SAGICOR FINANCIAL CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2008

INDEX TO THE FINANCIAL STATEMENTS

December 31, 2008

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 balance sheet as of December 31, 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement 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, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers.

PricewaterhouseCoopers
Chartered Accountants

March 31, 2009

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

SAGICOR FINANCIAL CORPORATION

APPOINTED ACTUARY'S
2008 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 2008, 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

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 2009

CONSOLIDATED BALANCE SHEET

As of December 31, 2008 **Amounts expressed in US$000**

	Notes	2008	2007
ASSETS			
Investment property	5	107,390	97,522
Property, plant and equipment	6	148,279	92,938
Investment in associated companies	7	31,893	30,334
Intangible assets	8	134,922	138,524
Financial investments	9	2,879,466	2,683,007
Reinsurance assets	10	307,713	320,155
Income tax assets	11	31,757	23,622
Miscellaneous assets and receivables	12	214,914	171,459
Cash resources		122,982	92,140
Total assets		**3,979,316**	**3,649,701**
LIABILITIES			
Actuarial liabilities	13	1,450,219	1,364,304
Other insurance liabilities	14	385,554	313,915
Investment contract liabilities	15	267,474	242,376
Total policy liabilities		2,103,247	1,920,595
Notes and loans payable	16	164,306	152,719
Deposit and security liabilities	17	917,143	790,565
Provisions	18	28,038	23,542
Income tax liabilities	19	16,674	15,107
Accounts payable and accrued liabilities	20	168,261	160,466
Total liabilities		3,397,669	3,062,994
EQUITY			
Share capital	21	258,153	231,695
Reserves	22	(85,272)	21,735
Retained earnings		274,870	201,744
Total shareholders' equity		447,751	455,174
Participating accounts	23	12,499	9,396
Minority interest in subsidiaries		121,397	122,137
Total equity		581,647	586,707
Total equity and liabilities		**3,979,316**	**3,649,701**

These financial statements have been approved for issue by the Board of Directors on March 31, 2009.

Director Director

CONSOLIDATED INCOME STATEMENT

Year ended December 31, 2008 **Amounts expressed in US $000**

	Notes	2008	2007
REVENUE			
Premium revenue	24	849,756	535,871
Reinsurance premium expense	24	(137,710)	(105,485)
Net premium revenue		712,046	430,386
Net investment income	25	259,717	261,212
Share of operating income of associated companies	7	2,304	4,224
Fees and other revenue	26	74,756	50,734
Gains arising on acquisitions	37	18,786	26,398
Total revenue		1,067,609	772,954
BENEFITS			
Policy benefits and change in actuarial liabilities	27	542,022	333,601
Policy benefits and change in actuarial liabilities reinsured	27	(61,353)	(33,028)
Net policy benefits and change in actuarial liabilities		480,669	300,573
Interest expense	28	92,711	84,063
Total benefits		573,380	384,636
EXPENSES			
Administrative expenses		180,322	142,190
Commissions and related compensation		124,661	77,932
Premium taxes		7,652	7,269
Finance costs		14,418	12,276
Depreciation and amortisation		16,298	20,101
Total expenses		343,351	259,768
INCOME FROM ORDINARY ACTIVITIES		150,878	128,550
Income taxes	32	(25,635)	(19,824)
NET INCOME FOR THE YEAR		**125,243**	**108,726**
NET INCOME ATTRIBUTABLE TO:			
Shareholders		96,111	86,289
Participating policyholders		3,565	(226)
Minority interest		25,567	22,663
		125,243	108,726
Net income attributable to shareholders - EPS			
Basic earnings per common share	34	34.7 cents	32.3 cents
Fully diluted earnings per common share	34	34.6 cents	32.3 cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2008 **Amounts expressed in US $000**

	Share capital	Reserves	Retained earnings	Par [(1)] accounts	Minority interest	Total
	Note 21	Note 22		Note 23		
Balance, beginning of year	231,695	21,735	201,744	9,396	122,137	586,707
Net income for the year	-	-	96,111	3,565	25,567	125,243
Net unrealised losses on available for sale investments	-	(58,536)	(198)	(200)	(13,458)	(72,392)
Other losses recognised directly in equity	-	(53,585)	-	-	(14,668)	(68,253)
Total recognised gains and income for the year	-	(112,121)	95,913	3,365	(2,559)	(15,402)
Issue of shares	27,625	-	-	-	(334)	27,291
Value of employee services rendered (net)	-	1,628	-	-	112	1,740
Net purchase of treasury shares	(1,167)	-	-	-	-	(1,167)
Dividends declared (note 35)	-	-	(19,416)	-	(10,946)	(30,362)
Acquisition of subsidiaries and insurance businesses	-	-	-	-	12,859	12,859
Other movements	-	3,486	(3,371)	(262)	128	(19)
	26,458	(107,007)	73,126	3,103	(740)	(5,060)
Balance, end of year	258,153	(85,272)	274,870	12,499	121,397	581,647

[(1)]Participating

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2007 **Amounts expressed in US $000**

	Share capital	Reserves	Retained earnings	Par [1] accounts	Minority interest	Total
	Note 21	Note 22		Note 23		
Balance, beginning of year	230,235	48,106	135,509	9,902	118,553	542,305
Net income / (loss) for the year	-	-	86,289	(226)	22,663	108,726
Net unrealised (gains) / losses on available for sale investments	-	(10,847)	(78)	(20)	2,367	(8,578)
Other losses recognised directly in equity	-	(19,930)	-	-	(12,538)	(32,468)
Total recognised gains and income for the year	-	(30,777)	86,211	(246)	12,492	67,680
Issue of shares	484	-	-	-	2,675	3,159
Value of employee services rendered (net)	-	1,705	-	-	87	1,792
Net purchase of treasury shares	976	-	-	-	-	976
Disposal of equity interest	-	-	-	-	(3,593)	(3,593)
Dividends declared (note 35)	-	-	(17,321)	-	(8,167)	(25,488)
Other movements	-	2,701	(2,655)	(260)	90	(124)
	1,460	(26,371)	66,235	(506)	3,584	44,402
Balance, end of year	231,695	21,735	201,744	9,396	122,137	586,707

[1] Participating

CONSOLIDATED CASH FLOW STATEMENT

Year ended December 31, 2008 **Amounts expressed in US $000**

	Notes	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income from ordinary activities		150,878	128,550
Adjustments for non-cash items, interest and dividends	36	45,335	(138,815)
Interest and dividends received		228,702	207,016
Interest paid		(106,280)	(95,857)
Income taxes paid		(18,022)	(17,023)
Changes in operating assets	36	(347,576)	(275,300)
Changes in operating liabilities	36	249,076	119,673
Net cash from / (used in) operating activities		202,113	(71,756)
CASH FLOWS FROM INVESTING ACTIVITIES			
Property, plant and equipment, net	36	(13,018)	(10,532)
Investment in associated companies, net		1,139	(1,315)
Intangible assets, net		(4,264)	(4,120)
Acquisition of subsidiaries and insurance businesses, net of cash and cash equivalents		(31,902)	(2,289)
Net cash used in investing activities		(48,045)	(18,256)
CASH FLOWS FROM FINANCING ACTIVITIES			
Common shares issued		357	27
Net (purchase) / disposal of treasury shares		(1,167)	898
Dividends paid to shareholders		(19,234)	(17,137)
Shares issued to minority interest		1,654	2,348
Dividends paid to minority interest		(10,889)	(8,157)
Notes and loans payable, net	36	12,776	(7,952)
Net cash used in financing activities		(16,503)	(29,973)
Effects of exchange rate changes		(24,205)	8,803
NET CHANGE IN CASH AND CASH EQUIVALENTS		113,360	(111,182)
Cash and cash equivalents, beginning of year		113,492	224,674
CASH AND CASH EQUIVALENTS, END OF YEAR	36	226,852	113,492

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:

- Insurance
- Annuities
- Pension administration services
- Investment management
- Securities dealing
- Banking

The Group operates across the Caribbean, in the United States of America (USA) and in the United Kingdom (UK).

The table below identifies the principal operating subsidiaries in the Group, their principal activities, their country of incorporation and the effective equity interest held by the shareholders of Sagicor.

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Inc	Life and health insurance, annuities and pension administration services	Barbados	100%
Sagicor Life Jamaica Limited (formerly Life of Jamaica Limited)	Life and health insurance and annuities	Jamaica	59%
Sagicor Life Insurance Company	Life insurance and annuities	Texas, USA	100%
Sagicor Capital Life Insurance Company Limited	Life and health insurance, annuities and pension administration services	The Bahamas	100%
Sagicor Life Aruba NV [1]	Life and health insurance, annuities and pension administration services	Aruba	100%

Year ended December 31, 2008 Amounts expressed in US $000

1. INCORPORATION AND PRINCIPAL ACTIVITIES (continued)

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
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%
Sagicor Life of the Cayman Islands Limited	Life insurance	The Cayman Islands	59%
Laurel Life Insurance Company	Life insurance	Texas, USA	100%
Sagicor Corporate Capital Two Limited (formerly Canopius Capital Five Limited) (2) - Lloyd's of London corporate underwriting member participating in Syndicate 44	Life insurance	UK	100%(9)
Sagicor Allnation Insurance Company	Health insurance	Delaware, USA	100%
Sagicor Pooled Investment Funds Limited (formerly LOJ Pooled Investment Funds Limited)	Pension fund management	Jamaica	59%
Employee Benefits Administrator Limited	Pension administration services	Jamaica	59%
Sagicor Corporate Capital Limited (3) - Lloyd's of London corporate underwriting member participating in Syndicate 1206	Property and casualty insurance	UK	100%(9)
Sagicor General Insurance Inc	Property and casualty insurance	Barbados	53%
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%(4)

Year ended December 31, 2008 Amounts expressed in US $000

1. INCORPORATION AND PRINCIPAL ACTIVITIES (continued)

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor at Lloyd's Limited (3)	Managing agent of Lloyd's of London insurance syndicates	UK	100%(9)
Sagicor Syndicate Services Limited (3)	Property and casualty insurance agency	UK	100%(9)
Sagicor Underwriting Limited (formerly Byrne & Stacey Underwriting Limited) (5)	Property and casualty insurance agency	UK	100%(9)
Sagicor Claims Management Inc (formerly Amalfi Claims Management Inc) (6)	Property and casualty insurance claims management	California, USA	100%(9)
Sagicor Insurance Brokers Limited (10)	Insurance brokerage	Jamaica	59%
Sagicor Insurance Managers Limited	Captive insurance management services	The Cayman Islands	45%(4)
Pan Caribbean Financial Services Limited	Development banking and investment management	Jamaica	64%
PanCaribbeanBank Limited (formerly Pan Caribbean Merchant Bank Limited)	Commercial and merchant banking	Jamaica	64%
Globe Finance Inc	Loan and lease financing, and deposit taking	Barbados	51%
Sagicor Finance Inc (formerly Mutual Finance Inc)	Loan and lease financing, and deposit taking	St. Lucia	70%
Pan Caribbean Asset Management Limited	Investment management	Jamaica	64%
Manufacturers Investments Limited	Investment management	Jamaica	64%
Sagicor Merchant Limited	Investment management	Trinidad & Tobago	100%
Sagicor Asset Management Inc	Investment management	Barbados	100%
Sagicor Property Services Limited (formerly LOJ Property Management Limited)	Property management	Jamaica	59%

Year ended December 31, 2008 Amounts expressed in US $000

1. INCORPORATION AND PRINCIPAL ACTIVITIES (continued)

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Barbados Farms Limited (7)	Farming and real estate development	Barbados	77%
Sagicor International Management Services, Inc	Management and business development services	Florida, USA	100%
Sagicor Finance Limited	Group financing vehicle	The Cayman Islands	100%
LOJ Holdings Limited	Insurance holding company	Jamaica	100%
Sagicor USA Inc	Insurance holding company	Delaware, USA	100%
Sagicor Europe Limited (8)	Insurance holding company	The Cayman Islands	100% (9)
Sagicor Syndicate Holdings Limited (3)	Holding company	UK	100% (9)
The Mutual Financial Services Inc	Financial services holding company	Barbados	73%
Sagicor Funds Incorporated	Mutual fund holding company	Barbados	100%

(1) Incorporated December 19, 2007
(2) Acquired April 1, 2008.
(3) Acquired September 1, 2007.
(4) Through control of Sagicor Life Jamaica Limited, the Group has a voting interest of 75% in the subsidiary. The effective equity interest was increased from 31% in October 2007.
(5) Acquired October 4, 2007.
(6) Acquired December 31, 2008.
(7) Acquired February 8, 2008.
(8) Incorporated June 28, 2007.
(9) The Group has an 86% interest in these subsidiaries. Please refer to note 30.4 for further details
(10) Commenced operations in 2008.

Year ended December 31, 2008 Amounts expressed in US $000

1. INCORPORATION AND PRINCIPAL ACTIVITIES (continued)

The associated companies of the Group are as follows:

Associated Companies	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 (11)	Property investment	Barbados	38%

(11) Acquired March 30, 2007.

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 had 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 and financial assets held at fair value through income.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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. When necessary, comparative figures have been reclassified to conform to the current year presentation.

(a) Amendments to IFRS

In October 2008, amendments in respect of the Reclassification of Financial Assets were issued to IAS 39 – Financial Instruments: Recognition and Measurement and to IFRS 7 Financial Instruments: Disclosures. The amendments allow for the reclassification of certain financial assets carried in the balance sheet from July 1, 2008 or thereafter.

The Group has applied the amendment which allows certain available for sale financial investments to be reclassified as loans and receivables. Details of the reclassifications are set out in note 9.4.

(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 2008 reporting year. The new interpretations are as follows:

IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC 11 was adopted by the Group for the 2007 year. The application of the interpretation affects the equity of the subsidiaries and does not directly affect these consolidated financial statements.

IFRIC 12 and IFRIC 14 have no significant effect on these financial statements.

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

Certain new standards and amendments to existing standards have been issued which were not effective at the balance sheet date. The Group has not adopted these new standards and amendments in these financial statements.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The changes which may have a significant effect on the future presentation, disclosure or accounting in the Group's financial statements are as follows:

New or amended standard	Effective date	Comment
IAS 1 (Revised) Presentation of Financial Statements	January 1, 2009	A statement of comprehensive income is required to be presented. Total recognised gains and losses, which are currently presented within the Group's statement of equity, will be detailed in the statement of comprehensive income.
IFRS 8 Operating Segments	January 1, 2009	The standard requires a management approach to segment reporting. The Group will discontinue its current segment reporting and adopt segments which are consistent with the Group's management structure.

