Sagicor

SAGICOR FINANCIAL CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2011

pwc

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Sagicor Financial Corporation

We have audited the accompanying consolidated financial statements of Sagicor Financial Corporation and its subsidiaries, which comprise the consolidated statement of financial position as of December 31,2011 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sagicor Financial Corporation and its subsidiaries as of December 31, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SRL

PricewaterhouseCoopers SRL
Bridgetown, Barbados
March 30, 2012

SAGICOR FINANCIAL CORPORATION

APPOINTED ACTUARY'S

2011 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 (Barbados),
- 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 Life Insurance Company (Texas, USA) *, and
- Laurel Life Insurance Company (Texas, USA) *,

for the balance sheet, at 31st December 2011, 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 their work in order to issue this certificate.

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

Sylvain Goulet, FSA, FCIA, MAAA
Affiliate Member of the Institute and Faculty of Actuaries
Affiliate Member of the Caribbean Actuarial Association

Sylvain Goulet

Appointed Actuary for Sagicor Financial Corporation
23 March 2012

Amounts expressed in US$000

	Note	2011	2010
ASSETS			
Investment property	5	122,185	119,169
Property, plant and equipment	7	137,017	131,407
Investment in associated companies	6	33,683	32,929
Intangible assets	8	120,787	123,379
Financial investments	9	4,092,166	3,636,832
Reinsurance assets	10	331,309	281,848
Income tax assets	11	41,706	27,764
Miscellaneous assets and receivables	12	300,558	295,867
Cash resources		184,662	218,635
Total assets		**5,364,073**	**4,867,830**

	Note	2011	2010
LIABILITIES			
Actuarial liabilities	13	1,876,477	1,753,712
Other insurance liabilities	14	788,680	665,634
Investment contract liabilities	15	315,559	294,338
Total policy liabilities		2,980,716	2,713,684
Notes and loans payable	16	232,530	181,885
Deposit and security liabilities	17	1,083,565	983,551
Provisions	18	44,172	38,834
Income tax liabilities	19	31,170	23,800
Accounts payable and accrued liabilities	20	194,387	187,235
Total liabilities		**4,566,540**	**4,128,989**
EQUITY			
Share capital	21	296,048	277,172
Reserves	22	20,865	(14,406)
Retained earnings		290,222	302,786
Total shareholders' equity		607,135	565,552
Participating accounts	23	2,201	4,347
Minority interest in subsidiaries		188,197	168,942
Total equity		**797,533**	**738,841**
Total equity and liabilities		**5,364,073**	**4,867,830**

These financial statements have been approved for issue by the Board of Directors on March 30, 2012.

Director

D. Miller

Director

CONSOLIDATED STATEMENT OF INCOME

Sagicor Financial Corporation

Year ended December 31, 2011

Amounts expressed in US$000

	Note	2011	2010
REVENUE			
Premium revenue	24	1,165,679	1,047,021
Reinsurance premium expense	24	(161,352)	(146,071)
Net premium revenue		1,004,327	900,950
Net investment income	25	284,967	293,280
Fees and other revenue	26	61,322	61,867
Total revenue		1,350,616	1,256,097
BENEFITS			
Policy benefits and change in actuarial liabilities	27	871,285	745,079
Policy benefits and change in actuarial liabilities reinsured	27	(113,660)	(53,370)
Net policy benefits and change in actuarial liabilities		757,625	691,709
Interest expense	28	70,995	77,997
Total benefits		828,620	769,706
EXPENSES			
Administrative expenses		223,681	212,092
Commissions and related compensation		207,154	174,116
Premium taxes		9,448	8,600
Finance costs		17,077	16,369
Depreciation and amortisation		19,307	18,269
Total expenses		476,667	429,446
INCOME BEFORE TAXES		45,329	56,945
Income taxes	32	(13,486)	(15,310)
NET INCOME FOR THE YEAR		31,843	41,635

