extent of the carrying amount, which is their fair value.

For certain universal life and annuity insurance contracts, the Group has purchased custom options that are selected to materially replicate the policy benefits that are associated with the equity indexed components within the policy contract. These options are appropriate to reduce or minimise the risk of movements in specific equity markets. Credit risk that the Group has regarding the options is mitigated by ensuring that the counterparty is sufficiently capitalised. Both the asset and the associated actuarial liability are valued at fair market value on a consistent basis, with the change in values being reflected in the income statement. The valuations combine outside valuations with internal calculations.

(v) Cash flow hedge – interest rate swap

The cash flow hedge is used to protect against exposures to variability in future interest cash flow of a floating rate available-for-sale financial instrument.

The notional principal amount of the outstanding interest rate swap contract is $20,000. The fixed interest rate is 10.2% and the floating rate is USD-LIBOR-BBA. The amounts and timing of future cash flows, representing both principal and interest flows are based on their contractual terms. The critical terms of the interest rate swap have been negotiated to match the terms of available-for-sale financial instruments. Both the interest rate swap and the floating rate available-for-sale financial instruments mature in 2015. The interest rate swap is settled on a net basis.

There was no ineffectiveness to be recorded from the cash flow hedge. There were no transactions for which cash flow hedge accounting had to be ceased as a result of the highly probable cash flows no longer being expected to occur.

42. INSURANCE RISK

From an insurance risk perspective, the Group's insurance business can be summarised into three categories, which are discussed below.

42.1 Property and casualty insurance risks

(a) Pricing risk

Pricing risk is the risk that insurance contracts are priced too low for the insurance risk assumed.

In determining the pricing of an insurance contract, the insurer considers the nature and amount of the risk assumed, and recent experience and industry statistics of the benefits payable. This is the process of underwriting, which establishes appropriate pricing guidelines, and may include specific tests and enquiries which determine the insurer's assessment of the risk. Insurers may also establish deductibles, exclusions, and coverage limits which will limit the potential losses incurred. The pricing of a contract therefore consists of establishing appropriate premium rates, deductibles and event limits.

Pricing inadequacy risk may arise either from the use of inadequate experience and statistical data in deriving pricing factors or from market softening conditions.

A proportion of risks assumed are written by third parties under delegated underwriting authorities. The third parties are assessed in advance and are subject to authority limits and reporting procedures. The performance of contracts written by each delegated authority is monitored periodically.

(b) Claims risk

Insurance losses are triggered by an event. Insurance losses may be categorised as:

- attritional losses, which are expected to be of reasonable frequency and are less than a pre-determined amount;
- large losses, which are expected to be relatively infrequent and more than a pre-determined amount;
- catastrophic losses, which are an aggregation of losses arising from one incident or proximate cause, affecting one or a number of insurance classes. These losses are infrequent and are generally very substantial.

The insurer records claims based on submissions made by claimants. In certain instances, the insurer obtains additional information from loss adjustors, medical reports and other specialist sources. However, the possibility exists that claim submissions are either fraudulent or are not covered under the terms of the policy. The initial claim recorded may only be an estimate, which has to be refined over time until final settlement occurs. During the period to final settlement, the insurer has to record these estimates as outstanding liabilities.

In addition, experience and industry statistics indicate that at any particular date, there are incurred but not reported (IBNR) claims. Statistical and actuarial techniques are used to estimate IBNR claim liabilities at each date of the financial statements.

Year ended December 31, 2009 Amounts expressed in US $000

42. INSURANCE RISK (continued)

42.1 Property and casualty insurance risks (continued)

Claims risk is the risk that incurred claims may exceed expected losses. Claims risk may arise from

- invalid claim submissions;
- the frequency of incurred claims;
- the severity of incurred claims;
- the development of incurred claims.

(c) Concentration of insurance risk

Insurance risk may be concentrated in geographic locations, altering the risk profile of the insurer. The most significant exposure for this type of risk arises where a single event could result in a large number of claims. The concentration of insurance risk is illustrated by the distribution of premium revenue by geographical location of the risk.

2009 Premium revenue by geographical location	Gross	Ceded	Net
Barbados	22,445	17,229	5,216
Jamaica	524	-	524
Trinidad & Tobago	27,047	18,724	8,323
Other Caribbean	42,566	34,961	7,605
United Kingdom	78,564	7,115	71,449
USA	88,799	21,582	67,217
Rest of the world & worldwide	109,926	20,764	89,162
Total	369,871	120,375	249,496

Concentration of risk is mitigated through risk selection, event limits, quota share reinsurance and excess of loss reinsurance.

The Group assesses its exposures by modelling realistic disaster scenarios of potential catastrophic events. Claims arising from wind storms, earthquakes, floods, terrorism, failure or collapse of a major corporation (with liability insurance cover) and events triggering multi coverage corporate liability claims are considered to be the potential sources of catastrophic losses arising from insurance risks.