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.

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, plus costs attributable to the acquisition. 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.

2. ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

(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 equity its share of associated companies reserve movements.

(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.

(d) Divestitures

Realised gains on the disposal of subsidiaries, operations, associates and joint ventures are included in revenue.

(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.

(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. ACCOUNTING POLICIES (continued)

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.

(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 statements, movements in equity and cash flows are translated at average exchange rates for the year.
(ii) Balance sheets are translated at the exchange rates ruling on December 31.
(iii) Resulting exchange differences are recognised in the equity reserve for currency translation.

Currencies which are pegged to the United States dollar are converted dollars 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 2008 closing rate	2008 average rate	December 2007 closing rate	2007 average rate
Barbados dollar	2.0000	2.0000	2.0000	2.0000
Jamaica dollar	79.9416	72.3106	70.4430	68.7285
Trinidad & Tobago dollar	6.2728	6.2608	6.3114	6.3110
Pounds sterling	0.6956	0.5342	0.5024	0.4964

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to the equity reserve for currency translation. When a foreign entity is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and other purchase accounting adjustments arising 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.

2. ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation (continued)

(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 resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on monetary assets and liabilities are included in foreign exchange gains and losses. Translation differences on non-monetary items such as equities held at fair value through income are reported as part of the fair value gain or loss.

Translation differences on non-monetary items such as equities held as available for sale are included in the fair value reserve in equity.

2.4 Segment reporting

The Group's primary segments are geographic and the secondary segments are defined by business activity.

Geographical segments are determined by the location of the subsidiary or branch initiating the business. Except for the Sagicor at Lloyd's Syndicate 1206 business, this segmentation is not materially different from the segmentation by location of the customers.

The Group's business segments reflect how the Group's operations are managed within geographical segments.

Certain balances can be clearly allocated to geographical segments, but not to business segments. These include certain associated company, income tax, and pension plan balances which relate to specific geographical segments, but are attributable to more than one business segment. In such instances, these balances are allocated to their geographic segments, but are not allocated by business segment.

Other balances not allocated to segments mainly comprise borrowings and finance costs related to Group expansion and other corporate activities.

2.5 Investment property

Investment property is recorded initially at cost. At subsequent balance sheet dates, 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. These are accounted for under the proportionate consolidation method.

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.

2. ACCOUNTING POLICIES (continued)

2.5 Investment property (continued)

Investment property may include property of which a portion is held for rental to third parties and another portion is occupied by the Group for administrative purposes. This type of 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, this type of property is accounted for as an owner-occupied property.

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. Movements in fair value are taken to the fair value reserve in equity, unless there is a cumulative depreciation in respect of an individual property, which is then recorded in the income statement. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset.

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

Any gain or loss on disposal included in income is determined by comparing proceeds to the asset's carrying value at the time of disposal.

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 of assets to their residual values over their estimated useful lives. 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.

The estimated useful lives of property, plant and equipment 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

2. ACCOUNTING POLICIES (continued)

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. A cash generating unit is not larger than a subsidiary's operations in a geographical segment or in a business segment. Goodwill arising from an investment in an associate is included in the carrying value of the investment in associated companies.

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

(b) Other intangible assets

Other intangible assets identified on acquisitions 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.

2. ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

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

Financial assets with fixed maturities and for which management has both the intent and ability to hold to maturity may be classified as held to maturity.

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

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 and 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.

Other financial assets are classified as available for sale.

(b) Recognition and measurement

Purchases and sales of these 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 recorded in the fair value reserve. 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 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.

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.

The impairment loss for assets carried at amortised cost is calculated as the difference between the carrying amount and the present value of expected 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 equity security is its fair value. An impairment loss for an available for sale equity security is recognised in income if there has been a significant or prolonged decline in its recoverable amount below its cost. Any subsequent increases in fair value occurring after the recognition of an impairment loss are recorded in the fair value reserve in equity.

The recoverable amount for other available for sale financial instruments is the present value of expected future cash flows discounted at the instrument's original effective interest rate. An impairment loss is recognised for the amount by which the instrument's cost exceeds its recoverable amount. 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 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.

(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.

2. ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

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 balance sheet. 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 equity, in the fair value reserve, 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 included in the balance sheet 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.

2.9 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 valued at the lower of cost and net realisable value.

2. ACCOUNTING POLICIES (continued)

2.9 Real estate developed or held for resale (continued)

Real estate acquired through foreclosure is classified as real estate held for resale and is valued at the lower of cost and net realisable value.

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. Cash and cash equivalents exclude balances held to meet statutory requirements.

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. Investment contracts transfer financial risk and no 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.

(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 and marine.

Property insurance contracts provide coverage for the risk of property damage or of loss of property. 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 to third parties. Personal accident, employers' liability and public liability 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 earnings patterns have been established over the term of the policy coverage, then premium revenue is recognised in accordance with that earnings pattern. 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 balance sheet date.

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 not discounted and is included in other insurance liabilities.

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

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 recognised only when there is reasonable certainty of collectibility, at which time it is recorded as commission income.

Commissions and premium taxes payable are recognised on the same basis as premiums earned. At the balance sheet date, 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-rated 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 balance sheet date, commissions and premium taxes arising on unearned premiums are recorded as deferred policy acquisition costs.

(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 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 or 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 or an automatic premium loan may settle the premium or the contract may continue at a reduced value.

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

Policy benefits are recognised on notification of death, receipt of surrender request, on the maturity date of endowment policies, 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 balance sheet 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 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. Allowances and expense charges are in respect of applicable commissions, cost of insurance, administrative expenses and premium taxes. Fund withdrawals may be permitted.

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 notification of death, receipt of a withdrawal request 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.

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

(v) *Reinsurance contracts assumed*

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

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.

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.

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.

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

(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. Interest guarantees which may adversely affect the Group are recorded in actuarial liabilities.

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 as deposit administration contracts which are similarly classified.

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

(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 balance sheet date, liability adequacy tests are performed 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.

2.13 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 balance sheet date by the number of units in the fund. The resulting liability is included in actuarial liabilities.

2. ACCOUNTING POLICIES (continued)

2.13 Actuarial liabilities (continued)

(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.

(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 other funding instruments and are included in 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.

2. ACCOUNTING POLICIES (continued)

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.

2.17 Fees and other revenue

Fees and other revenue are 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.

2. ACCOUNTING POLICIES (continued)

2.18 Employee benefits (continued)

(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.

(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 accounted for in the income statement during the vesting period, with a corresponding increase in the share based payment reserve or in minority interest. Until the instrument vests, the number of instruments vesting is re-measured annually and the corresponding change in fair value is adjusted at the re-measurement date.

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.

(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 balance sheet date and at the date of settlement, with any changes in fair value recognised in income during that period.

2. ACCOUNTING POLICIES (continued)

2.18 Employee benefits (continued)

(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. Common shares granted are measured at the listed price prevailing on the grant date. Options granted are measured using 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.

(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 balance sheet date 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% - 5%	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

Year ended December 31, 2008 Amounts expressed in US $000

2. ACCOUNTING POLICIES (continued)

2.19 Taxes (continued)

(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 2008 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	35% of net income	35% of net income	35% of net income

(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

The Group uses the balance sheet liability method of accounting for deferred income tax. Deferred tax assets and liabilities resulting from temporary differences 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. No provision is made for deferred taxes which could arise on the remittance of retained earnings from subsidiaries, unless there is a current intention to remit such earnings.

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.

2. ACCOUNTING POLICIES (continued)

2.20 Participating accounts (continued)

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.

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 polices 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 remain in the participating account.

(c) Financial statement presentation

The assets and liabilities of the participating accounts are not presented separately in the financial statements. The revenues, benefits and expenses of the participating accounts are also 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 that is attributable to the participating funds is disclosed as an allocation of net income. Movements in reserves attributable to the participating funds are presented in equity under the participating accounts.

The allocation of additional assets to the participating funds is recognised in equity as a transfer from retained earnings to the participating accounts.

2.21 Treasury shares

Where a Group entity purchases the Company’s common shares, the consideration paid, including any directly attributable cost, is deducted from share capital. 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 taken to retained earnings.

2. ACCOUNTING POLICIES (continued)

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.

2.23 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.

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, revenues, benefits and expenses. 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 net income from ordinary activities 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 on the balance sheet, 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 in order 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 (for MCCSR negative reserves). 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 for each major geographical segment, namely Barbados, Jamaica, Trinidad & Tobago, USA and other Caribbean. 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, standardized across the major geographical segments. 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 balance sheet date, 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.

Year ended December 31, 2008 Amounts expressed in US $000

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.5 Property and casualty insurance contracts

(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, premium income earned may have to be estimated. Accordingly, premium income written has to be re-assessed in future periods and adjustments made to earned premium.

4. SEGMENTS

4.1 Geographical segments

	Year ended December 31, 2008				
	Total assets	Total liabilities	Total revenue	Income from ordinary activities	Total cash flows
Barbados	609,979	549,256	135,899	25,848	18,120
Jamaica	1,247,797	1,042,730	441,407	70,739	73,804
Trinidad & Tobago	467,235	374,022	99,831	25,995	(1,606)
United Kingdom	300,486	218,162	182,916	17,884	2,458
USA	758,224	660,547	61,369	14,538	(425)
Other Caribbean	590,712	392,389	148,856	29,007	53,826
Not allocated to segments	4,883	160,563	(2,669)	(33,133)	(32,817)
	3,979,316	3,397,669	1,067,609	150,878	113,360

	Year ended December 31, 2007				
	Total assets	Total liabilities	Total revenue	Income from ordinary activities	Total cash flows
Barbados	606,486	571,037	131,563	13,513	(23,659)
Jamaica	1,105,410	861,875	298,195	58,194	(20,889)
Trinidad & Tobago	441,316	333,040	101,656	15,053	(13,681)
United Kingdom	248,929	154,158	59,283	30,107	13,135
USA	798,664	719,016	50,106	111	6,889
Other Caribbean	442,187	258,741	129,836	36,191	13,175
Not allocated to segments	6,709	165,127	2,315	(24,619)	(86,152)
	3,649,701	3,062,994	772,954	128,550	(111,182)

Year ended December 31, 2008 Amounts expressed in US $000

4. SEGMENTS (continued)

4.1 Geographical segments

Other balances by geographical segment are disclosed in notes 6, 7, 8, 13, 41 and 47.

4.2 Business segments

	Total assets		Total revenue	
	2008	2007	2008	2007
Life insurance, health insurance and annuities from contracts issued to individuals	1,953,098	1,974,500	390,179	379,433
Life insurance, health insurance, annuities and pensions from contracts issued to groups	486,659	451,853	319,286	186,909
Property and casualty insurance	448,069	377,419	230,694	92,190
Banking, investment management and other financial services	995,490	812,647	134,149	110,660
Not allocated to segments (1)	96,000	33,282	(6,699)	3,762
	3,979,316	3,649,701	1,067,609	772,954

(1) Includes associated company, income tax and pension plan balances attributable to more than one business segment.

5. INVESTMENT PROPERTY

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

	2008	2007
Balance, beginning of year	97,522	90,578
Assumed on acquisition	15,713	-
Additions at cost	1,738	1,744
Transfers to property, plant & equipment	(4,002)	(2,532)
Disposals	(4,125)	(582)
Appreciation in fair values	2,865	9,332
Effects of exchange rate changes	(2,321)	(1,018)
Balance, end of year	107,390	97,522

Year ended December 31, 2008 Amounts expressed in US $000

5. INVESTMENT PROPERTY (continued)

Investment property includes $16,241 (2007 - $20,276) which represents the Group's proportionate interest in joint ventures set out below.

Description of property	Percentage owned by the Group
Barbados:	
Land at Fort George Heights, Upton, St Michael	50%
Land at Plum Tree, St Thomas	50%
Trident House Properties, Lower Broad Street, Bridgetown	33%
United Nations House, Marine Gardens, Christ Church (2007 only)	25%
BET Building, Wildey, St Michael	10%
Trinidad & Tobago:	
Ernst & Young Building, Sweet Briar Road, Port-of-Spain	60%

Pension Funds managed by the Group own a 50% interest in Fort George Heights and Plum Tree respectively, a 33% interest in Trident House Properties and a 25% (2007) interest in United Nations House.

Other balances included in the financial statements in respect of the above partnerships and joint ventures are as follows:

	2008	2007
Cash, miscellaneous assets and receivables	2,019	908
Other funding instruments, accounts payable and accrued liabilities	108	195
Revenue	1,256	2,358
Expenses	(35)	39

Year ended December 31, 2008 Amounts expressed in US $000

6. PROPERTY, PLANT AND EQUIPMENT

	Year ended December 31, 2008				
	Owner-occupied properties	Furnishings & leasehold improve-ments	Office equipment & vehicles	Operating lease vehicles & equipment	Total
Net book value, beginning of year	59,665	10,806	12,314	10,153	92,938
Additions at cost	56	4,291	5,205	4,844	14,396
Assumed on acquisitions	47,437	13	1,565	-	49,015
Transfers from investment property	4,002	-	-	-	4,002
Transfers to intangible assets	-	(3,641)	-	-	(3,641)
Disposals	-	(2)	(152)	(1,171)	(1,325)
Appreciation in fair values	4,479	-	-	-	4,479
Depreciation charge	(914)	(1,415)	(4,472)	(2,385)	(9,186)
Effects of exchange rate changes	(1,364)	(301)	(719)	(15)	(2,399)
Net book value, end of year	113,361	9,751	13,741	11,426	148,279
Represented by:					
Cost or valuation	114,287	23,932	49,077	17,238	204,534
Accumulated depreciation	(926)	(14,181)	(35,336)	(5,812)	(56,255)
	113,361	9,751	13,741	11,426	148,279

Year ended December 31, 2008 Amounts expressed in US $000

6. PROPERTY, PLANT AND EQUIPMENT (continued)

	Year ended December 31, 2007				
	Owner-occupied properties	Furnishings & leasehold improve-ments	Office equipment & vehicles	Operating lease vehicles & equipment	Total
Net book value, beginning of year	50,374	8,896	12,017	9,241	80,528
Additions at cost	173	2,944	4,236	5,115	12,468
Assumed on acquisitions	-	234	480	-	714
Transfers from investment property	2,532	-	-	-	2,532
Disposals	-	(5)	(122)	(1,501)	(1,628)
Appreciation in fair values	7,715	-	-	-	7,715
Depreciation charge	(820)	(1,174)	(4,079)	(2,702)	(8,775)
Effects of exchange rate changes	(309)	(89)	(218)	-	(616)
Net book value, end of year	59,665	10,806	12,314	10,153	92,938
Represented by:					
Cost or valuation	60,741	23,735	43,817	15,613	143,906
Accumulated depreciation	(1,076)	(12,929)	(31,503)	(5,460)	(50,968)
	59,665	10,806	12,314	10,153	92,938

Additions to and depreciation of property, plant and equipment by geographical segment are as follows:

	Additions		Depreciation	
	2008	2007	2008	2007
Barbados	7,677	7,109	4,403	4,978
Jamaica	2,583	2,019	1,792	1,534
Trinidad & Tobago	729	979	867	832
United Kingdom	184	24	234	67
USA	1,390	933	710	388
Other Caribbean	1,662	1,064	1,076	941
Not allocated to segments	171	340	104	35
	14,396	12,468	9,186	8,775

Year ended December 31, 2008 Amounts expressed in US $000

6. PROPERTY, PLANT AND EQUIPMENT (continued)

Owner-occupied property includes $1,841 (2007 - $2,460) which represents the Group's proportionate interest in joint ventures set out below.