	Note	2011	2010
Net income is attributable to:			
Common shareholders		973	16,560
Participating policyholders		(1,878)	(1,265)
Minority interests		32,748	26,340
		31,843	41,635
Earnings per common share:			
Basic earnings per common share	34	0.2 cents	5.7 cents
Fully diluted earnings per common share	34	0.2 cents	5.7 cents

Amounts expressed in US$000

OTHER COMPREHENSIVE INCOME	Note	2011	2010
Items net of tax that may be reclassified subsequently to income:	35		
Available for sale assets:			
Unrealised gains / (losses) arising on revaluation		17,286	47,542
(Gains) / losses transferred to income		(5,338)	(4,445)
Net change in actuarial liabilities		(11,459)	(10,576)
Retranslation of foreign currency operations		(1,803)	6,007
Other items		-	(309)
		(1,314)	38,219
Items net of tax that will not be reclassified subsequently to income:	35		
Unrealised gains / (losses) arising on revaluation of owner occupied property		3,009	770
OTHER COMPREHENSIVE INCOME FOR THE YEAR		1,695	38,989

TOTAL COMPREHENSIVE INCOME	Note	2011	2010
Net income		31,843	41,635
Other comprehensive income		1,695	38,989
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		33,538	80,624
Total comprehensive income is attributable to:			
Common shareholders		3,685	38,208
Participating policyholders		(1,893)	(1,247)
Minority interests		31,746	43,663
		33,538	80,624
Total comprehensive earnings per common shares:			
Basic total comprehensive earnings per common share	34	1.1 cents	13.2 cents

Amounts expressed in US$000

	Share Capital (note 21)	Reserves (note 22)	Retained Earnings	Total Shareholders' Equity	Participating Accounts (note 23)	Minority Interests	Total Equity
Year ended December 31, 2011							
Balance, beginning of year	277,172	(14,406)	302,786	565,552	4,347	168,942	738,841
Total comprehensive income	-	2,712	973	3,685	(1,893)	31,746	33,538
Transactions with holders of equity instruments:							
Allotments of common shares	19,799	-	-	19,799	-	-	19,799
Movements in treasury shares	(923)	-	-	(923)	-	-	(923)
Net allocation to preference share reserve	-	31,309	-	31,309	-	-	31,309
Changes in reserve for equity compensation benefits	-	2,047	-	2,047	-	(50)	1,997
Dividends declared (note 21.3)	-	-	(14,328)	(14,328)	-	(13,489)	(27,817)
Transfers and other movements	-	(797)	791	(6)	(253)	1,048	789
Balance, end of year	296,048	20,865	290,222	607,135	2,201	188,197	797,533
Year ended December 31, 2010							
Balance, beginning of year	278,252	(42,609)	302,431	538,074	5,851	137,503	681,428
Total comprehensive income	-	21,648	16,560	38,208	(1,247)	43,663	80,624
Transactions with holders of equity instruments:							
Allotments of common shares	659	-	-	659	-	264	923
Movements in treasury shares	(1,739)	-	-	(1,739)	-	-	(1,739)
Changes in reserve for equity compensation benefits	-	2,321	-	2,321	-	-	2,321
Dividends declared (note 21.3)	-	-	(11,591)	(11,591)	-	(8,988)	(20,579)
Disposal of interest in subsidiary	-	64	-	64	-	(3,722)	(3,658)
Transfers and other movements	-	4,170	(4,614)	(444)	(257)	222	(479)
Balance, end of year	277,172	(14,406)	302,786	565,552	4,347	168,942	738,841

Amounts expressed in US$000

	Note	2011	2010
OPERATING ACTIVITIES			
Income before taxes		45,329	56,945
Adjustments for non-cash items, interest and dividends	36.1	(63,616)	6,538
Interest and dividends received		249,266	244,219
Interest paid		(83,487)	(95,283)
Income taxes paid		(19,823)	(17,506)
Net increase in investments and operating assets	36.1	(459,032)	(377,234)
Net increase in operating liabilities	36.1	269,107	170,042
Net cash flows - operating activities		(62,256)	(12,279)
INVESTING ACTIVITIES			
Property, plant and equipment, net	36.2	(12,792)	(10,252)
Investment in associated companies, net		1,655	1,357
Intangible assets, net		(6,226)	(5,066)
Divestiture and acquisition of subsidiaries and insurance businesses, net of cash and cash equivalents		-	11,543
Net cash flows - investing activities		(17,363)	(2,418)