Year ended December 31, 2009 Amounts expressed in US $000

42. INSURANCE RISK (continued)

42.1 Property and casualty insurance risks (continued)

Realistic disaster scenarios modelled for 2009 resulted in estimated losses in the originating currencies. Four scenarios are listed below.

Scenario:	Gross loss	Net loss
A $112,500,000 industry loss from a Gulf of Mexico hurricane resulting in offshore energy insured loss of approximately $5,500,000 and mainland property losses of $107,000,000 including the consideration of demand surge and storm surge.	57,122	25,442
North East Windstorm: A $78,000,000 industry loss, for a major hurricane making landfall in New York State, with damage also occurring in neighbouring states.	59,489	23,155
California Quake - San Francisco. A $78,000,000 industry property (shake and fire following) loss, including consideration of demand surge, from an earthquake originating from the San Andreas Fault (North) near San Francisco.	58,071	25,012
Category 3 Hurricane affecting Barbados and St. Lucia having a 100 year return period.	155,448	5,000

(d) Reinsurance risk

To limit its exposure of potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. Reinsurance however does not discharge the insurer’s liability. Reinsurance risk is the risk that reinsurance is not available to mitigate the potential loss on an insurance policy. The risk may arise from

- the credit risk of a reinsurer;
- the unavailability of reinsurance cover in the market at adequate levels or prices;
- the failure of a reinsurance layer upon the occurrence of a catastrophic event.

The Group selects reinsurers which have well established capability to meet their contractual obligations and which generally have high credit ratings. The credit ratings of reinsurers are monitored. Insurers also place reinsurance coverage with various reinsurers to limit their exposure to any one reinsurer.

For its property risks, insurers use quota share and excess of loss catastrophe reinsurance treaties to obtain reinsurance cover. Catastrophe reinsurance is obtained for multiple claims arising from one event or occurring within a specified time period. However, treaty limits may apply and may expose the insurer to further claim exposure. Under some treaties, when treaty limits are reached, the insurer may be required to pay an additional premium to reinstate the reinsurance coverage. Excess of loss catastrophe reinsurance treaties typically cover up to four separate catastrophic events per year.

For other insurance risks, insurers limit their exposure by event or per person by excess of loss or quota share treaties.

42. INSURANCE RISK (continued)

42.1 Property and casualty insurance risks (continued)

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. Claim amounts in excess of reinsurance treaty limits revert to the insurer. Principal features of retention programs used in the Group's Caribbean and UK operations are summarised in the tables below. However, these arrangements are not exhaustive and do not represent a complete schedule of all reinsurance arrangements for each line of insurance business written.

Caribbean operations	**Retention by insurers -** currency amounts in thousands
Property risks	• maximum retention of $3,750 for a single event; • maximum retention of $5,000 for a catastrophic event; • quota share retention to maximum of 25% in respect of treaty limits; • quota share retention is further reduced to a maximum of $500 per event.
Motor and liability risks	• maximum retention of $500 for a single event; treaty limits apply.
Miscellaneous accident risks	• maximum retention of $75 for a single event; treaty limits apply.
Engineering business risks	• maximum retention of $250 • treaty limits apply for material damage and for liability claims.
Marine risks	• maximum retention of $75 for a single event; treaty limits apply.
Property, motor, liability, and engineering risks	• catastrophic excess of loss reinsurance cover is available per event for amounts in excess of treaty limits; • treaty limits apply to catastrophic excess of loss coverage.

UK operations	**Retention by insurers** - currency amounts in thousands
Property risks – syndicate underwriting year 2009	• maximum retention of $4,000 per risk; • maximum retention of $14,000 (USA) $7,000 (worldwide) for 1st loss; $6,000 for 2nd loss, $6,000 for 3rd loss and $14,000 for 4th loss, for catastrophe exposed events; • treaty limits apply.
Miscellaneous accident risks – syndicate underwriting years 2009	• maximum retention of $3,000 per risk; • maximum retention of $3,000 per event; • maximum retention of $2,000 per person • maximum retention of £300 per travel and medical risk; • treaty limits apply
Special lines (liability) – syndicate underwriting year 2009	• maximum retention of £1,000 per event; • treaty limits apply.
Treaty lines (motor) – syndicate underwriting year 2009	• maximum retention of £750 per event; • treaty limits apply.

The effects of reinsurance ceded are disclosed in notes 14, 24 and 27. Information on reinsurance balances are disclosed in notes 10, 20 and 41.