Description of property	Percentage owned by the Group
Belize:	
Belize Insurance Centre, North Front Street, Belize City	50%
Grenada:	
The Mutual / Trans-Nemwil Office Complex, The Villa, St George's	50%

7. INVESTMENT IN ASSOCIATED COMPANIES

	2008	2007
Investment, beginning of year	30,334	26,836
Additions	10	2,653
Income from ordinary activities	2,304	4,224
Amortisation of / other charges to intangible assets identified on acquisition	(557)	(2,457)
Income taxes	137	(3)
Dividends received	(1,149)	(1,338)
Other movements in equity	702	462
Effects of exchange rate changes	112	(43)
Investment, end of year	31,893	30,334

The investment in associated companies and the income from ordinary activities by geographical segment are as follows:

	Investment in associated companies		Income from ordinary activities	
	2008	2007	2008	2007
Barbados	1,971	1,903	(5)	260
Jamaica	34	39	-	-
Trinidad & Tobago	18,003	16,896	1,586	2,519
Other Caribbean	11,885	11,496	723	1,445
	31,893	30,334	2,304	4,224

Year ended December 31, 2008 Amounts expressed in US $000

7. INVESTMENT IN ASSOCIATED COMPANIES (continued)

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

	2008	2007
Total assets	352,215	327,887
Total liabilities	234,664	218,166
Total revenue	97,593	95,308
Net income for the year	9,467	16,979

Year ended December 31, 2008 Amounts expressed in US $000

8. INTANGIBLE ASSETS

(a) Analysis and changes for the year

	Year ended December 31, 2008					
	Goodwill	Customer & broker relation-ships	Trade names	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 37.1)	-	5,246	-	-	-	5,246
Sagicor at Lloyd's (note 37.3)	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	6,240	18,811	24,419	164,163
Accumulated charges and amortisation	(1,813)	(9,884)	(6,240)	(53)	(11,251)	(29,241)
	59,703	43,293	-	18,758	13,168	134,922

Year ended December 31, 2008 Amounts expressed in US $000

8. INTANGIBLE ASSETS (continued)

	Year ended December 31, 2007					
	Goodwill	**Customer & broker relation-ships**	**Trade names**	**Syndicate capacity & licences**	**Software**	**Total**
Net book value, beginning of year	59,148	44,328	3,536	-	5,696	112,708
Additions at cost	-	-	-	-	4,120	4,120
Assumed on acquisitions	-	-	-	53	491	544
Identified on acquisitions:						
Sagicor at Lloyd's (note 37.4)	4,853	1,596	-	25,178	1,646	33,273
Sagicor General Insurance (Cayman)	439	-	-	-	-	439
Disposals	(63)	-	-	-	-	(63)
Amortisation and other charges	-	(2,998)	(3,444)	(34)	(2,394)	(8,870)
Effects of exchange rate changes	(1,127)	(1,977)	(92)	(302)	(129)	(3,627)
Net book value, end of year	63,250	40,949	-	24,895	9,430	138,524
Represented by:						
Cost	65,065	48,956	7,037	24,929	17,301	163,288
Accumulated charges and amortisation	(1,815)	(8,007)	(7,037)	(34)	(7,871)	(24,764)
	63,250	40,949	-	24,895	9,430	138,524

Year ended December 31, 2008 Amounts expressed in US $000

8. INTANGIBLE ASSETS (continued)

(b) Geographical segment information

	Goodwill		Additions to intangible assets		Amortisation of intangible assets	
	2008	2007	2008	2007	2008	2007
Barbados	22,633	22,633	1,807	2,022	1,153	606
Jamaica	17,350	19,406	1,634	761	3,418	6,828
Trinidad & Tobago	4,932	4,902	-	-	-	-
United Kingdom	3,939	4,795	55	43	629	196
USA	-	-	762	1,109	838	724
Other Caribbean	10,849	11,514	6	133	498	506
Not allocated to segments	-	-	-	52	19	10
	59,703	63,250	4,264	4,120	6,555	8,870

As of December 31, 2008, the carrying amount of intangible assets with indefinite useful lives allocated to UK operations totalled $17,427 (2007 - $23,384).

(c) Impairment of intangible assets

Goodwill arising on past acquisitions is reviewed by cash generating unit (CGU). The recoverable amount of a CGU is determined either by its value in use or by 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, 2008 were as follows:

	2008		
	Cash flow discount factor	Cash flow residual growth rate	Earnings multiples
Barbados	12.8% - 15.3%	4.0 – 4.2%	7.0 – 7.4
Jamaica	25.9% - 27.2%	9.2%	3.9 – 4.2
Trinidad & Tobago	n/a	n/a	6.2 – 6.8
Other Caribbean	12.3%- 13.1%	2.7%	7.0 – 8.3
United Kingdom	12.2% - 12.9%	1.9% - 2.5%	n/a

Year ended December 31, 2008 Amounts expressed in US $000

8. INTANGIBLE ASSETS (continued)

Sensitivity

For the year ended December 31, 2008, the Company tested the carrying value of its goodwill in 10 out of the 11 CGU's to which goodwill has been allocated.

The goodwill of a Jamaica CGU has been tested using cash flow discount factors of 25.9% and 27.2%. Increasing the cash flow discount factor to 29.5% would result in an impairment of goodwill. The CGU's goodwill becomes impaired if the cash flow discount factor exceeds 29.09%. The results of the impairment test using the above rates are summarised below.

	Cash flow discount factor			
	25.9%	27.2%	29.09%	29.5%
Excess of recoverable amount over carrying amount / (impairment)	15,108	8,311	-	(1,607)

Year ended December 31, 2008 Amounts expressed in US $000

9. FINANCIAL INVESTMENTS

9.1 Analysis of financial investments

	December 31, 2008		December 31, 2007	
	Carrying value	Fair value	Carrying value	Fair value
Held to maturity securities:				
Debt securities	19,448	18,756	3,441	3,394
Available for sale securities:				
Debt securities	1,167,894	1,167,894	1,309,824	1,309,824
Equity securities	112,594	112,594	162,052	162,052
	1,280,488	1,280,488	1,471,876	1,471,876
Financial assets at fair value through income:				
Debt securities	65,483	65,483	85,392	85,392
Equity securities	12,595	12,595	26,662	26,662
Derivative financial instruments	36,994	36,994	-	-
	115,072	115,072	112,054	112,054
Loans and receivables:				
Debt securities	621,381	563,233	351,793	344,269
Mortgage loans	316,199	313,325	293,998	291,273
Policy loans	122,761	134,368	126,403	131,247
Finance loans and finance leases	147,305	132,948	145,764	133,013
Securities purchased under agreements to resell	60,433	60,433	15,980	15,980
Deposits	196,379	196,379	161,698	161,698
	1,464,458	1,400,686	1,095,636	1,077,480
Total financial investments	2,879,466	2,815,002	2,683,007	2,664,804

Year ended December 31, 2008 Amounts expressed in US $000

9. FINANCIAL INVESTMENTS (continued)

9.1 Analysis of financial investments (continued)

	2008	2007
Debt and equity securities at fair value through income comprise:		
Securities designated at fair value upon initial recognition	74,071	90,706
Held for trading financial assets	4,007	21,348
	78,078	112,054
Debt securities comprise:		
Government and government-guaranteed debt securities	1,147,569	1,074,471
Collateralised mortgage obligations	223,562	229,436
Corporate debt securities	433,027	394,871
Other securities	70,048	51,672
	1,874,206	1,750,450

Debt securities include $1,473 (2007 - $7,168) that contain options to convert to common shares of the issuer.

Corporate debt securities include:

(i) convertible loans totalling $10,075 (2007 - $6,785) issued to the Group by an associated company. These loans can be converted into equity or bonds issued by the associated company.

(ii) $10,592 (2007 - $13,670) in bonds issued by an associated company.

Equity securities include $6,208 (2007 - $6,705) in mutual funds managed by the Group.

Derivative financial instruments are analysed in note 41.6.

9.2 Pledged assets

Debt securities include $22,539 (2007 - $23,182) and policy loans include $26,774 (2007 - $29,932) in assets held in trust for a reinsurer (note 20). The income from these assets accrues to the reinsurer.

Debt and equity securities include $22,478 (2007 - $17,825) 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 $5,514 (2007 - $5,158), and mortgages and mortgage backed securities having a total market value of $124,624 (2007 - $121,514).

Year ended December 31, 2008 Amounts expressed in US $000

9. FINANCIAL INVESTMENTS (continued)

9.2 Pledged assets (continued)

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, 2008, these pledged assets totalled $653,768 (2007 - $514,838). Of these assets pledged as security $259,345 (2007 – $237,012) represent 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 $42,848 (2007 – $49,236) pledged as collateral for a letter of credit facility obtained by the Group.

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 contracts and certain deposit administration contracts.

	2008	2007
Debt securities	61,475	63,844
Equity securities	9,996	23,730
Mortgage loans	48,062	47,824
Securities purchased under agreements to resell	14,844	311
	134,377	135,709

9.4 Reclassification of financial investments

As stated in note 2.1(a), the Group has reclassified certain securities from the available for sale classification to the loans and receivables classification. The assets reclassified are primarily:

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

The reclassifications have been made because the markets for these securities are considered by management to have become inactive on or before the reclassification dates set out below.

Year ended December 31, 2008 Amounts expressed in US $000

9. FINANCIAL INVESTMENTS (continued)

9.4 Reclassification of financial investments (continued)

The following disclosures are in respect of these reclassified assets.

	December 31, 2008		December 31, 2007	
	Carrying value	Fair Value	Carrying value	Fair value
Government debt securities maturing after September 2018	150,619	114,641	146,202	146,202
Other debt securities	54,853	44,088	58,376	58,376
	205,472	158,729	204,578	204,578

	As of September 30, 2008 (reclassification date)	As of July 1, 2008 (reclassification date)
	Government debt securities	Other debt securities
Estimated cash amounts recoverable	580,449	68,406
Effective interest rate	8.3% - 15.74%	4.33% - 6.32%

Cumulative net fair value gain / (loss)	2008	2007
Cumulative net fair value (loss) / gain, beginning of year	(4,379)	7,340
Net fair value losses prior to restatement	(24,594)	(10,882)
Net fair value losses subsequent to restatement	(46,787)	-
Disposals	(194)	(940)
Effect of exchange rate changes	4,744	103
Cumulative net fair value loss, end of year	(71,210)	(4,379)

Year ended December 31, 2008 Amounts expressed in US $000

10. REINSURANCE ASSETS

	2008	2007
Reinsurers' share of:		
Actuarial liabilities (note 13.1)	215,240	247,760
Policy benefits payable (note 14.2)	50,861	34,658
Provision for unearned premiums (note 14.3)	36,271	31,686
Other items	5,341	6,051
	307,713	320,155

11. INCOME TAX ASSETS

	2008	2007
Deferred income tax assets (note 33)	19,126	11,645
Income and withholding taxes recoverable	12,631	11,977
	31,757	23,622

12. MISCELLANEOUS ASSETS AND RECEIVABLES

	2008	2007
Pension plan assets (note 31)	4,253	2,048
Real estate developed or held for resale	7,611	6,116
Deferred policy acquisition costs	28,227	25,917
Premiums receivable	105,517	78,299
Amounts due from managed funds	3,285	3,709
Other accounts receivable	66,021	55,370
	214,914	171,459

(a) Real estate developed or held for resale

Real estate developed for resale includes $6,314 (2007 - $3,964) which is expected to be realised after one year.

Real estate developed for resale includes $538 (2007 - $2,020) which represents the Group's proportionate interest in the joint ventures set out below.