	Note	2011	2010
FINANCING ACTIVITIES			
Allotment of common shares		19,799	-
Movement in treasury shares		(1,358)	(1,739)
Allotment of preference shares	21.2	115,906	-
Shares issued to minority interests		197	114
Other notes and loans payable, net	36.3	(36,808)	(14,452)
Dividends paid to common shareholders		(11,589)	(11,441)
Dividends paid to preference shareholders		(2,544)	-
Dividends paid to minority interests		(13,489)	(8,988)
Net cash flows - financing activities		70,114	(36,506)
Effects of exchange rate changes		(4,904)	653
NET CHANGE IN CASH AND CASH EQUIVALENTS		(14,409)	(50,550)
Cash and cash equivalents, beginning of year		279,068	329,618
CASH AND CASH EQUIVALENTS, END OF YEAR	36.4	264,659	279,068

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.

Sagicor and its subsidiaries 'the Group' operate across the Caribbean, in the United States of America (USA) and in the United Kingdom (UK). Details of the Sagicor's holdings and operations are set out in note 4.

The principal activities of the Sagicor Group are as follows:

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

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 activities.

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).

2.1 Basis of preparation (continued)

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

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

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

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

(a) Amendments to IFRS

There are no new or amended standards which are effective for the 2011 financial year which have a significant impact on the presentation, measurement or disclosure in the Group's financial statements.

Amended standards which are effective for the 2011 financial year that have no significant impact on the Group's financial statements are listed in the following table.

Amounts expressed in US$000

2.1 Basis of preparation (continued)

IFRS	Subject of amendment
IFRS 1 – First-time adoption of IFRS	Accounting policy changes in year of adoption
	Revaluation basis as deemed cost
	Use of deemed cost for operations subject to rate regulation
IFRS 3 – Business combinations	Transition requirements for contingent consideration
	Measurement of non-controlling interests
	Un-replaced and voluntary replaced share- based payment awards
IFRS 7 – Financial Instruments: Disclosures	Clarification of disclosures
IAS 1 – Presentation of Financial Statements	Clarification of statements of changes in equity
IAS 27 – Consolidated and Separate Financial Statements	Transition requirements for 2010 amendments
IAS 34 – Interim Financial Reporting	Significant events and transactions
IAS 24 – Related Party Disclosures	Simplifying the definition of related parties
	Partial exemption for government-related entities
IAS 32 – Financial Instruments: Presentation	Classification of rights issues

The Group has amended the presentation in the statement of equity in order to provide greater clarity to transactions with holders of equity instruments.

2.1 Basis of preparation (continued)

The Group has voluntarily adopted the following amendments ahead of the required dates for adoption.

IFRS	Subject of amendment	Adopted by the Group from
IAS 1 – Presentation of Financial Statements	Presentation of Items of Other Comprehensive Income	2011
IAS 12 - Income Taxes	Deferred Tax: Recovery of Underlying Assets	2010

(b) Amendments to International Financial Reporting Interpretations

The International Financial Reporting Interpretations Committee (IFRIC) has issued new or amended interpretations which are effective from 2011. These interpretations, which do not impact significantly the presentation, measurement or in disclosure in these financial statements, are as follows:

IFRIC	New IFRIC / subject of amendment
IFRIC 13 – Customer Loyalty Programmes	Fair value of award credits
IFRIC 14 – IAS 19 The Limit of a Defined Benefit Asset	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

Amounts expressed in US$000

2.1 Basis of preparation (continued)

(c) Future accounting developments

Certain new standards and amendments have been issued which were not effective at the date of the financial statements. The changes in standards and interpretations which may have a significant effect on future presentation, measurement or disclosure of the Group's financial statements are summarised in the following tables.