42. INSURANCE RISK (continued)

42.1 Property and casualty insurance risks (continued)

(e) Credit risk – reinsurance exposures

As set out in note 41.1, the Group introduced an internal credit rating scale for its reinsurance exposures. In order to assess the potential reinsurance recoveries on the occurrence of a catastrophic insurance event, these exposures are assessed using the following realistic disaster scenarios:

- North East Windstorm: A $78,000,000 industry loss, for a major hurricane making landfall in New York State, with damage also occurring in neighbouring states;
- Earthquake with magnitude of 5 on the Richter Scale affecting Trinidad;
- Category 4 hurricane affecting Barbados and St. Lucia.

The reinsurance recoveries derived from the above are assigned internal credit ratings as follows:

Category		Sagicor Risk Rating	Classification	Exposure $000	Exposure %
Non-default	Investment grade	1	Minimal risk	74,411	13
		2	Low risk	450,983	78
		3	Moderate risk	55,585	9
	Non-investment grade	4	Acceptable risk	213	-
		5	Average risk	-	-
			TOTAL	581,192	100

42.2 Term life, health and critical illness insurance risks

(a) Pricing risk

Pricing risk is the risk that insurance contracts are priced too low for the insurance risk assumed.

In determining the pricing of an insurance contract, the insurer considers the nature and amount of the risk assumed, and recent experience and industry statistics of the benefits payable. This is the process of underwriting, which establishes appropriate pricing guidelines, and may include specific medical tests and enquiries which determine the insurer's assessment of the risk. Insurers may also establish deductibles and coverage limits for health risks which will limit the potential claims incurred. Term life and critical illness risks have limitations of insured amounts. The pricing of a contract therefore consists of establishing appropriate premium rates, deductibles and coverage limits.

Pricing inadequacy risk may arise either from the use of inadequate experience and statistical data in deriving pricing factors or from market softening conditions.

(b) Mortality risk and morbidity

Mortality risk is the risk that worsening mortality rates will result in an increase of death claims. Morbidity is the incidence of disease or illness.

42. INSURANCE RISK (continued)

42.2 Term life, health and critical illness insurance risks (continued)

Insurance claims are triggered by the incurral of a medical claim, the diagnosis of a critical illness or by death of the person insured.

For contracts providing death benefits, higher mortality rates would result in an increase in death claims. The Group annually reviews its mortality experience and compares it to industry mortality tables. This review may result in future adjustments to the pricing or re-pricing of these contracts.

The cost of health related claims depends on the incidence of beneficiaries becoming ill, the duration of their illness, and the cost of providing medical services. An increase in any of these three factors will result in health insurance claims. In such circumstances, the insurer may adjust the pricing or re-pricing of these contracts.

Critical illness claims arise from the diagnosis of a specific illness in a policy beneficiary. The Group annually reviews its critical illness claim experience and compares it to industry statistics. This review may result in future adjustments to the pricing or re-pricing of these contracts.

42.3 Life and annuity insurance risks (with investment returns)

Life and annuity insurance risk of contracts with investment returns arise from long-term contracts which in most instances have durations greater than 5 years. Under the contract, the policyholder is required to pay either a single premium at the contract inception, or periodic premiums over the duration of the policy contract. From the premium(s) received, acquisition expenses, maintenance expenses and investment are financed. Investment returns are credited to the policy and are available to fund surrender, withdrawal and maturity policy benefits. The principal risks associated with these policies are:

- Mortality risk
- Lapse risk
- Expense risk
- Financial risk

(a) Mortality risk

Mortality risk is the risk that worsening mortality rates will result in an increase of death claims and that improving mortality rates will lengthen the payout period of annuities.

(b) Lapse risk

Lapse risk is that, on average, policyholders will terminate their policies ahead of the insurer’s expectation. Early lapse may result in the following:

- Acquisition costs are not recovered from the policyholder;
- In order to settle benefits, investments are liquidated prematurely resulting in a loss to the insurer;
- Maintenance expenses are allocated to the remaining policies, resulting in an increase in expense risk.

Year ended December 31, 2009 Amounts expressed in US $000

42. INSURANCE RISK (continued)

42.3 Life and annuity insurance risks (with investment returns) (continued)

(c) Expense risk

The Group has significant inforce policies in which it either does not have the ability or has limited ability to re-price the contract for an increase in expenses caused by inflation or other factors. This means that planned growth in the Group's policy maintenance expenses has to be funded by increasing the volume of inforce policies and/or by productivity gains. Failure to achieve this will result in an increase in actuarial liabilities.

(d) Financial risk

In addition to the risks outlined in note 41, for inforce long-term contracts the Group has adopted a policy of investing in assets with cash flow characteristics that closely match the cash flow characteristics of its policy liabilities. The primary purpose of this matching is to ensure that cash flows from these assets are synchronised with the timing and the amounts of payments that must be paid to policyholders. Expected mis-matches in asset and liability cash flows generally have the effect of increasing financial risk which will result in an increase in actuarial liabilities.