Description of property	Percentage owned by the Group
Barbados:	
Land at Fort George Heights, Upton, St Michael	**50%**

Year ended December 31, 2008 Amounts expressed in US $000

12. MISCELLANEOUS ASSETS AND RECEIVABLES (continued)

(b) Deferred policy acquisition costs

The movement in deferred policy acquisition costs for the year is as follows:

	Gross amount	
	2008	**2007**
Balance, beginning of year	25,917	3,747
Assumed on acquisitions	65	20,802
Expensed	(63,329)	(23,590)
Additions	72,776	25,449
Effect of exchange rate changes	(7,202)	(491)
Balance, end of year	28,227	25,917

13. ACTUARIAL LIABILITIES

13.1 Analysis of actuarial liabilities

	Gross liability		Reinsurers' share	
	2008	**2007**	**2008**	**2007**
Contracts issued to individuals:				
Life insurance - participating policies	295,428	288,081	2,449	2,805
Life insurance and annuity - non-participating policies	786,082	795,574	171,965	199,714
Health insurance	2,064	4,156	1,142	1,721
Unit linked funds	85,436	93,061	-	-
Reinsurance contracts held	7,596	2,370	-	-
	1,176,606	1,183,242	175,556	204,240
Contracts issued to groups:				
Life insurance	29,533	28,640	3,145	2,369
Annuities	203,757	131,660	35,499	40,627
Health insurance	40,323	20,762	1,040	524
	273,613	181,062	39,684	43,520
Total actuarial liabilities	1,450,219	1,364,304	215,240	247,760

Year ended December 31, 2008 Amounts expressed in US $000

13. ACTUARIAL LIABILITIES (continued)

13.1 Analysis of actuarial liabilities (continued)

The following notes are in respect of the above:

- Life insurance includes coverage for disability and critical illness.
- Actuarial liabilities include $124,314 (2007 - $144,958) 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	
	2008	2007	2008	2007
Balance, beginning of year	1,364,304	1,373,584	247,760	276,471
Assumed on acquisitions	39,318	-	89	-
Change in actuarial liabilities (note 27)	77,557	(925)	(32,387)	(28,709)
Effect of exchange rate changes	(30,960)	(8,355)	(222)	(2)
Balance, end of year	1,450,219	1,364,304	215,240	247,760

The change in liability by geographical segment is as follows:

	Gross amount	
	2008	2007
Barbados	4,643	16,579
Jamaica	118,147	21,389
Trinidad & Tobago	7,528	21,646
United Kingdom	4,081	-
USA	(56,935)	(45,891)
Other Caribbean	93	(14,648)
	77,557	(925)

13. ACTUARIAL LIABILITIES (continued)

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 2008 valuation, certain insurers updated studies of recent mortality experience. The resulting experience was measured against an industry standard (Canadian Institute of Actuaries (CIA) 1986 – 1992 tables) and resulted in the assignment of probabilities of death by policy duration. 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.

(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 certain insurers for the 2008 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.

For the 2008 valuation, special consideration has been given to the worldwide financial crisis and its impact on the economic environment in which insurers operate. The increase in the investment yield assumption for certain balance sheet assets which would have resulted from the economic environment, has been moderated because of the present environment.

Year ended December 31, 2008 Amounts expressed in US $000

13. ACTUARIAL LIABILITIES (continued)

13.3 Assumptions – life insurance and annuity contracts (continued)

The ultimate rate of return is the assumed rate that will ultimately be earned on government bonds. It is established for each geographic segment and is as follows:

	2008	2007
Ultimate rate of return:		
Barbados	5.0%	5.0%
Jamaica	7.0%	7.0%
Trinidad & Tobago	5.5%	5.5%
USA	4.0 – 4.5%	4.0%
Other Caribbean	5.0 – 5.25%	5.0 – 5.25%

(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 2008 valuations and were applied on a per policy basis.

(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:

	2008	2007
Provisions for adverse deviations:		
Mortality and morbidity	34,306	27,024
Lapse	27,728	21,797
Investment yields and asset default	99,320	61,975
Operating expenses and taxes	21,968	12,772
	183,322	123,568

Year ended December 31, 2008 Amounts expressed in US $000

13. ACTUARIAL LIABILITIES (continued)

13.3 Assumptions – life insurance and annuity contracts (continued)

(h) Movement in actuarial liabilities arising from changes in assumptions

The increase in actuarial liability for the year includes the effects arising from changes in assumptions.

Components of the net increase in actuarial liabilities have been estimated using Policy Premium Method equivalents. Because the process of changes in assumptions is applied to all affected insurance contracts, changes in assumptions and in actuarial modelling may have a significant effect in the period in which they are recorded.

The total effect of changes in assumptions and actuarial modelling are as follows.

	2008	2007
Total decrease in net actuarial liabilities arising from changes in assumptions and actuarial modelling:	(79,125)	(44,722)

Specific changes in assumptions and actuarial modelling which represent more than 2.5% of actuarial liabilities at the beginning of the year are set out below:

	2008
Decrease in actuarial liabilities arising from changes in the investment yield assumptions	(46,859)

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 balance sheet date.

14. OTHER INSURANCE LIABILITIES

14.1 Analysis of other insurance liabilities

	2008	2007
Dividends on deposit and other policy balances	66,040	63,411
Policy benefits payable	183,971	141,860
Provision for unearned premiums	135,543	108,644
	385,554	313,915

Year ended December 31, 2008 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	
	2008	2007	2008	2007
Life insurance and annuity benefits	43,930	40,792	11,093	11,390
Health claims	1,068	1,166	2,019	2,947
Property and casualty claims:				
Notified outstanding claims	83,620	65,427	29,069	18,798
Provision for claims incurred but not reported	55,353	34,475	8,680	1,523
	183,971	141,860	50,861	34,658

(b) Movement in policy benefits payable

	Gross amount		Reinsurers' share	
	2008	2007	2008	2007
Balance, beginning of year	141,860	56,540	34,658	21,001
Assumed on acquisitions	1,554	79,442	-	10,629
Policy benefits incurred	434,253	334,526	90,603	61,737
Policy benefits paid	(380,905)	(326,800)	(71,692)	(58,112)
Effect of exchange rate changes	(12,791)	(1,848)	(2,708)	(597)
Balance, end of year	183,971	141,860	50,861	34,658

14.3 Provision for unearned premiums

(a) Analysis of provision for unearned premiums

	Gross liability		Reinsurers' share	
	2008	2007	2008	2007
Property and casualty insurance	134,934	107,383	36,271	31,686
Health insurance	609	1,261	-	-
	135,543	108,644	36,271	31,686

Year ended December 31, 2008 Amounts expressed in US $000

14. OTHER INSURANCE LIABILITIES (continued)

14.3 Provision for unearned premiums (continued)

(b) Movement in provision for unearned premiums

	Gross amount		Reinsurers' share	
	2008	2007	2008	2007
Balance, beginning of year	108,644	35,286	31,686	17,943
Assumed on acquisitions	-	65,681	-	5,415
Premiums written	344,555	135,852	105,539	68,183
Premium revenue	(290,030)	(126,557)	(99,009)	(59,523)
Effect of exchange rate changes	(27,626)	(1,618)	(1,945)	(332)
Balance, end of year	135,543	108,644	36,271	31,686

15. INVESTMENT CONTRACT LIABILITIES

	December 31, 2008		December 31, 2007	
	Carrying value	Fair value	Carrying Value	Fair Value
Deposit administration liabilities	167,698	167,698	180,882	180,882
Other investment contracts	99,776	100,279	61,494	61,405
	267,474	267,977	242,376	242,287

16. NOTES AND LOANS PAYABLE

	December 31, 2008		December 31, 2007	
	Carrying value	Fair Value	Carrying value	Fair Value
7.5% senior notes due 2016	142,554	134,529	146,883	151,875
12.5% cumulative redeemable preference shares due 2013	15,902	15,902	-	-
Bank loans	5,850	5,850	5,836	5,836
	164,306	156,281	152,719	157,711

Year ended December 31, 2008 Amounts expressed in US $000

16. NOTES AND LOANS PAYABLE (continued)

The Group issued ten year US$150 million senior notes which are repayable in 2016 and carry a 7.5% rate of interest fixed for the period. The notes are traded and are listed on the Luxembourg Euro MTF Market.

Pan Caribbean Financial Services Limited issued a prospectus dated January 18, 2008 in the Jamaica market for the issue of up to 10 million 12.5% cumulative redeemable preference shares at a fixed price of J$ 200 per share. The offer closed on February 29, 2008 with a total subscription of 6.3 million shares.

Bank loans are secured by investment securities.

17. DEPOSIT AND SECURITY LIABILITIES

	December 31, 2008		December 31, 2007	
	Carrying value	Fair Value	Carrying value	Fair Value
Liabilities stated at amortised cost:				
Other funding instruments - loans from banks and other financial institutions	189,732	197,519	163,719	168,065
Customer deposits	158,495	139,426	136,641	134,014
Securities sold under agreements to repurchase	514,352	422,962	487,306	483,083
Bank overdrafts	7,144	7,144	2,899	2,899
	869,723	767,051	790,565	788,061
Liabilities stated at fair value through income:				
Structured products	13,604	13,604	-	-
Derivative financial instruments	33,816	33,816	-	-
	47,420	47,420	-	-
	917,143	814,471	790,565	788,061

Other funding instruments include balances of $122,376 (2007 - $118,376) 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 credit linked notes of $9,146 (2007 – nil) and principal protected notes of $4,458 (2007 – nil). 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.

Year ended December 31, 2008 Amounts expressed in US $000

17. DEPOSIT AND SECURITY LIABILITIES (continued)

Derivative financial instruments are analysed in note 41.6.

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

18. PROVISIONS

	2008	2007
Pension plans and other retirement benefits (note 31)	24,399	21,648
Other	3,639	1,894
	28,038	23,542

19. INCOME TAX LIABILITIES

	2008	2007
Deferred income tax liabilities (note 33)	7,985	6,635
Income taxes payable	8,689	8,472
	16,674	15,107

20. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2008	2007
Amounts due to policyholders	10,607	7,718
Amounts due to reinsurers	74,355	82,351
Amounts due to managed funds	2,824	2,105
Other accounts payable and accrued liabilities	80,475	68,292
	168,261	160,466

Amounts due to reinsurers include $49,313 (2007 – $53,114) 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.

	2008		2007	
	Number of shares '000	$000	Number of shares '000	$000
Issued and fully paid common shares of no par value:				
Balance, beginning of year	267,223	232,536	266,985	232,052
Allotments	11,132	27,625	238	484
Balance, end of year	278,355	260,161	267,223	232,536
Treasury shares:				
Balance, beginning of year	(369)	(841)	(798)	(1817)
Net shares (acquired) / sold	(356)	(1,167)	429	976
Balance, end of year	(725)	(2,008)	(369)	(841)
Total share capital	277,630	258,153	266,854	231,695

The Company's shares are listed on the Barbados, Trinidad & Tobago and London stock exchanges. From June 24, 2008, the Company's shares were listed on the Jamaica stock exchange.

Year ended December 31, 2008 Amounts expressed in US $000

22. RESERVES

	Year ended December 31, 2008					
	Fair value reserves		Currency trans-lation reserve	Share based payment reserves	Statutory reserves	Total
	Available for sale assets	Owner occupied property				
Balance, beginning of year	28,317	16,021	(31,695)	3,177	5,915	21,735
Unrealised (losses) / gains arising on revaluation, net of taxes	(58,536)	3,193	-	-	-	(55,343)
Gains transferred to income on disposal and impairment	(14,622)	-	-	-	-	(14,622)
Retranslation of foreign operations	-	-	(42,156)	-	-	(42,156)
Net gains / (losses) recognised directly in equity	(73,158)	3,193	(42,156)	-	-	(112,121)
Value of employee services rendered (net)	-	-	-	1,628	-	1,628
Other movements	(707)	-	-	-	4,193	3,486
	(73,865)	3,193	(42,156)	1,628	4,193	(107,007)
Balance, end of year	(45,548)	19,214	(73,851)	4,805	10,108	(85,272)

Year ended December 31, 2008 Amounts expressed in US $000

22. RESERVES (continued)

	Year ended December 31, 2007					
	Fair value reserves		Currency trans-lation reserve	Share based payment reserves	Statutory reserves	Total
	Available for sale assets	Owner occupied property				
Balance, beginning of year	55,815	9,531	(22,811)	1,472	4,099	48,106
Unrealised (losses) / gains arising on revaluation, net of taxes	(10,847)	6,693	-	-	-	(4,154)
Gains transferred to income on disposal and impairment	(17,524)	-	-	-	-	(17,524)
Retranslation of foreign operations	-	-	(9,099)	-	-	(9,099)
Net gains / (losses) recognised directly in equity	(28,371)	6,693	(9,099)	-	-	(30,777)
Value of employee services rendered (net)	-	-	-	1,705	-	1,705
Other movements	873	(203)	215	-	1,816	2,701
	(27,498)	6,490	(8,884)	1,705	1,816	(26,371)
Balance, end of year	28,317	16,021	(31,695)	3,177	5,915	21,735

Year ended December 31, 2008 Amounts expressed in US $000

23. PARTICIPATING ACCOUNTS

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

	Closed participating account		Open participating account	
	2008	2007	2008	2007
Balance, beginning of year	8,510	7,158	886	2,744
Net unrealised (losses) / gains arising on available for sale investment securities	(200)	(20)	-	-
Return of transfer to support profit distribution to shareholders	-	-	(262)	(260)
Net income / (loss) for the year	2,001	1,372	1,564	(1,598)
Balance, end of year	10,311	8,510	2,188	886

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

	Closed participating account		Open participating account	
	2008	2007	2008	2007
Assets	97,413	94,761	235,561	227,604
Liabilities	87,102	86,251	233,373	226,718
Revenues	10,996	10,548	36,666	35,684
Benefits	7,022	7,356	27,208	29,851
Expenses	1,802	1,633	7,337	6,747
Income taxes	171	187	557	684

Year ended December 31, 2008 Amounts expressed in US $000

24. PREMIUM REVENUE

	Gross revenue		Reinsurance expense	
	2008	2007	2008	2007
Life insurance	290,823	249,534	38,491	39,271
Annuities	143,806	53,423	285	240
Health insurance	148,917	123,190	5,192	5,312
Property and casualty insurance	266,210	109,724	93,742	60,662
	849,756	535,871	137,710	105,485

Gross revenue includes $58,293 (2007 - $22,260) in reinsurance assumed.

25. NET INVESTMENT INCOME

	2008	2007
Investment income:		
Interest income	232,756	206,618
Dividend income	6,653	6,719
Rental income from investment property	5,524	5,629
Net investment gains	17,094	38,377
Foreign exchange gains	19,921	3,836
Other investment income	2,081	1,655
	284,029	262,834
Investment expenses:		
Allowances for impairment losses	19,876	(421)
Direct operating expenses of investment property	2,545	1,155
Other direct investment expenses	1,891	888
	24,312	1,622
Net investment income	259,717	261,212

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, 2008 Amounts expressed in US $000

25. NET INVESTMENT INCOME (continued)

(a) Interest income

	2008	2007
Debt securities	167,782	148,325
Mortgage loans	25,000	20,183
Policy loans	8,728	9,091
Finance loans and finance leases	16,064	15,285
Securities purchased under agreements to resell	5,085	3,477
Deposits	9,469	9,845
Other balances	628	412
	232,756	206,618

Interest from debt securities includes $1,768 (2007 - $1,678) from an associated company.