IFRS (Effective Date)	Subject / Comments
IFRS 9 – Financial Instruments (January 1, 2015)	Classification and measurement of financial instruments IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. The determination is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. IFRS 9 has amended the treatment, applicable to financial liabilities designated at fair value, of changes in own credit risk. Such changes are to be recorded in other comprehensive income unless part of a hedging relationship. This standard does not address changes contemplated by the International Accounting Standards Board with respect to the following related items: • impairment methodology for financial assets • hedge accounting
IFRS 7 – Financial Instruments: Disclosures (July 1, 2011)	Disclosures - Transfers of Financial Assets The amendments will assist users of financial statements to evaluate the risk exposures relating to transfers of assets and the effect of those risks on an entity's financial position. Disclosure requirements are set out respectively for transferred assets that are not de-recognised entirely or that are de-recognised entirely.

2.1 Basis of preparation (continued)

IFRS (Effective date)	Subject / Comments
IFRS 10 – Consolidated Financial Statements IFRS 11 – Joint Arrangements IFRS 12 – Disclosure of Interests in Other Entities (January 1, 2013)	Consolidation and Interests in Other Entities These new standards partially or wholly replace IAS 27, IAS 28 and IAS 31 and: • Refine the definition of control over entities and consequently define interests that require consolidation. • Introduce new accounting requirements for joint arrangements. • Require enhanced disclosures about both consolidated and unconsolidated entities so that users of financial statements may evaluate the basis of control, restrictions on assets and liabilities, risk exposures from involvements with unconsolidated entities and non-controlling interests' involvement in consolidated entities.
IFRS 13 - Fair Value Measurement (January 1, 2013)	Fair Value The standard defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies to financial and non-financial assets and liabilities that are measured at fair value. The fair value hierarchy concept defined in IFRS 7 has been transferred to and enhanced by this standard. The standard summarises the main valuation techniques which should be applied. Additional disclosures are required to support the Levels 1 to 3 classifications. Disclosures are also categorised according to assets / liabilities which are recurring and which are non-recurring.

2.1 Basis of preparation (continued)

IFRS / (Effective date)	Subject / Comments
IAS 19 – Employee Benefits (January 1, 2013)	Measurement The option which allows the deferral of actuarial gains and losses within the 10% corridor is withdrawn. Accordingly, changes are reported as they occur. Service cost and finance cost are to be included in income, while re-measurements are included in other comprehensive income.
IFRS 7 – Financial Instruments: Disclosures IAS 32 - Financial Instruments Presentation (January 1, 2014)	Offsetting Financial Assets and Financial Liabilities These amendments clarify the presentation of certain offsetting requirements and amend the disclosure to include information on the effect of netting arrangements.

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.

2.2 Basis of consolidation (continued)

The Group uses the acquisition method of accounting when control over entities and insurance businesses is obtained by the Group. The cost of an acquisition is measured as the fair value of the identifiable assets given, the equity instruments issued and the liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date irrespective of the extent of any minority interest.

The excess of the cost of the acquisition, the minority interest recognised and the fair value of any previously held equity interest in the acquiree, over the fair value of the of the net identifiable assets acquired is recorded as goodwill. If there is no excess and there is a shortfall, the Group reassesses the net identifiable assets acquired. If after reassessment, a shortfall remains, the acquisition is deemed to be a bargain purchase and the shortfall is recognised in income as a gain on acquisition.

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

Minority interest balances represent the equity in a subsidiary not attributable to Sagicor's interests.

On an acquisition by acquisition basis, the Group recognises at the date of acquisition the components of any minority interest in the acquiree either at fair value or at the proportionate share of the acquiree's net identifiable assets. The latter option is only available if the minority interest component is entitled to a proportionate share of net identifiable assets of the acquiree in the event of liquidation. For certain components of minority interests, other IFRS may override the fair value option.

Minority interest balances are subsequently re-measured by the minority's proportionate share of changes in equity after the date of acquisition.