42.4 Concentration risk (life, annuity and health insurance)

(a) Mortality and morbidity risk

Mortality and morbidity risk may be concentrated in geographic locations, altering the risk profile of the insurer. The most significant exposure for this type of risk arises where a single event could result in a large number of claims.

Many beneficiaries of life insurance policies issued by the Group (the insured population) are resident in certain countries within the Caribbean. It is estimated that the insured populations in Antigua, Barbados, Cayman Islands, Jamaica, Netherlands Antilles, St Lucia and Trinidad and Tobago represent respectively over 5% of the population of each.

Total insurance coverage on insurance policies quantifies some of the risk exposures. Typically, claims arising in any one year are a very small proportion in relation to the total insurance coverage provided. The total amounts insured by the Group at December 31, gross and net of reinsurance, are summarised below.

	Gross amount insured		Net amount insured	
	2009	2008	2009	2008
Contracts issued to individuals – life insurance	17,767,943	15,347,521	14,417,374	11,977,508
Contracts issued to groups – life insurance	8,288,414	8,136,102	6,539,084	6,181,801

42. INSURANCE RISK (continued)

42.4 Concentration risk (life, annuity and health insurance) (continued)

For health insurance, the concentration of insurance risk is illustrated by the distribution of premium revenue by the location of the insured persons.

2009 Premium revenue by location of insureds	Gross	Ceded	Net
Barbados	18,464	831	17,633
Jamaica	64,610	907	63,703
Trinidad & Tobago	14,267	1,169	13,098
Other Caribbean	48,909	2,719	46,190
USA	263	223	40
Total	146,513	5,849	140,664

42.5 Reinsurance risk (life, annuity and health insurance)

To limit its exposure of potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. The Group selects reinsurers which have well established capability to meet their contractual obligations and which generally have high credit ratings. The credit ratings of reinsurers are monitored. Reinsurance ceded does not discharge the insurer's liability and failure by a reinsurer to honour its commitments could result in losses to the Group.

For life, annuity and health insurance risks, insurers limit their exposure per person by excess of loss or quota share treaties.

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The principal features of retention programs used by insurers are summarised in the tables below:

Type of insurance contract	**Retention by insurers** - currency amounts in thousands
Health insurance contracts with individuals	Retention per individual to a maximum of $200
Health insurance contracts with groups	Retention per individual to a maximum of $200
Life insurance contracts with individuals	Retention per individual life to a maximum of $500
Life insurance contracts with groups	Retention per individual life to a maximum of $393
Life insurance and annuity blocks of contracts	0% to 37.5% retention on policy liabilities

The effects of reinsurance ceded are disclosed in the notes 13, 14, 24 and 27. Information on reinsurance balances are disclosed in notes 10, 20 and 41.

43. SENSITIVITY ANALYSIS OF ACTUARIAL LIABILITIES

Actuarial liabilities comprise 76% of total insurance liabilities (2008 – 79%). The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in those assumptions could have a significant effect on the valuation results. These factors are discussed below.

43.1 Sensitivity arising from the valuation of life insurance and annuity contracts

The valuation of actuarial liabilities of life insurance and annuity contracts is sensitive to:

- the economic scenario used in CALM,
- the investments allocated to back the liabilities,
- the underlying assumptions used, and
- the margins for adverse deviations.

Under the CALM methodology, the AA is required to test the actuarial liability under 7 economic scenarios. These tests have been done and the results of the valuation provide adequately for liabilities derived from the worst of these different scenarios.

The assumption for future investment yields has a significant impact on actuarial liabilities. The different scenarios tested under CALM reflect the impact of different yields.

The other assumptions which are most sensitive in determining the actuarial liabilities of the Group are:

- Operating expenses and taxes
- Lapse
- Mortality and morbidity

43.2 Dynamic capital adequacy testing (DCAT)

DCAT is a technique used by the Group to assess the adequacy of the insurer’s financial position and financial condition in the light of different future economic and policy experience scenarios. DCAT assesses the impact over the next 5 years on the insurer’s financial position and financial condition under specific scenarios.

The financial position of an insurer is reflected by the amounts of assets, liabilities and equity in the financial statements at a given date. The financial position therefore relies on the valuation assumptions used for establishing the actuarial liabilities being adequate to measure future adverse deviations in experience. The financial position does not offer any indication of an insurer’s ability to execute its business plan.

The financial condition of an insurer at a particular date is its prospective ability at that date to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits and to its shareholders.

The financial condition analysis examines both an insurer’s ability to execute its business plan and to absorb adverse experience beyond that provided for when its actuarial liabilities are established.

Year ended December 31, 2009 Amounts expressed in US $000

43. SENSITIVITY ANALYSIS OF ACTUARIAL LIABILITIES (continued)

43.2 Dynamic capital adequacy testing (DCAT) (continued)

The purpose of the DCAT is

- to develop an understanding of the sensitivity of the total equity of the insurer and future financial condition to changes in various experience factors and management policies;
- to alert management to material, plausible and imminent threats to the insurer’s solvency;
- and to describe possible courses of action to address these threats.