(b) Net investment gains / (losses)

	2008	2007
Debt securities	(4,402)	9,051
Equity securities	15,745	19,730
Investment property	2,865	9,512
Other financial investments	2,886	84
	17,094	38,377

26. FEES AND OTHER REVENUE

	2008	2007
Fee income – assets under administration	15,221	14,157
Fee income – deposit administration and policy funds	1,583	1,438
Commission income on insurance and reinsurance contracts	15,390	11,144
Other fees and commission income	12,605	10,758
Other operating and miscellaneous income	29,957	13,237
	74,756	50,734

Included in miscellaneous income are foreign exchange gains totalling $8,621 (2007 – Losses of $149)

Year ended December 31, 2008 Amounts expressed in US $000

27. POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

	Gross amount		Reinsurers' share	
	2008	2007	2008	2007
Policy benefits:				
Life insurance benefits	143,300	130,074	25,852	25,725
Annuity benefits	84,340	84,414	19,956	24,567
Health insurance claims	98,655	89,182	2,501	3,845
Property & casualty insurance claims	138,170	30,856	45,431	7,600
Total policy benefits	464,465	334,526	93,740	61,737
Change in actuarial liabilities (note 13.2)	77,557	(925)	(32,387)	(28,709)
Total policy benefits and change in actuarial liabilities	542,022	333,601	61,353	33,028

Gross policy benefits include $47,130 (2007 - $22,263) 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.

	2008	2007
Insurance contracts	2,733	2,457
Investment contracts	20,177	17,044
Other funding instruments	8,169	9,448
Deposits	10,225	9,528
Securities	48,582	42,804
Other Items	2,825	2,782
	92,711	84,063

Year ended December 31, 2008 Amounts expressed in US $000

29. EMPLOYEE COSTS

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

	2008	2007
Administrative staff salaries, directors' fees and other short-term benefits	86,906	63,890
Employer contributions to social security schemes	6,751	4,863
Expense arising from equity-settled share plans (note 30.1 to 30.3)	3,325	2,413
Expense arising from cash-settled share plans (note 30.4)	2,025	-
Employer contribution to defined contribution pension schemes	1,327	654
Costs – defined retirement benefits	4,703	4,310
	105,037	76,130

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.

	2008		2007	
	Number of grants '000	Weighted average price	Number of grants '000	Weighted average price
Balance, beginning of year	421	US$1.93	214	US$ 1.91
Grants issued	594	US$2.45	425	US$ 1.94
Grants vested	(631)	US$2.18	(218)	US$ 1.92
Balance, end of year	384	US$2.34	421	US$ 1.93

Year ended December 31, 2008 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. Options are granted at the fair market price of the shares at the time that 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.

	2008		2007	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	2,968	US $2.00	932	US$ 1.98
Options granted	1,365	US $2.50	2,050	US$ 2.01
Options exercised	(180)	US $1.99	(14)	US$ 1.98
Balance, end of year	4,153	US $2.17	2,968	US$ 2.00
Exercisable at the end of the year	760	US $1.99	219	US$ 1.98

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

	2008	2007
Share price at grant date	US $1.98 – 2.50	US$ 1.98 – 2.01
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% - 3.0%	3.0%
Risk-free interest rate	4.8% – 6.5%	4.8% – 6.0%

The expected volatility is based on statistical analysis of monthly share prices over the two years prior to grant date.

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

30.1 The Company (continued)

(c) ESOP

During each of the years 2006 to 2008, 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, 356,000 common shares were acquired by the Trustees (2007 - 429,000 common shares disposed).

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.

Year ended December 31, 2008 Amounts expressed in US $000

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

30.2 Sagicor Life Jamaica Limited (SLJ) (continued)

Details of the share options outstanding are as follows. J$ represents Jamaica $.

	2008		2007	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	19,333	J$6.79	23,866	J$ 6.54
Options exercised	(2,154)	J$3.90	(4,533)	J$ 5.50
Options lapsed/forfeited	(985)	J$2.70	-	-
Balance, end of year	16,194	J$7.42	19,333	J$ 6.79
Exercisable at the end of the year	13,026	J$7.93	13,286	J$ 6.45

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

	2008	2007
Fair value of options outstanding	J$35,167,000	J$ 21,615,000
Share price at grant date	J$3.90 – 11.30	J$ 3.90 – 11.30
Exercise price	J$9.00 – 11.30	J$ 2.70 – 11.30
Standard deviation of expected share price returns	34.0%	34.0%
Weighted average remaining contractual term	2 years	2 years
Risk-free interest rate	12.4% - 16.8%	12.0% - 26.1%

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 $ Nil (2007 - $1,502).

Year ended December 31, 2008 Amounts expressed in US $000

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

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. PCFS share options were granted as follows:

(i) 17,220,000 share options on 8 March 2004. These options expired on 31 December 2007. The exercise price for the options is J$10. 4,552,000 vested options were exercised in 2007.

(ii) 1,200,000 share options on 1 March 2006. These options expire on 28 February 2010. The exercise price for the options is J$21.75. These options vest over four years – 25% each anniversary date of the grant.

(iii) 600,000 share options on 1 March 2007. These options expire on 28 February 2011. The exercise price for the options is J$19.29. These options vest over four years – 25% each anniversary date of the grant.

(iv) 4,074,246 share options on 1 April 2007. These options expire on 31 March 2011. The exercise price for the options is J$18.00. These options vest over four years – 25% each anniversary date of the grant.

The movement in share options was as follows. J$ represents Jamaica $.

	2008		2007	
	Number of options '000	Weighted average price	Number of options '000	Weighted average price
Balance, beginning of year	5,949	J$16.49	5,902	J$ 16.20
Options granted	-	-	4,674	J$ 21.27
Options exercised	(150)	J$19.29	(4,552)	J$ 20.68
Options lapsed / forfeited	(342)	J$18.00	(75)	J$ 36.50
Balance, end of year	5,457	J$18.91	5,949	J$ 16.49
Exercisable at the end of the year	1,694	J$19.49	375	J$ 24.70

Year ended December 31, 2008 Amounts expressed in US $000

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

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

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

	2008	2007
Fair value of options outstanding	J$ 49,435,000	J$ 42,178,000
Weighted average share price at grant date	J$ 16.84	J$ 16.84
Exercise price	J$ 18.00 – 36.50	J$ 18.00 - 36.50
Standard deviation of expected share price returns	10.0%	10.0%
Weighted average remaining contractual term	4 years	5 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 below.

	2008		2007	
	Number of shares '000	Fair value at subscription date (in £ 000)	Number of Shares '000	Fair value at subscription date (in £ 000)
Balance, beginning of year	240	1,592	-	-
Shares subscribed	104	896	240	1,592
Balance, end of year	344	2,488	240	1,592

Year ended December 31, 2008 Amounts expressed in US $000

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

30.4 Sagicor Europe Limited (continued)

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, 2008 of $5,132 (2007 – nil) is included in accrued liabilities. 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 balance sheet

	2008	2007
Fair value of retirement plan assets	77,225	76,281
Present value of funded retirement obligations	(85,013)	(81,322)
	(7,788)	(5,041)
Present value of unfunded retirement obligations	(23,492)	(22,644)
Unrecognised actuarial losses	11,134	8,085
Amounts recognised in the balance sheet	(20,146)	(19,600)
Represented by:		
Asset balances	4,253	2,048
Liability balances	(24,399)	(21,648)
	(20,146)	(19,600)

Included in liability balances are interest bearing deposit administration fund balances totalling $20,706 (2007 - $18,929) representing employee pension plan funds on deposit with the Group.

Year ended December 31, 2008 Amounts expressed in US $000

31. EMPLOYEE RETIREMENT BENEFITS (continued)

(b) Amounts recognised in the income statement

	2008	2007
Current service cost	4,472	4,013
Interest cost	10,693	8,279
Net actuarial losses recognised during the year	607	1,236
Past service cost	261	1,307
Curtailment gain	(1,207)	(1,591)
Expected return on retirement plan assets	(10,123)	(8,934)
Total cost	4,703	4,310

The actual return on retirement plan assets was ($494) (2007 – $9,896).

(c) Movement in retirement plan assets

	2008	2007
Plan assets, beginning of year	76,281	62,917
Assumed on acquisitions	7,119	-
Expected return on plan assets	10,123	8,934
Actuarial gains and losses	(11,612)	110
Contributions made by the Group	4,850	4,574
Contributions made by plan participants	3,454	2,261
Benefits paid	(7,227)	(3,130)
Other	740	632
Effects of exchange rate changes	(6,503)	(17)
Plan assets, end of year	77,225	76,281

Year ended December 31, 2008 Amounts expressed in US $000

31. EMPLOYEE RETIREMENT BENEFITS (continued)

(d) Movement in retirement obligations

	2008	2007
Retirement obligations, beginning of year	103,966	85,144
Assumed on acquisitions	6,427	-
Current service cost	7,926	6,274
Interest cost	10,693	8,279
Contributions made by employees	3,569	3,001
Actuarial gains and losses	(8,457)	5,737
Benefits paid	(8,302)	(3,298)
Past service cost	261	1,307
Curtailments	(1,207)	(1,591)
Settlements	-	1,164
Other	2,611	(457)
Effects of exchange rate changes	(8,982)	(1,594)
Retirement obligations, end of year	108,505	103,966

(e) Principal assumptions

The principal actuarial assumptions used for 2008 were as follows:

	-------------- Pension benefits -------------			Other retirement benefits
	Barbados	Trinidad & Tobago	Jamaica	Jamaica
Discount rate	7.5%	8.0%	16.0%	16.0%
Expected return on plan assets	7.5%-8.0%	8.0%	14.0%	14.0%
Future salary increases	3.0%-6.3%	2.5%-6.5%	13.0%	13.0%
Future pension increases	2.3%-3.0%	1.5%	5.0%	n/a
Portion of employees opting for early retirement	15.0%	0.0%	0.0%	n/a
Future changes in National Insurance Scheme Ceilings	3.3%-3.5%	2.5%	0.0%	n/a
Long term increase in health costs	n/a	n/a	0.0%	14.5%

Year ended December 31, 2008 Amounts expressed in US $000

32. INCOME TAXES

32.1 Income tax expense

	2008	2007
Current tax	16,736	15,861
Deferred tax	9,036	3,960
Share of tax of associated companies	(137)	3
	25,635	19,824

32.2 Derivation of income tax expense

Income tax is arises from the following sources of income:

	2008	2007
Investment income subject to direct taxation	79,853	67,323
Income from ordinary activities subject to direct taxation	40,783	15,504
Total income subject to taxation	120,636	82,827

The income tax on the total income subject to taxation differs from the theoretical amount that would arise using the applicable tax rates as set out below:

	2008	2007
Income subject to tax	120,636	82,827
Tax calculated at the applicable rates on income subject to tax	25,104	16,096
Adjustments to current tax for items not subject to tax or not allowed for tax	(9,112)	(5,319)
Other current tax adjustments	(50)	(143)
Adjustments for current tax of prior periods	(886)	(724)
Movement in unrecognised deferred tax asset	4,947	6,227
Deferred tax expense relating to the origination of temporary differences	64	130
Deferred tax (income) / expense relating to changes in tax rates and the imposition of new taxes	(1)	(56)
Deferred tax income that arises from the write down (reversal of a write down) of a deferred tax asset	2,277	1,729
Tax on distribution of profits from policyholder funds	1,333	325
Other taxes	1,959	1,559
	25,635	19,824

Year ended December 31, 2008 Amounts expressed in US $000

33. DEFERRED INCOME TAXES

	2008	2007
Analysis of deferred income tax assets:		
Pensions and other retirement benefits	623	353
Unused tax losses	21,047	11,134
Other items	(2,544)	158
Total (note 11)	19,126	11,645
Analysis of deferred income tax liabilities:		
Accelerated tax depreciation	2,703	2,053
Pensions and other retirement benefits	461	247
Accrued interest	824	661
Unrealised gains on available for sale investments	3,838	820
Other items	159	2,854
Total (note 19)	7,985	6,635
Deferred income tax balances include the following:		
Assets to be settled after one year	9,580	11,153
Liabilities to be settled after one year	2,911	3,273
Unrecognised balances:		
Tax losses	85,842	99,490
Potential deferred income tax assets	22,613	29,055

34. 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 common shares in issue during the year, excluding 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).

	2008	2007
Net income for the year attributable to shareholders	96,111	86,289
Weighted average number of shares in issue in thousands	276,644	266,810
LTI restricted share grants	471	333
LTI share options	621	23
ESOP shares	356	159
Adjusted weighted average number of shares in issue	278,092	267,325
Basic earnings per common share	34.7 cents	32.3 cents
Fully diluted earnings per common share	34.6 cents	32.3 cents

35. DIVIDENDS PER COMMON SHARE

	2008		2007	
	US cents per share	$000	US cents per share	$000
Dividends declared and paid:				
Final dividend in respect of the prior year	4.0	11,087	3.5	9,317
Interim dividend in respect of the current year	3.0	8,329	3.0	8,004
	7.0	19,416	6.5	17,321
Dividends declared after balance sheet date:				
Final dividend in respect of the current year	2.0	5,553	4.0	11,087

Year ended December 31, 2008 Amounts expressed in US $000

36. CASH FLOWS

36.1 Operating activities

	2008	2007
Adjustments for non-cash items, interest and dividends:		
Interest and dividend income	(239,409)	(213,337)
Net investment gains	(17,094)	(38,377)
Gain arising on acquisition	(18,786)	(26,398)
Net increase in actuarial liabilities	109,944	27,784
Interest expense and finance costs	107,129	96,339
Depreciation and amortisation	16,298	20,101
Increase in provision for unearned premiums	54,525	9,295
Other items	32,428	(14,222)
	45,335	(138,815)

	2008	2007
Changes in operating assets:		
Investment property	2,387	(982)
Debt securities	(274,840)	(125,710)
Equity securities	43,528	4,958
Mortgage loans	(25,702)	(46,620)
Policy loans	4,745	(959)
Finance loans and finance leases	(7,982)	(27,590)
Securities purchased under agreement to resell	12,125	(1,301)
Deposits	(22,786)	(69,944)
Other assets and receivables	(79,051)	(7,152)
	(347,576)	(275,300)

Year ended December 31, 2008 Amounts expressed in US $000

36. CASH FLOWS (continued)

36.1 Operating activities (continued)

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

	Investment property		Debt securities		Equity securities	
	2008	2007	2008	2007	2008	2007
Disbursements	(1,738)	(1,744)	(1,093,116)	(544,296)	(72,531)	(59,985)
Disposal proceeds	4,125	762	818,276	418,586	116,059	64,943
	2,387	(982)	(274,840)	(125,710)	43,528	4,958

	2008	2007
Changes in operating liabilities:		
Insurance liabilities	83,360	15,071
Investment contract liabilities	38,310	26,039
Other funding instruments	22,640	4,332
Deposits and structured products	21,554	17,100
Securities	67,968	42,946
Other liabilities and payables	15,244	14,185
	249,076	119,673

36.2 Investing activities

	2008	2007
Property, plant and equipment:		
Purchases	(14,396)	(12,468)
Disposal proceeds	1,378	1,936
	(13,018)	(10,532)

Year ended December 31, 2008 Amounts expressed in US $000

36. CASH FLOWS (continued)

36.3 Financing activities

	2008	2007
Notes and loans payable:		
Proceeds	17,485	6,113
Repayments	(4,709)	(14,065)
	12,776	(7,952)

36.4 Cash and cash equivalents

	2008	2007
Cash resources	99,204	89,771
Call deposits and other liquid balances with maturities of three months or less from acquisition date	136,787	46,305
Bank overdrafts	(7,144)	(2,899)
Other borrowings for cash purposes with maturities of three months or less from origination	(1,995)	(19,685)
	226,852	113,492

37. ACQUISITIONS

37.1 Insurance businesses

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 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 below.