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 other comprehensive income, its share of associated companies' post acquisition other comprehensive income.

(c) Joint Ventures

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

(d) Divestitures

On the disposal of or loss of control of a subsidiary, the Group de-recognises the related assets, liabilities, minority interest and associated goodwill of the subsidiary. The Group reclassifies its share of balances of the subsidiary previously recognised in other comprehensive income either to income or to retained earnings as appropriate. The gain (or loss) on divestiture recorded in income is the excess (or shortfall) of the fair value of the consideration received over the de-recognised and reclassified balances.

2.2 Basis of consolidation (continued)

(e) Pension and investment funds

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

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

(f) Employees share ownership plan (ESOP)

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

2.3 Foreign currency translation

(a) Functional and presentational currency

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

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

Amounts expressed in US$000

2.3 Foreign currency translation (continued)

(b) Reporting units

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

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

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

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

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

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

	December 2011 closing rate	2011 average rate	December 2010 closing rate	2010 average rate
Barbados dollar	2.0000	2.0000	2.0000	2.0000
Jamaica dollar	86.3356	85.8396	85.6606	87.4076
Trinidad & Tobago dollar	6.4094	6.4018	6.3766	6.3424
Pound sterling	0.6468	0.62112	0.6388	0.64716

2.3 Foreign currency translation (continued)

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

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

(c) Transactions and balances

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

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

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

2.4 Segments

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

2.5 Investment property

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

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

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

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

Rental income is recognised on an accruals basis.

2.6 Property, plant and equipment

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

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

2.6 Property, plant and equipment (continued)

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

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

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

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

Lands are not depreciated.

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

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

2.7 Intangible assets

(a) Goodwill

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

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

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

On disposal of a subsidiary or insurance business, the associated goodwill is de-recognised and is included in the gain or loss on disposal. On the disposal of a subsidiary or insurance business forming part of a reportable operating segment, the proportion of goodwill disposed is the proportion of the fair value of the asset disposed to the total fair value of the operating segment.

(b) Other intangible assets

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

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

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

2.7 Intangible assets (continued)

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

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

2.8 Financial assets

a) Classification

The Group classifies its financial assets into four categories:

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

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

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

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

2.8 Financial Assets (continued)

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

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

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

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

(b) Recognition and measurement

Purchases and sales of financial investments are recognised on the trade date. 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.

2.8 Financial Assets (continued)

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

(c) Fair value

Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market value, if one exists. The estimated fair values of financial assets are based on quoted bid prices of securities as at December 31 where available.

(d) Impaired financial assets

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

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

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

2.8 Financial Assets (continued)

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

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

(e) Securities purchased for re-sale

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

(f) Finance leases

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

2.8 Financial Assets (continued)

(g) Derivative financial instruments and hedging activities

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

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

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

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

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

2.8 Financial Assets (continued)

(h) Embedded derivatives

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

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

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

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

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

2.9 Real estate developed or held for resale

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

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

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

2.10 Impairment of non-financial assets

The Group's policy for the potential impairment of property, plant, equipment and, intangible assets is set out below.

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

2.11 Cash and cash equivalents

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

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

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

2.12 Policy contracts

(a) Classification

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

2.12 Policy contracts (continued)

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

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

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

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

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

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

Residual gains in the participating accounts constitute discretionary participation features which the Group classifies as equity (see also note 2.21).

2.12 Policy contracts (continued)

(b) Recognition and measurement

(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 liability.

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

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

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

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

The claim reserve is discounted for separate reserving classes of insurance where the expected average interval between the dates of incurral and settlement is at least 4 years (defined as long-tail claims). The claim reserve is not discounted for other reserving classes of insurance.

2.12 Policy contracts (continued)

For each reserving class, claims data is aggregated separately to which particular statistical techniques and common estimation factors are applied. For example, direct motor is divided into sub-classes, injury and property damage. Injury claims are discounted because they satisfy the criteria of being long-tail claims, while property damage claims are not discounted.