Full DCAT or limited sensitivity tests have been conducted by insurers. The scenarios developed and tested by insurers were as follows.

<table>
<tr><th>Sensitivity</th><th colspan="3">Scenario</th></tr>
<tr><th></th><th>Sagicor Life Inc segment</th><th>Sagicor Life Jamaica segment</th><th>Sagicor USA segment</th></tr>
<tr><td>Worsening rate of lapse</td><td>Lapse rates were either doubled or halved, and the more adverse result was selected.</td><td colspan="2">For business which produces higher valuation reserves with an increase in lapse rates, the scenario lapse rates were doubled. For business which produces higher valuation reserves with a decrease in lapse rates, the scenario lapse rates were halved.</td></tr>
<tr><td>High interest rate</td><td>Assumed increases in the investment portfolio yield rates of 0.25% per year for 5 years (i.e. +0.25% in 2010 to +1.25% in 2014).</td><td>Assumed increases in the investment portfolio yield rates of 0.5% for 10 years (i.e. +0.5% in 2010 to +5.0% in 2019).</td><td>A 1% flat increase was applied to the statutory and pricing interest rate.</td></tr>
<tr><td>Low interest rate</td><td>Assumed decreases in investment portfolio yield rates of 0.25% per year for 5 years.</td><td>Assumed decreases in investment portfolio yield rates of 0.5% per year for 10 years.</td><td>A 1% flat decrease was applied to the statutory and pricing interest rate.</td></tr>
<tr><td>Worsening mortality and morbidity</td><td colspan="2">Mortality and morbidity rates for insurance and critical illness products were increased by 3% of the base rate per year for 5 years (multiply by 1.03 in 2010, by 1.15 in 2014).
For annuity products, the mortality rates were decreased by 3% of the base rate for 5 years (divide by 1.03 in 2010, by 1.15 in 2014).</td><td>For life insurance products only, the base assumed rates were increased annually by 3% cumulatively over the next five years.</td></tr>
<tr><td>Higher expenses</td><td colspan="2">Policy unit maintenance expense rates were increased by 5% for 5 years above those reflected in the base scenario (multiply by 1.05 in 2010, by 1.25 in 2014).</td><td>The assumed inflation rate was increased annually by 5% cumulatively over the next five years.</td></tr>
</table>

Certain insurers have conducted DCAT on new business growth scenarios and on the ripple effects of combining certain scenarios to assess the correlation that may exist.

43. SENSITIVITY ANALYSIS OF ACTUARIAL LIABILITIES (continued)

43.2 Dynamic capital adequacy testing (DCAT) (continued)

The following table represents the estimated sensitivity of each of the above scenarios to net actuarial liabilities for insurers by segment. Correlations that may exist between scenario assumptions were not explicitly taken into account.

	Sagicor Life Inc segment		Sagicor Life Jamaica segment		Sagicor USA segment	
	2009	2008	2009	2008	2009	2008
Base net actuarial liability - $000	730,013	713,730	300,801	192,866	367,048	247,369
Scenario	**% change in liability**		**% change in liability**		**% change in liability**	
Worsening rate of lapse	+8.6%	+1.0%	+10.9%	+12.2%	+4.2%	+5.9%
High interest rate	-6.2%	-7.5%	-18.0%	-32.0%	-6.0%	-6.0%
Low interest rate	+9.1%	+9.5%	+20.7%	+22.5%	+6.9%	+6.9%
Worsening mortality / morbidity	+2.7%	+3.3%	+6.8%	+8.7%	+1.9%	+2.4%
Higher expenses	+3.9%	+0.9%	+5.5%	+8.6%	+0.3%	0.0%

44. ANALYSIS OF PROPERTY AND CASUALTY CLAIM LIABILITIES

44.1 Development of claim liabilities

The development of an insurer's claims in the course of settlement provides a measure of its ability to estimate the ultimate value of claims incurred. The sections below set out the development of claims for Caribbean and UK operations respectively.

Year ended December 31, 2009 Amounts expressed in US $000

44. ANALYSIS OF PROPERTY AND CASUALTY CLAIM LIABILITIES (continued)

44.1 Development of claim liabilities (continued)

(a) Caribbean operations

In the table below, estimates of total claims incurred and recoverable from reinsurers for each accident year are provided at successive year ends. (Accident year is the financial period in which the claim is incurred). The most recent estimate is then reconciled to the recognised liability.