Year ended December 31, 2008 Amounts expressed in US $000

37. ACQUISITIONS (continued)

37.1 Insurance businesses (continued)

	Blue Cross business		Industrial Alliance business	
	Total fair value	Acquiree's carrying value	Total fair value	Acquiree's carrying value
Net assets acquired:				
Property, plant and equipment	4,707	4,707	-	-
Intangible assets (note 8)	5,266	52	32	-
Financial investments	12,211	12,211	32,094	32,303
Reinsurance assets	89	89	-	-
Income tax assets	683	683	-	-
Miscellaneous assets and receivables	10,703	10,703	6,879	6,879
Cash resources	724	724	7,551	7,551
Actuarial liabilities	(2,140)	(2,140)	(36,040)	(43,846)
Other insurance liabilities	(732)	(732)	(1,554)	(1,554)
Investment contract liabilities	-	-	(1,152)	(1,152)
Notes and loans payable	(1,128)	(1,128)	-	-
Income tax liabilities	(849)	(849)	-	-
Accounts payable and accrued liabilities	(2,204)	(2,204)	(181)	(181)
Total net assets	27,330	22,116	7,629	-
Share of net assets acquired by the Group	27,330		7,629	
Purchase consideration and costs:				
Cash	26,801		2,578	
Gain arising on acquisition	529		5,051	

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.

Year ended December 31, 2008 Amounts expressed in US $000

37. ACQUISITIONS (continued)

37.1 Insurance businesses (continued)

Details of acquirees' net income

	Blue Cross portfolio	Industrial Alliance portfolio
Acquiree's net income for the year ended December 31, 2008	2,265	7,474
Acquiree's net income consolidated by the Group for the period from acquisition to December 31, 2008	1,190	7,474

Year ended December 31, 2008 Amounts expressed in US $000

37. ACQUISITIONS (continued)

37.2 Barbados Farms Limited

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 the lands which are utilised for agriculture along with other lands which are either leased, being developed for resale or not in use.

		Total fair value	Acquiree's carrying value
Net assets acquired:			
Investment property		15,713	-
Property, plant and equipment		44,295	22,156
Financial investments		1,275	1,275
Income tax assets		355	355
Miscellaneous assets and receivables		2,083	2,083
Cash resources		89	89
Provisions		(935)	(935)
Accounts payable and accrued liabilities		(398)	(398)
Total net assets		62,477	24,625
Share of net assets acquired by the Group		48,135	
Purchase consideration and costs:			
Cash	14,810		
Issue of 10,319,819 Sagicor Financial Corporation common shares	25,800	40,610	
Gain arising on acquisition		7,525	

The gain arising on acquisition reflects a re-assessment of the value of the lands owned by BFL.

<u>Details of acquiree's net income</u>

	2008
Acquiree's net loss for the year ended December 31, 2008	(65)
Acquiree's net loss consolidated by the Group for the period February 8 to December 31, 2008	(78)

Year ended December 31, 2008 Amounts expressed in US $000

37. ACQUISITIONS (continued)

37.3 Sagicor at Lloyd's - 2008

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 below.

	Amalfi		Syndicate 44	
	Total fair value	Acquiree's carrying value	Total fair value	Acquiree's carrying value
Net assets acquired:				
Property, plant and equipment	13	13	-	-
Intangible assets (note 8)	6,341	-	1,397	-
Financial investments	-	-	34	34
Miscellaneous assets and receivables	6	6	189	189
Cash resources	19	19	2	2
Actuarial liabilities	-	-	(1,138)	(1,138)
Accounts payable and accrued liabilities	(136)	(136)	(225)	(225)
Total net assets	6,243	(98)	259	(1,138)
Share of net assets acquired by the Group	6,243		259	
Purchase consideration and costs:				
Cash	562		845	
Gain/(Goodwill) arising on acquisition	5,681		(586)	

Year ended December 31, 2008 Amounts expressed in US $000

37. ACQUISITIONS (continued)

37.3 Sagicor at Lloyd's – 2008 (continued)

(a) Details of acquirees' net income

	Amalfi	Syndicate 44
Acquiree's net income for the year ended December 31, 2008	(105)	757
Acquiree's net income consolidated by the Group for the period from acquisition to December 31, 2008	-	631

37.4 Sagicor at Lloyd's - 2007

Effective September 1, 2007, Sagicor Europe Limited acquired Gerling Corporate Capital Limited, the sole corporate member participating in Lloyd's of London Syndicate 1206. Sagicor Europe also acquired the Syndicate's managing agency Gerling at Lloyd's Limited and its affiliated entities Gerling Syndicate Holdings Limited and Gerling Syndicate Services Limited. Upon acquisition, the acquired entities were re-branded with 'Sagicor' replacing 'Gerling' in each of their names. The Syndicate and acquired entities constitute an 'Integrated Lloyd's Vehicle' (ILV).

The Syndicate writes property and casualty insurance business in the Lloyd's insurance market.

On October 4, 2007, Sagicor Syndicate Holdings Limited acquired Byrne & Stacey Underwriting Limited (now renamed Sagicor Underwriting Limited), an insurance agency placing business with Syndicate 1206.

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 below.

	Sagicor at Lloyd's		Sagicor Underwriting	
	Total fair value	Acquiree's carrying value	Total fair value	Acquiree's carrying value
Total net assets of acquired business	31,052	3,885	1,309	56
Share of net assets acquired by the Group	31,052		1,309	
Purchase consideration - cash	4,654		6,162	
Gain / (goodwill) arising on acquisition	26,398		(4,853)	

The gain arising on the acquisition reflected the willingness of the ILV management and Sagicor to combine their resources to pursue a common strategy, and the desire of the vendor to exit the Lloyd's market. As a result, the purchase consideration may not have been representative of an open market price for the Syndicate.

Year ended December 31, 2008 Amounts expressed in US $000

37. ACQUISITIONS (continued)

37.4 Sagicor at Lloyd's – 2007 (continued)

Sagicor Underwriting Limited was acquired from its former management. It is common in such circumstances for the purchase consideration to compensate the vendors for the stream of future revenue which is expected from a going concern.

(a) Details of acquirees' net income

	Sagicor at Lloyd's	**Sagicor Underwriting**
Acquiree's net income for the year ended December 31, 2007	3,137	(8)
Acquiree's net income consolidated by the Group for the period from acquisition to December 31, 2007	1,728	87

37.5 Effect of the 2008 acquisitions on the Group's results

Assuming the acquisitions in note 37.1 to 37.3 were effective at the beginning of 2008, the additional total revenue to the Group would be $29,897 and the additional net income to the Group would be $1,109.

38. COMMITMENTS

In the normal course of business, the Group enters into commitments at balance sheet date 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. CONTINGENT LIABILITIES

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

	2008	**2007**
Customer guarantees and letters of credit	11,591	8,030
Letter of credit facility (note 45.2 (b))	74,899	80,016
	86,490	88,046

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.

39. CONTINGENT LIABILITIES (continued)

(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 master file as at November 2003 revealed that approximately 17,000 Universal Life policies were affected by fund values which were insufficient to cover these costs through the life of the policies.

Once the problem 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. 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 company. The FSC suggested a number of alternatives to remedy the problem.

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,

Year ended December 31, 2008 Amounts expressed in US $000

39. CONTINGENT LIABILITIES (continued)

CNC provided certain warranties to SLC including claims in relation to Hurricane Ivan claims, not finally settled at the date of the agreement. 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 realized 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.

In December 2008, SGC withdrew its claims against the third parties and the third parties have now lodged counterclaims against it. Although SGC is confident in defending its positions on these counterclaims, certain contingent liabilities could attach if the courts ruled in favour of the third parties or if out of court settlements were to be negotiated and if CNC seeks to deny responsibility for any of these counterclaims.

It is SLC'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" and SLC also intends to rely on the understanding arrived at between the parties prior to law suits being filed.

As of December 31, 2008, the Group recorded a receivable of $4,974 (2007 - $50) as due from CNC in respect of the "Windsor Village" litigation. This amount comprises $1,374 for payments made by SGC relating to certain rulings handed down by the Cayman Islands Courts against the company in December 2008; and $3,600 relating to estimates of further liabilities arising out of the litigation, which have yet to be formally quantified. The latter is also recorded as an accrued liability in the balance sheet.

40. RELATED PARTY TRANSACTIONS

(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 were as follows:

	2008	2007
Compensation:		
Salaries, directors' fees and other short-term benefits	18,677	13,301
Equity-settled and cash settled compensation benefits	4,811	2,139
Pension and other retirement benefits	845	694
	24,333	16,134

Year ended December 31, 2008 Amounts expressed in US $000

40. RELATED PARTY TRANSACTIONS (continued)

	Mortgage loans	Other loans	Total loans
Balance, beginning of year	3,728	459	4,187
Advances	460	41	501
Repayments	(289)	(342)	(631)
Effects of exchange rate changes	-	(17)	(17)
Balance, end of year	3,899	141	4,040
Interest rates on mortgage loans	5% - 8.5%		
Interest rates on other loans	5% - 10%		

(b) Employee pension plans

Certain Group subsidiaries have employee pension plans which are administered by the Group as segregated pension plans. The assets of the segregated pension plans at December 31, 2008 amounted to $72,774 (2007 - $74,789) and are included in the assets under administration referred to in note 47.

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

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.

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

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.

	2008		2007	
	$000	%	$000	%
Government and government-guaranteed securities	1,147,569	34.1%	1,074,471	35.1%
Collateralised mortgage obligations	223,562	6.7%	229,436	7.5%
Corporate debt securities	433,027	12.9%	394,871	12.9%
Other securities	70,048	2.1%	51,672	1.7%
Total debt securities	1,874,206	55.8%	1,750,450	57.1%
Mortgage loans	316,199	9.4%	293,998	9.6%
Policy loans	122,761	3.6%	126,403	4.1%
Finance loans and finance leases	147,305	4.4%	145,764	4.8%
Securities purchased under agreements to resell	60,433	1.8%	15,980	0.5%
Derivative financial instruments	36,994	1.1%	-	0.0%
Deposits	196,379	5.8%	161,698	5.3%
Reinsurance assets	271,442	8.1%	288,469	9.4%
Premiums receivable	105,517	3.1%	78,299	2.5%
Other accounts receivable	66,021	2.0%	55,370	1.8%
Cash resources	122,982	3.7%	92,140	3.0%
Total balance sheet exposures	3,320,239	98.8%	3,008,571	98.1%
Loan commitments	28,654	0.9%	48,931	1.6%
Customer guarantees and letters of credit	11,591	0.3%	8,030	0.3%
Total off balance sheet exposures	40,245	1.2%	56,961	1.9%
Total	3,360,484	100.0%	3,065,532	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)

The Group's exposures to individual counterparty credit risks exceeding 2.5% of total exposures are set out below.

	Rating Source [1]	2008 Rating [1]	2008 $000	2007 $000
Debt securities:				
Government of Jamaica - denominated in Jamaica dollars	S&P	B [2]	429,527	446,087
Government of Jamaica - denominated in United States dollars	S&P	B [2]	314,367	298,359
Federal government of USA - denominated in United States dollars	S&P	AAA	268,469	299,560
Government of Barbados - denominated in Barbados or United States dollars	S&P	A-, BBB+	84,110	80,332
Government of Trinidad and Tobago - denominated in Trinidad & Tobago or United States dollars	S&P	A+, A	62,144	60,443
Deposits & cash:				
The Bank of Nova Scotia	S&P	AA-	88,867	72,697
Reinsurance assets:				
Scottish Re (U.S.) Inc [3]	Best	C- (Weak)	130,614	152,472
Washington National Insurance Company [4]	Best	B+ (Good) [4]	70,559	80,749

[1] S&P = long term issue credit rating by Standard & Poor's
Best = financial strength rating by A.M. Best

[2] Downgraded by S&P in March 2009 to B-

[3] 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 $174,592 (2007 - $143,580). In February 2009, the Best rating was downgraded to E (Under Regulatory Supervision).

[4] Downgraded by Best in March 2009 to B (Fair). The reinsurance asset arises from reinsurance assumed on a block of life insurance policies.

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

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.

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

	2008	2007
Barbados	152,085	148,133
Jamaica	129,999	126,214
Trinidad & Tobago	107,303	100,172
USA	29,851	27,531
Other Caribbean	44,266	37,712
	463,504	439,762

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 30 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 totals for collateral in the following tables.

Year ended December 31, 2008 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.

Carrying values	Debt securities	Mortgage loans	Finance loans / leases
As of December 31, 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
As of December 31, 2007:			
With amounts past due up to 3 months	11,352	35,052	33,531
With amounts past due up to 12 months	813	6,978	328
With amounts past due up to 5 years	75	11,801	183
With amounts past due over 5 years	594	5,252	244
Total	12,834	59,083	34,286
Estimated fair value of collateral	101	135,042	76,538

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

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

	Gross carrying value	Accumulated allowance for impairment	Net carrying value	Estimated fair value of collateral
As of December 31, 2008:				
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
As of December 31, 2007:				
Debt securities	9,977	(4,094)	5,883	30
Mortgage loans	6,514	(1,823)	4,691	7,666
Finance loans and finance leases	2,847	(1,793)	1,054	4,792
Total	19,338	(7,710)	11,628	12,488

Interest of $384 (2007 - $1,480) 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 balance sheet date which were renegotiated during the year totalled $3,063 (2007 - $482).

41. FINANCIAL RISK (continued)

41.2 Liquidity risk

Liquidity risk is the exposure that the Group may encounter difficulty in meeting obligations associated with financial or insurance liabilities. 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 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.

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 balance sheet date, it is assumed that the interest rate then prevailing continues until final maturity.

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.2 Liquidity risk (continued)

As of December 31, 2008	Contractual cash flows			Total
	Within 1 year	1 to 5 years	After 5 years	
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
Other funding instruments	127,008	36,962	52,195	216,165
Customer deposits and structured products	119,511	52,040	16,185	187,736
Securities sold under agreements to repurchase	508,262	14,862	-	523,124
Derivative financial instruments	33,816	-	-	33,816
Bank overdrafts	7,144	-	-	7,144
Accounts payable and accrued liabilities	127,495	10,814	29,952	168,261
Total financial liabilities	1,188,806	207,251	278,910	1,674,967
Off balance sheet commitments:				
Loan commitments	24,886	3,289	479	28,654
Operating lease and rental payments	3,235	8,556	-	11,791
Total off balance sheet commitments	28,121	11,845	479	40,445
Total	1,216,927	219,096	279,389	1,715,412

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.2 Liquidity risk (continued)

As of December 31, 2007	Contractual cash flows			Total
	Within 1 year	1 to 5 years	After 5 years	
Financial liabilities:				
Investment contract liabilities	210,022	13,650	21,695	245,367
Notes and loans payable	11,250	51,670	189,375	252,295
Other funding instruments	93,784	37,835	75,331	206,950
Customer deposits	99,196	37,349	11,803	148,348
Securities sold under agreements to repurchase	494,263	358	-	494,621
Bank overdrafts	2,899	-	-	2,899
Accounts payable and accrued liabilities	115,208	13,696	31,562	160,466
Total financial liabilities	1,026,622	154,558	329,766	1,510,946
Off balance sheet commitments:				
Loan commitments	44,026	2,690	2,215	48,931
Operating lease and rental payments	3,084	11,613	-	14,697
Total off balance sheet commitments	47,110	14,303	2,215	63,628
Total	1,073,732	168,861	331,981	1,574,574

(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 balance sheet and are analysed by their expected due periods, which have been estimated by actuarial or other statistical methods.

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.2 Liquidity risk (continued)

	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
As of December 31, 2008:				
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
As of December 31, 2007:				
Actuarial liabilities	131,967	269,048	963,289	1,364,304
Other insurance liabilities (1)	109,324	43,031	52,916	205,271
Total	241,291	312,079	1,016,205	1,569,575

(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 balance sheet and are analysed by their contractual maturity dates.

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.2 Liquidity risk (continued)

As of December 31, 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	193,993	1,859	527	196,379
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	56,078	715	9,228	66,021
Cash resources	122,982	-	-	122,982
Total	1,217,717	655,262	1,447,260	3,320,239

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.2 Liquidity risk (continued)

As of December 31, 2007	**Maturing within 1 year**	**Maturing 1 to 5 years**	**Maturing after 5 years**	**Total**
Debt securities	323,605	505,179	921,666	1,750,450
Mortgage loans	11,355	33,311	249,332	293,998
Policy loans	5,370	15,831	105,202	126,403
Finance loans and finance leases	61,733	47,941	36,090	145,764
Securities purchased under agreements to resell	15,980	-	-	15,980
Deposits	158,798	2,379	521	161,698
Reinsurance assets: share of actuarial liabilities	28,668	80,381	138,711	247,760
Reinsurance assets: other	32,294	3,585	4,830	40,709
Premiums receivable	77,338	961	-	78,299
Other accounts receivable	53,049	596	1,725	55,370
Cash resources	92,140	-	-	92,140
Total	860,330	690,164	1,458,077	3,008,571

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.

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

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.

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 table following summarises 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.

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

	Exposure within 1 year	Exposure of 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
As of December 31, 2008:					
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
Other funding instruments	125,919	25,106	37,354	1,353	189,732
Customer deposits and structured products	112,747	42,561	14,444	2,347	172,099
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	1,020,046	115,677	253,694	377,778	1,767,195
As of December 31, 2007:					
Other insurance liabilities [(1)]	20,776	3,109	52,455	128,931	205,271
Investment contract liabilities	226,746	13,988	1,642	-	242,376
Notes and loans payable	-	5,836	150,000	(3,117)	152,719
Other funding instruments	88,880	24,001	50,279	559	163,719
Customer deposits	93,526	26,205	14,595	2,315	136,641
Securities sold under agreements to repurchase	481,727	295	-	5,284	487,306
Bank overdrafts	2,899	-	-	-	2,899
Accounts payable and accruals	376	-	-	160,090	160,466
Total	914,930	73,434	268,971	294,062	1,551,397

[(1)] Consists of monetary items

The table following summarises the exposures to interest rate and reinvestment risks of the Group's insurance and financial assets. It includes assets 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.

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

	Exposure within 1 year	Exposure of 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
As of December 31, 2008					
Debt securities	734,624	343,885	767,555	28,142	1,874,206
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	192,199	1,820	156	2,204	196,379
Derivative financial instruments	-	-	-	36,994	36,994
Reinsurance assets (2)	159	156	4,708	51,179	56,202
Premiums receivable	-	-	-	105,517	105,517
Other accounts receivable	421	472	4,053	61,075	66,021
Cash resources	96,028	-	-	26,954	122,982
Total	1,230,526	443,463	1,108,585	322,425	3,104,999
As of December 31, 2007					
Debt securities	741,851	277,948	704,672	25,979	1,750,450
Mortgage loans	81,811	27,593	179,337	5,257	293,998
Policy loans	4,438	15,716	102,363	3,886	126,403
Finance loans and leases	61,069	47,752	36,090	853	145,764
Securities purchased under agreements to resell	15,859	-	-	121	15,980
Deposits	156,520	2,363	156	2,659	161,698
Reinsurance assets (2)	298	239	4,830	35,342	40,709
Premiums receivable	-	87	-	78,212	78,299
Other accounts receivable	457	489	40	54,384	55,370
Cash resources	52,433	-	-	39,707	92,140
Total	1,114,736	372,187	1,027,488	246,400	2,760,811

(2) Excluding share of actuarial liabilities

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

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 is categorised by maturity date.

Fixed rate instruments	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
As of December 31, 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
As of December 31, 2007:				
Notes and loans payable	1,515	5,836	145,368	152,719
Other funding instruments	725	3,650	5,989	10,364
	2,240	9,486	151,357	163,083
Debt securities	167,187	194,510	568,051	929,748

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

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

	2008	**2007**
Financial assets:		
Debt securities	10.0%	9.4%
Mortgage loans	8.5%	7.8%
Policy loans	9.5%	9.6%
Finance loans and finance leases	11.6%	12.1%
Securities purchased under agreements to resell	14.3%	15.0%
Deposits	5.4%	5.7%
Financial liabilities		
Investment contract liabilities	7.6%	8.3%
Notes and loans payable	8.7%	8.1%
Other funding instruments	4.7%	6.3%
Customer deposits	6.9%	7.6%
Securities sold under agreements to repurchase	10.2%	9.3%

(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 equity of PCFS, a subsidiary operating in Jamaica.

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 equity 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, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

	2008		2007	
	Effect on net income	**Effect on equity**	**Effect on net income**	**Effect on equity**
Change in interest rate:				
2008 -8%, 2007 -5%	3,311	59,086	696	34,331
+5%	(1,316)	(26,474)	(578)	(26,345)

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 at balance sheet date by currency are summarised in the following tables.

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

As of December 31, 2008	Balances denominated in					
	Barbados $	Jamaica $	Trinidad $	UK £	US $	Other currencies
ASSETS						
Financial investments[1]	299,306	584,414	288,140	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	13,202	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	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	-
Deposit 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	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

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

.

As of December 31, 2007	Balances denominated in					
	Barbados $	Jamaica $	Trinidad $	UK £	US $	Other currencies
ASSETS						
Financial investments[1]	346,181	556,418	280,301	54,765	1,194,160	251,182
Reinsurance assets	14,638	820	11,373	962	267,962	24,400
Receivables [1]	27,089	20,369	11,203	25,069	47,172	32,393
Cash resources	9,876	9,125	3,811	4,592	45,207	19,529
	397,784	586,732	306,688	85,388	1,554,501	327,504
Other assets	136,582	103,640	59,311	42,043	5,095	44,433
Total assets	534,366	690,372	365,999	127,431	1,559,596	371,937
LIABILITIES						
Actuarial liabilities	359,953	149,234	205,875	25	550,657	98,560
Other insurance liabilities [1]	71,310	15,781	26,941	34,341	111,750	53,792
Investment contracts	54,398	63,693	74,563	-	16,181	33,541
Notes / loans payable	-	-	-	-	152,719	-
Deposit and securities	51,748	277,399	41	233	442,524	18,620
Accounts payable and accruals	24,234	14,057	9,866	7,779	88,804	15,726
	561,643	520,164	317,286	42,378	1,362,635	220,239
Other liabilities	11,970	11,191	7,300	-	293	7,895
Total liabilities	573,613	531,355	324,586	42,378	1,362,928	228,134
Net position	(39,247)	159,017	41,413	85,053	196,668	143,803

[1] Consists of monetary items

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

(a) Sensitivity

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 financial instruments.

This occurs when a monetary financial instrument 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 financial instruments being retranslated at balance sheet date and the exchange gain or loss is taken to income (note 25).

- 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, 2008 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, 2008 and for the year then ended are considered in the following tables.

	Balances denominated in		Total balances	Effect of a 10% depreciation
	JMD	USD		
Balance sheet:				
Assets	762,599	587,288	1,349,887	(69,327)
Liabilities	537,280	593,350	1,130,630	(48,844)
Net position	225,319	(6,062)	219,257	(20,483)
Represented by:				
Currency risk of the Group's investment in foreign operations				(20,483)

	Amounts denominated in		Total amounts	Effect of a 10% depreciation
	JMD	USD		
Income statement:				
Revenue	317,639	44,450	362,089	(30,559)
Benefits	(202,138)	(19,476)	(221,614)	18,376
Expenses	(76,100)	(2,781)	(78,881)	6,918
Income taxes	(4,747)	-	(4,747)	432
Net income	34,654	22,193	56,847	(4,833)
Represented by:				
Currency risk relating to the future cash flows of monetary financial instruments				(1,683)
Currency risk of reported results of foreign operations				(3,150)
				(4,833)

A 10% appreciation in the JMD relative to the USD would have equal and opposite effects to those disclosed above.

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

(ii) GBP currency risk

The effects of a 20% depreciation in the GBP relative to the USD arising from GBP reporting units as of December 31, 2008 and for the year then ended are considered in the following tables.

	Balances denominated in GBP	Balances denominated in USD	Total balances	Effect of a 20% depreciation
Balance sheet:				
Assets	131,552	148,402	279,954	(21,923)
Liabilities	64,859	132,094	196,953	(10,809)
Net position	66,693	16,308	83,001	(11,114)

Represented by:

Currency risk of the Group's investment in foreign operations	(11,114)

	Amounts denominated in GBP	Amounts denominated in USD	Total amounts	Effect of a 20% depreciation
Income statement:				
Revenue	67,756	84,102	151,858	216
Benefits	(35,371)	(44,038)	(79,409)	5,893
Expenses	(24,457)	(29,285)	(53,742)	4,075
Income taxes	(3,254)	-	(3,254)	542
Net income	4,674	10,779	15,453	10,726

Represented by:

Currency risk relating to the future cash flows of monetary financial instruments	11,507
Currency risk of reported results of foreign operations	(781)
	10,726

A 20% appreciation in the GBP relative to the USD would have equal and opposite effects to that disclosed above.

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.5 Other price risk

The Group's financial assets and financial liabilities as disclosed in the balance sheet 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 effects of an across the board 20% change in equity prices of the Group's available for sale equity securities as of December 31, 2008 date are set out below.

	Carrying value	Effect of a 20% change
Available for sale equity securities:		
Listed on Caribbean stock exchanges and markets	57,096	11,419
Listed on US stock exchanges and markets	45,771	9,154
Listed on other exchanges and markets	9,727	1,945
	112,594	22,518

41.6 Derivative financial instruments and hedging activities

Derivatives are carried at fair value and presented in the balance sheet 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.

Year ended December 31, 2008 Amounts expressed in US $000

41. FINANCIAL RISK (continued)

41.6 Derivative financial instruments and hedging activities (continued)

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.

	2008	
	Assets	**Liabilities**
Derivatives held for trading:		
Currency forwards	32,399	32,964
Equity indexed options	852	852
Derivative designated as cash flow hedge:	33,251	33,816
Interest rate swap	3,743	-
	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.

(ii) Equity indexed options

These derivative instruments give the holder the ability to participate in the upward movement of an equity index while being protected from downward risk and form part of certain structured product contracts with customers (note 17). 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.

(i) 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.

41. FINANCIAL RISK (continued)

41.6 Derivative financial instruments and hedging activities (continued)

The fair value gain recognised directly in the statement of equity is $3,129 and the amount reclassified from the statement of equity to income during the year is $370. 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

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 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.

(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. The initial claim recorded may only be an estimate, which has to be refined over time until final settlement occurs. At balance sheet dates elapsing 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 balance sheet date.

Year ended December 31, 2008 Amounts expressed in US $000

42. INSURANCE RISK

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

- 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 Caribbean operations have concentrations of insurance risk in the principal countries in which business is written. These are Barbados, Cayman Islands and Trinidad and Tobago. Caribbean operations mitigate their concentration risk through risk selection, event limits, quota share reinsurance and excess of loss reinsurance.

The total amounts insured by the Caribbean operations at December 31, gross and net of reinsurance are summarised below.