By accident year:	2005	2006	2007	2008	2009	Total
Estimate of ultimate gross claims incurred:						
At end of the reporting year	12,968	12,715	23,836	43,348	18,135	111,002
One year later	14,518	11,748	18,382	42,922	-	-
Two years later	13,484	11,801	17,861	-	-	-
Three years later	13,434	10,944	-	-	-	-
Four years later	13,423	-	-	-	-	-
Most recent year	13,423	10,944	17,861	42,922	18,135	103,285
Cumulative payments to date	(12,547)	(8,942)	(15,519)	(39,426)	(10,347)	(86,781)
Gross liability recognised	876	2,002	2,342	3,496	7,788	16,504
Liability for prior years	-	-	-	-	-	4,558
Total liability	-	-	-	-	-	**21,062**
Net favourable (unfavourable) development	(455)	1,771	5,975	426	-	7,717
Estimate of reinsurers' share of ultimate claims incurred:						
At end of the reporting year	3,827	2,727	11,515	33,376	10,019	61,464
One year later	3,201	2,331	7,997	34,013	-	-
Two years later	3,022	2,483	7,860	-	-	-
Three years later	2,995	1,941	-	-	-	-
Four years later	2,985	-	-	-	-	-
Most recent year	2,985	1,941	7,860	34,013	10,019	56,818
Cumulative receipts to date	(2,916)	(1,446)	(7,043)	(31,942)	(5,793)	(49,140)
Recoverable recognised	69	495	817	2,071	4,226	7,678
Recoverable in for prior years	-	-	-	-	-	1,513
Total recoverable from reinsurers	-	-	-	-	-	**9,191**
Net (favourable) unfavourable development	842	786	3,655	(637)	-	4,646

Year ended December 31, 2009 Amounts expressed in US $000

44. ANALYSIS OF PROPERTY AND CASUALTY CLAIM LIABILITIES (continued)

44.1 Development of claim liabilities (continued)

(b) UK operations

In the table below, estimates of total claims incurred and recoverable from reinsurers for each underwriting year are provided at successive year ends. (Underwriting year is the period to which a policy's annual premium has been allocated). The most recent estimate is then reconciled to the recognised liability.

By underwriting year:	2006	2007	2008	2009	Total
Estimate of ultimate gross claims incurred:					
At end of the reporting year	48,552	55,951	117,875	194,441	416,819
One year later	36,727	57,733	118,452	-	-
Two years later	34,704	58,715	-	-	-
Three years later	33,721	-	-	-	-
Most recent year	33,721	58,715	118,452	194,441	405,329
Cumulative payments to date	(30,328)	(47,404)	(51,195)	(11,715)	(140,642)
Claims on unearned premiums	-	(24)	(10,142)	(115,435)	(125,601)
Liability recognised	3,393	11,287	57,115	67,291	139,086
Liability for prior years	-	-	-	-	22,740
Total liability	-	-	-	-	**161,826**
Net favourable (unfavourable) development	14,831	(2,764)	(577)	-	11,490
Estimate of reinsurers' share of ultimate claims incurred:					
At end of the reporting year	13	-	9,939	8,011	17,963
One year later	-	2,820	6,705	-	-
Two years later	121	2,054	-	-	-
Three years later	24	-	-	-	-
Most recent year	24	2,054	6,705	8,011	16,794
Cumulative receipts to date	-	(317)	(2,845)	(168)	(3,330)
Recoverable from claims on unearned premiums	-	112	(194)	(4,055)	(4,137)
Recoverable recognised	24	1,849	3,666	3,788	9,327
Recoverable for prior years	-	-	-	-	3,616
Total recoverable from reinsurers	-	-	-	-	**12,943**
Net (favourable) unfavourable development	(11)	(2,054)	3,234	-	1,169

Year ended December 31, 2009 Amounts expressed in US $000

44. ANALYSIS OF PROPERTY AND CASUALTY CLAIM LIABILITIES (continued)

44.2 Sensitivity of claim liabilities

The effect of a 5% increase in the property and casualty net claims ratio would result in a decrease in income before taxes of $12,475 (2008 – $8,623).

45. CAPITAL MANAGEMENT

The Group manages its capital resources according to the following objectives:

- To comply with capital requirements established by insurance, banking and other financial intermediary regulatory authorities;
- To comply with internationally recognised capital requirements for insurance, where local regulations do not meet these international standards;
- To safeguard its ability as a going concern to continue to provide benefits and returns to policyholders, depositors, note-holders and shareholders;
- To provide adequate returns to shareholders;
- To maintain a strong capital base to support the future development of Group operations.

45.1 Capital resources

The principal capital resources of the Group are as follows:

	2009	2008
Shareholders' equity	536,941	447,751
Minority interest	137,503	121,397
Notes and loans payable	200,844	164,306
Total financial statements capital resources	875,288	733,454
Letter of credit facilities, net of collateral assets	35,775	32,051
Total off financial statements resources	35,775	32,051
Total capital resources	911,063	765,505

The Group deploys its capital resources through its operating activities. These operating activities are carried out by subsidiary companies which are either insurance entities or provide other financial services. The capital is deployed in such a manner as to ensure that subsidiaries have adequate and sufficient capital resources to carry out their activities and to meet regulatory requirements.