	Gross		Net	
	2008	2007	2008	2007
Caribbean operations - amounts insured	8,686,357	8,459,278	2,246,232	3,405,222

The UK operations seek to avoid concentrations of insurance risk by insuring risks across many locations in the UK, USA, Europe, Canada and elsewhere. Risk selection is also used to avoid concentrations.

The UK operations assess 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.

The two most severe realistic disaster scenarios which were modelled for the 2008 underwriting year resulted in estimated modelled losses as follows.

	Gross	Net
Earthquake in Vancouver, Canada, triggering property, personal accident and directors' and officers' liability claims from internally defined scenarios	45,550	19,717
Earthquake in New Madrid Seismic Zone (USA), triggering industry wide property claims of $102,000,000 from an extreme stress scenario test	57,842	16,670

42. INSURANCE RISK

42.1 Property and casualty insurance risks (continued)

(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.

For other insurance risks, insurers limit their exposure by event or 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.

42. INSURANCE RISK

42.1 Property and casualty insurance risks (continued)

The principal features of retention programs used in the Group's Caribbean and UK operations are summarised in the tables below:

Caribbean operations	**Retention by insurers -** currency amounts in thousands
Property risks	• maximum retention of $10,000 for a single event; • maximum retention of $5,000 for a catastrophic event; • quota share retention to maximum of 30% in respect of the treaty limits; • quota share retention is further reduced to a maximum of $500 per event.
Motor and liability risks	• maximum retention of $1,000 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 risk	• 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.

42. INSURANCE RISK (continued)

42.1 Property and casualty insurance risks (continued)

UK operations	**Retention by insurers** - currency amounts in thousands
All property and accident risks – syndicate underwriting years 2005 and 2006	• 0% retention
Property risks – syndicate underwriting years 2007 and 2008	• maximum retention of $1,250 per risk; • maximum retention of $7,500 for 1st loss, $5,000 for 2nd loss, $5000 for 3rd loss and $12,500 for 4th loss, for catastrophe exposed events; • treaty limits apply.
Miscellaneous accident risks – syndicate underwriting years 2007 and 2008	• maximum retention of $2,000 (2007 - $1,250) per risk; • maximum retention of $3,000 per event; • maximum retention of £1,250 per travel and medical risk; • treaty limits apply
Special lines – syndicate underwriting year 2008	• maximum retention of £1,000 per event; • treaty limits apply.
Treaty lines – syndicate underwriting year 2008	• maximum retention of $2,000 per event; • treaty limits apply.

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.

42.2 Term life, health and critical illness insurance risks

(a) Pricing risk

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

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.

42. INSURANCE RISK (continued)

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

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 polices, resulting in an increase in expense risk.

(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.

Year ended December 31, 2008 Amounts expressed in US $000

42. INSURANCE RISK (continued)

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

(d) Financial risk

In addition to the risks outlined in note 41, for inforced 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 of insurance 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 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	
	2008	2007	2008	2007
Contracts issued to individuals – life insurance	15,347,521	12,491,143	11,977,508	9,435,236
Contracts issued to groups – life insurance	8,136,102	7,978,419	6,181,801	5,628,106

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.

42. INSURANCE RISK (continued)

42.5 Reinsurance risk (life, annuity and health insurance) (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. 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 $400
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 $100
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 79% of total insurance liabilities at balance sheet date (2007 – 81%). 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.

43. SENSITIVITY ANALYSIS OF ACTUARIAL LIABILITIES (continued)

43.1 Sensitivity arising from the valuation of life insurance and annuity contracts (continued)

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 balance sheet 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.

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 operating in the Caribbean region are as follows.

(i) Worsening rate of lapse. For business which produces higher valuation reserves with an increase in lapse rates, the scenario lapse rates were increased. For business which produces higher valuation reserves with a decrease in lapse rates, the scenario lapse rates were decreased.

(ii) High interest rate. Assumed increases in the investment portfolio yield rates of 0.25% per year for 5 years or 0.5% for 10 years were tested in this scenario.

(iii) Low interest rate. Assumed decreases in investment portfolio yield rates of 0.25% per year for 5 years or 0.5% per year for 10 years were tested in this scenario.

(iv) Worsening mortality and morbidity. To test this scenario, mortality and morbidity rates for insurance and critical illness products were increased by 3% of the base rate per year for 5 years. For annuity products, the mortality and morbidity rates were decreased by 3% of the base rate for 5 years.

43. SENSITIVITY ANALYSIS OF ACTUARIAL LIABILITIES (continued)

43.2 Dynamic capital adequacy testing (DCAT) (continued)

(v) Higher expenses. To test this scenario, policy unit maintenance expense rates were increased by 5% for 5 years above those reflected in the base scenario.

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.

The following table represents the estimated sensitivity of each of the above scenarios to net actuarial liabilities at balance sheet date for insurers in the Caribbean region.

Caribbean operations:	**As of December 31, 2008**		**As of December 31, 2007**	
	$000	**%**	**$000**	**%**
Base net actuarial liability	987,610	100.0	847,647	100.0
Scenario	**(Increase)**		**(Increase)**	
(i) Worsening rate of lapse	(30,647)	(3.1)	(31,892)	(3.8)
(ii) High interest rate	115,227	11.7	152,475	18.0
(iii) Low interest rate	(111,100)	(11.2)	(74,486)	(8.8)
(iv) Worsening mortality / morbidity	(39,959)	(4.0)	(29,092)	(3.4)
(v) Higher expenses	(23,150)	(2.3)	(21,109)	(2.5)

The use of differing sensitivity rates by insurers reflects differences in the insurers' environment. The scenarios developed and tested by insurers operating in the USA are as follows:

(vi) Adverse lapse. For business which produces higher valuation reserves with an increase in lapse rates, the base lapse rates were doubled. For business which produces higher valuation reserves with a decrease in lapse rates, the base lapse rates were halved.

(vii) Increasing interest rate. A 1% flat increase was applied to the statutory and pricing interest rate.

(viii) Decreasing interest rate. A 1% flat decrease was applied to the statutory and pricing interest rate.

(ix) Adverse mortality. To test this scenario for life insurance products only, the base assumed rates were changed by a graded 15% increase over five years.

(ix) Higher expenses. To test this scenario, the assumed inflation rate was increased by 1% for five years.

43. SENSITIVITY ANALYSIS OF ACTUARIAL LIABILITIES (continued)

43.2 Dynamic capital adequacy testing (DCAT) (continued)

Correlations that may exist between assumptions were not explicitly taken into account.

The following table represents the estimated sensitivity of each of the above scenarios to net actuarial liabilities at balance sheet date for insurers in the USA.

USA operations:	As of December 31, 2008		As of December 31, 2007	
	$000	%	$000	%
Base net actuarial liability	247,369	100.0	268,897	100.0
Scenario	**(Increase)**		**(Increase)**	
(vi) Worsening rate of lapse	(14,687)	(5.9)	(642)	(0.2)
(vii) High interest rate	14,806	6.0	20,001	7.4
(viii) Low interest rate	(17,099)	(6.9)	(24,176)	(9.0)
(ix) Worsening mortality/morbidity	(6,047)	(2.4)	(3,766)	(1.4)
(x) Higher expenses	(95)	0.0	(1,240)	(0.5)

44. DEVELOPMENT OF PROPERTY AND CASUALTY CLAIMS

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, 2008 Amounts expressed in US $000

44. DEVELOPMENT OF PROPERTY AND CASUALTY CLAIMS (continued)

(a) Caribbean operations

In the table below, the estimate of total claims incurred for each accident year is provided at successive year ends. (Accident year is the financial year in which the claim is incurred). The most recent estimate is then reconciled to the balance sheet liability.

Gross	Accident year				Total
	2005	2006	2007	2008	
Estimate of ultimate claims incurred:					
At the end of the reporting year	12,975	12,726	23,845	43,433	92,979
One year later	14,524	11,757	18,389	-	-
Two years later	13,490	11,812	-	-	-
Three years later	13,440	-	-	-	-
Most recent year	13,440	11,812	18,389	43,433	87,074
Cumulative payments to date	(12,342)	(8,459)	(14,217)	(21,382)	(56,400)
Liability recognised in the balance sheet	1,098	3,353	4,172	22,051	30,674
Liability in respect of prior years					5,691
Total liability					36,365
Net favourable (unfavourable) development	(465)	914	5,456	-	5,905

Year ended December 31, 2008 Amounts expressed in US $000

44. DEVELOPMENT OF PROPERTY AND CASUALTY CLAIMS (continued)

The reinsurers' share of the amounts in the foregoing table is set out below.

Reinsurers' share	Accident year				Total
	2005	2006	2007	2008	
Estimate of ultimate claims incurred:					
At the end of the reporting year	3,827	2,732	11,408	33,453	51,420
One year later	3,202	2,335	8,001	-	-
Two years later	3,023	2,488	-	-	-
Three years later	2,996	-	-	-	-
Most recent year	2,996	2,488	8,001	33,453	46,938
Cumulative receipts to date	(2,915)	(1,347)	(6,077)	(15,717)	(26,056)
Recoverable recognised in the balance sheet	81	1,141	1,924	17,736	20,882
Recoverable in respect of prior years					1,977
Total recoverable from reinsurers					22,859
Net (favourable) unfavourable development	831	244	3,407	-	4,482

Year ended December 31, 2008 Amounts expressed in US $000

44. DEVELOPMENT OF PROPERTY AND CASUALTY CLAIMS (continued)

(b) UK operations

In the table below, the estimate of total claims incurred for each underwriting year is provided at successive year ends. (Underwriting year is the calendar year to which the policy year's premium has been allocated). The most recent estimate is then reconciled to the balance sheet liability.

Gross	Underwriting year			Total
	2006	2007	2008	
Estimate of ultimate claims incurred:				
At the end of the reporting year	46,248	53,571	104,920	204,739
One year later	34,642	55,051	-	-
Two years later	33,024	-	-	-
Most recent year	33,024	55,051	104,920	192,995
Cumulative payments to date	(25,319)	(27,716)	(6,457)	(59,492)
Claims anticipated on unearned premiums	-	(4,151)	(59,358)	(63,509)
Liability recognised in the balance sheet	7,705	23,184	39,105	69,994
Liability in respect of prior years				32,614
Total liability				102,608
Net favourable (unfavourable) development	13,224	(1,480)	-	11,744

Year ended December 31, 2008 Amounts expressed in US $000

44. DEVELOPMENT OF PROPERTY AND CASUALTY CLAIMS (continued)

The reinsurers' share of the amounts in the foregoing table is set out below.

Reinsurers' share	Underwriting year			Total
	2006	2007	2008	
Estimate of ultimate claims incurred:				
At the end of the reporting year	-	-	9,629	9,629
One year later	-	2,781	-	-
Two years later	124	-	-	-
Most recent year	124	2,781	9,629	12,534
Cumulative payments to date	-	-	(124)	(124)
Recoverable from claims anticipated on unearned premiums	-	-	(3,580)	(3,580)
Recoverable recognised in the balance sheet	124	2,781	5,925	8,830
Recoverable in respect of prior years				6,060
Total recoverable from reinsurers				14,890
Net (favourable) unfavourable development	(124)	(2,781)	-	(2,905)

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.

Year ended December 31, 2008 Amounts expressed in US $000

45. CAPITAL MANAGEMENT (continued)

45.1 Capital resources

The principal capital resources of the Group at balance sheet date were as follows:

	2008	2007
Shareholders' equity	447,751	455,174
Minority interest	121,397	122,137
Notes and loans payable	164,306	152,719
Total balance sheet capital resources	733,454	730,030
Letter of credit facilities	74,899	80,016
Total off balance sheet resources	74,899	80,016
Total capital resources	808,353	810,046

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.

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.

Year ended December 31, 2008 Amounts expressed in US $000

45. CAPITAL MANAGEMENT (continued)

45.2 Capital adequacy (continued)

The consolidated MCCSR for the Sagicor Group as of December 31 is set out below.

	2008	2007
	MCCSR	MCCSR
Sagicor Group	244%	263% (1)

(1) Excludes Sagicor Life Insurance Company (USA) whose capital adequacy ratio was computed on a US basis.

(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 are as follows:

	2009 underwriting year	2008 underwriting year	2007 underwriting year
	FaL - £000	FaL - £000	FaL - £000
Syndicate 1206	65,000	41,407	33,125
Syndicate 44	2,833	742	n/a (prior to Group ownership)

Year ended December 31, 2008 Amounts expressed in US $000

45. CAPITAL MANAGEMENT (continued)

45.2 Capital adequacy (continued)

As of December 31, 2008, the Group satisfied the 2009 underwriting FaL by the provision of a banker's letter of credit in the amount of £52,100,000, cash of £742,000 and by the provision by a reinsurer, under an excess of loss reinsurance contract, of a letter of credit of £15,000,000. For the 2008 underwriting year, the corresponding amounts were the provision of a banker's letter of credit in the amount of £41,407,000 and cash of £742,000.

(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- balance sheet 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, 2008 and 2007. 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).

	PCFS		PCB		PCAM	
	2008	2007	2008	2007	2008	2007
Actual capital base to risk weighted assets	51%	77%	16%	20%	169%	323%
Required capital base to risk weighted assets	10%	10%	10%	10%	10%	10%

Year ended December 31, 2008 Amounts expressed in US $000

45. CAPITAL MANAGEMENT (continued)

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 2008 and 2007 are set out below.

	2008	2007
10% of consolidated net tangible assets	104,643	105,543
Other liens outstanding:		
Letter of credit facilities from The Bank of Nova Scotia	74,899	80,016

(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.

As of December 31, 2008 and 2007, 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, 2008 and 2007, the Group's interest coverage ratio was 11.3:1 and 11.0:1 respectively.

45. CAPITAL MANAGEMENT (continued)

45.3 Financial covenants (continued)

(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 2007, and up to the date of issue of these financial statements, Sagicor Life Inc maintained financial strength ratings of BBB+ from Standard & Poor's and of A from A.M. Best.

(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.

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 $743,742 (2007 - $748,913) 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.

Year ended December 31, 2008 Amounts expressed in US $000

47. FIDUCIARY RISK (continued)

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 balance sheet. The investments and cash under administration by geographical segment are as follows:

	2008	2007
Barbados	425,037	401,641
Jamaica	838,752	1,074,724
Trinidad & Tobago	13,807	7,251
Other Caribbean	35,997	23,491
	1,313,593	1,507,107