The capital adequacy of the principal operating subsidiaries is discussed in the following section.

Year ended December 31, 2009 Amounts expressed in US $000

45. CAPITAL MANAGEMENT (continued)

45.2 Capital adequacy

(a) Life insurers

Capital adequacy is managed at the operating company level. It is calculated by the Appointed Actuary and reviewed by executive management, the audit committee and the board of directors. In addition, the Group seeks to maintain internal capital adequacy at levels higher than the regulatory or internationally recognised requirements. To assist in evaluating the current business and strategy opportunities, a risk-based capital approach is a core measure of financial performance. The risk-based assessment measure which has been adopted is the Canadian Minimum Continuing Surplus and Capital Requirement (MCCSR) standard. The minimum standard recommended by the Canadian regulators for companies is an MCCSR of 150%. A number of jurisdictions in the Caribbean region have no internationally recognised capital adequacy requirements, and in accordance with its objectives for managing capital, the Group has adopted the Canadian MCCSR standard.

The consolidated MCCSR for the Sagicor Group as of December 31 is set out below.

	2009	2008
Sagicor Group	273%	244%

(b) Sagicor at Lloyd's: Syndicates 1206 & 44

The Financial Services Authority (FSA) Lloyd's sourcebook requires Lloyd's syndicates to comply with an Individual Capital Adequacy Standards regime. A key objective of the regime is that syndicate management focuses on risk management in that there is a clearly defined link between risk and capital setting.

Sagicor at Lloyd's has adopted an approach whereby risks identified as having a material effect on the capital requirements are documented within a risk register are shown as prime risks. It is recognised that this register is dependent on both the identification and subsequent analysis of individual risks by management. The risk register is subject to regular review and is updated to reflect the changes in the syndicate's risk profile. The risk classes comprise insurance, credit, market, liquidity, Group and operational risks.

The Individual Capital Assessment (ICA) is calculated using "stress and scenario" methodology for prime risk categories except for reserving risk where a stochastic model is used. Prime risks have been correlated to minimise potential aggregation of risks.

Each year, an ICA is prepared based on a one year event horizon and capital requirements are based on the 99.5% confidence level over the next year. The ICA provides for all losses modelled to ultimate. An overall ICA number is computed. To this is added a premium and the resulting total, known as the Funds at Lloyd's requirement (FaL) is placed at the disposal of Lloyd's of London. The FaL may consist of cash, securities or banker's irrevocable standby letters of credit. The FaL is put into effect before the start of the underwriting year and remains in place until the underwriting year closes and its profits are distributed or its losses are assumed by the participating member. An underwriting year is normally held open for a period of three years. The FaL requirements for the Syndicates at the beginning of each underwriting are as follows:

Year ended December 31, 2009 Amounts expressed in US $000

45. CAPITAL MANAGEMENT (continued)

45.2 Capital adequacy (continued)

	Underwriting year		
	2010 - £000	**2009 - £000**	**2008 - £000**
Syndicate 1206 - FaL	98,440	65,000	41,407
Syndicate 44 - FaL	4,899	2,833	742
	103,339	67,833	42,149
Represented by:			
Banker's letters of credit	52,100	52,100	41,407
Deposits at Lloyd's of London	30,934	733	742
Reinsurance financing	18,750	15,000	-
Solvency surplus	1,555	-	-
	103,339	67,833	42,149

(c) Pan Caribbean Financial Services Group

Capital adequacy and the use of regulatory capital are monitored monthly by the PCFS Group management employing techniques based on the guidelines developed by the Financial Services Commission (FSC), the Bank of Jamaica (BOJ), Basel II and the Risk Management and Compliance Unit. The required information is filed with the respective Regulatory Authorities at stipulated intervals. The BOJ and the FSC require each regulated entity to:

- Hold the minimum level of regulatory capital;
- Maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off financial statements exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the ratios of the regulated companies within the Group for the years ended December 31, 2009 and 2008. During those two years, the individual entities within the Group complied with all of the externally imposed capital requirements to which they are subject. The regulated companies within the PCFS Group are Pan Caribbean Financial Services Limited (PCFS), PanCaribbeanBank Limited (PCB) and Pan Caribbean Asset Management Limited (PCAM).

Year ended December 31, 2009 Amounts expressed in US $000

45. CAPITAL MANAGEMENT (continued)

45.2 Capital adequacy (continued)

	PCFS		PCB		PCAM	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
Actual capital base to risk weighted assets	61%	51%	33%	16%	77%	169%
Required capital base to risk weighted assets	10%	10%	10%	10%	10%	10%

45.3 Financial covenants

(a) 7.5% senior notes due 2016

Under an indenture entered into by the Group on the issue of the senior notes (see note 16), the Group has to comply with a restrictive covenant which will not allow the Company or any of its subsidiaries to directly or indirectly, incur or permit to exist any lien to secure any indebtedness or any guarantee of indebtedness, other than permitted liens, without effectively providing that the senior notes are secured equitably and rateably with (or, if the obligation to be secured by the lien is subordinated in right of payment to the senior notes, prior to) the obligations so secured for so long as such obligations are so secured.

Permitted liens are defined to be liens existing on the date of issue of the senior notes, certain liens which would arise in the course of normal business, and other liens as long as the aggregate outstanding principal amount of such secured indebtedness of the Group, taken as a whole, does not exceed 10% of the consolidated net tangible assets. The latter is defined in the indenture.

10% of the consolidated net tangible assets and the aggregate outstanding amount of other liens of the Group as of December 2009 and 2008 are set out below.

	2009	**2008**
10% of consolidated net tangible assets	111,364	104,643
Other liens outstanding:		
Letter of credit facilities from The Bank of Nova Scotia	84,127	74,899

(b) Letter of credit facilities

The financial covenants entered into by the Group on the issue of letter of credit facilities by the Bank of Nova Scotia are summarised below.

(i) *Tangible net worth*

The Group is required to maintain a tangible net worth greater than $250,000 at all times, such covenant to be tested annually based on the consolidated audited financial statements. Tangible net worth is defined in the agreements to establish letter of credit facilities.

45. CAPITAL MANAGEMENT (continued)

45.3 Financial covenants (continued)

As of December 31, 2009 and 2008, the Group satisfied this requirement.

(ii) *Interest coverage ratio*

The Group is required to maintain an interest coverage ratio of at least 5:1 at all times, such covenant to be tested annually based on the consolidated audited financial statements. Interest coverage ratio is defined in the agreements to establish letter of credit facilities.

For the years ended December 31, 2009 and 2008, the Group's interest coverage ratio was 7.6:1 and 11.3:1 respectively.

(iii) *Financial strength*

Under the agreements to establish the letter of credit facilities, Sagicor Life Inc is required to maintain minimum financial strength ratings of BBB- from Standard & Poor's and of B+ from A.M. Best. A further requirement is that a material adverse change in the financial condition of Sagicor Life Inc should not occur.

As of December 31, 2008 and 2009 and up to the date of issue of these financial statements, Sagicor Life Inc maintained the required financial strength ratings.

(iv) *Permitted liens*

The covenant described in part (a) of this note also forms a covenant under the agreements to establish the letter of credit facilities.

(c) Loan from the Royal Bank of Canada (RBC)

The financial covenants entered into by the Group on the receipt in December 2009 of a loan of $25,000 by the Royal Bank of Canada are summarised below.

(i) *Equity*

The Group is required to maintain Equity of at least $575,000 at all times.

As of December 31, 2009, the Group satisfied this requirement.

(ii) *Interest coverage ratio*

The Group is required to maintain an interest coverage ratio of at least 1.75:1 at all times, such covenant to be tested quarterly based on the consolidated financial statements. Interest coverage ratio is defined in the agreement to establish the loan.

For the year ended December 31, 2009, the Group's interest coverage ratio was 1.86:1.

Year ended December 31, 2009 Amounts expressed in US $000

46. STATUTORY RESTRICTIONS ON ASSETS

Insurers are registered to conduct insurance business under legislation in place in each relevant jurisdiction. This legislation may prescribe a number of requirements with respect to deposits, investment of funds and solvency for the protection of policyholders. In general, these requirements do not restrict the ability of the insurer to trade investments.

Banking subsidiaries may also be required to hold deposits with Central Banks which regulate the conduct of banking operations.

To satisfy the above requirements, invested assets and cash totalling $1,100,760 (2008 - $743,742) have been deposited with regulators or are held in trust to the order of regulators.

In some countries where the Group operates, there are exchange controls or other restrictions on the remittance of funds out of those countries.

47. FIDUCIARY RISK

The Group provides investment management, administration and corporate trust services to investment funds and other corporate entities which involve the Group making allocation, purchase and sale decisions in relation to a wide range of investments. These assets are held in a fiduciary capacity and are not included in these financial statements. These services give rise to fiduciary risk that may expose the Group to claims for mal-administration or under-performance of these funds.

In the ordinary course of business, the Group manages assets of pension funds, mutual funds, unit trusts and other corporate entities which are not included in the Group's financial statements. The investments and cash under administration are as follows:

	2009	2008
Pension and insurance fund assets	987,096	968,529
Mutual fund, unit trust and other investment fund assets	327,776	345,663
	1,314,872	1,314,192