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

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

(ii) Health insurance contracts

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

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

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

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

2.12 Policy contracts (continued)

(iii) Long-term traditional insurance contracts

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

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

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

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

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

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

2.12 Policy contracts (continued)

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

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

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

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

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

An insurer may obtain reinsurance coverage for death benefit insurance risks. Typically, coverage is obtained for individual coverage exceeding prescribed limits. The reinsurance premium is expensed when due, 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 generally recognised only on settlement of premiums.

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 assumed the risk direct from a policyholder.

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

(vi) Reinsurance contracts held

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

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

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

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

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

2.12 Policy contracts (continued)

(vii) *Deposit administration and other investment contracts*

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

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

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

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

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

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

(c) Embedded derivatives

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

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

2.12 Policy contracts (continued)

(d) Liability adequacy tests

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

2.13 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 the 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 insurer and industry experience and are updated annually.

2.13 Actuarial liabilities (continued)

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.

Under CALM, assets of each insurer are selected to back its actuarial liabilities. Changes in the carrying value of these assets may generate corresponding changes in the carrying amount of the associated actuarial liabilities. These assets include available for sale securities, whose changes in carrying value are recorded in other comprehensive income. The fair value reserve for actuarial liabilities has been established in the statement of equity for the accumulation of the related amounts recorded in other comprehensive income.

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

(b) Health insurance contracts

The actuarial liabilities of health insurance policies are estimated in respect of claims that have been incurred but not yet reported or settled.

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 for re-purchase

Securities sold under agreements to repurchase are recognised initially at fair value and are subsequently stated at amortised cost. Securities sold for re-purchase are treated as collateralised financing transactions. The difference between the sale and re-purchase 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) Loan obligations

Loan obligations are recognised initially at fair value, being their issue proceeds, net of transaction costs incurred. Subsequently, loan obligations 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 loan obligations using the effective yield method.

Loan obligations undertaken for the purposes of financing operations and capital support are classified as notes or loans payable and the associated cost is classified as finance costs. Loan obligations undertaken for the purposes of providing funds for on-lending, leasing or portfolio investments are classified as deposit and security liabilities and the associated cost is included in interest expense.

2.14 Financial liabilities (continued)

(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.

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

2.18 Employee benefits

(a) Pension benefits

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

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

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

2.18 Employee benefits (continued)

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

(b) Other retirement benefits

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

(c) Profit sharing and bonus plans

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

(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.

2.18 Employee benefits (continued)

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

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

Non-market vesting conditions are included in assumptions about the number of instruments that are expected to vest. At each reporting financial statement date, the Group revises its estimates of the number of instruments that are expected to vest based on the non-marketing vesting conditions and adjusts the expense accordingly.

Amounts held in the reserve for equity compensation benefits are transferred to share capital or minority interest either on the distribution of share grants or on the exercise of share options.

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

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

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

Amounts expressed in US$000

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

(e) Termination benefits

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

2.19 Taxes

(a) Premium taxes

Insurers are subject to tax on premium revenues generated in certain jurisdictions. The principal rates of premium tax are summarised in the following table.

2.19 Taxes (continued)

Premium tax rates	Life insurance and non-registered annuities	Health insurance	Property and casualty insurance
Barbados	3% - 6%	4%	4.0% - 4.75%
Jamaica	3%	Nil	Nil
Trinidad and Tobago	Nil	Nil	6%
United States of America	0.75% - 3.5%	Nil	Nil

(b) Income taxes

The Group is subject to taxes on income in the jurisdictions in which business operations are conducted. Rates of taxation in the principal jurisdictions for income year 2011 are as follows:

Income tax rates	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	26.5% of net income	n/a	26.5% of net income
United States of America	35% of net income	35% of net income	35% of net income

2.19 Taxes (continued)

(i) Current income taxes

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

(ii) Deferred income taxes

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

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

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

2.20 Common and preference shares

(a) Common shares

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

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

2.20 Common and preference shares (continued)

(b) Preference shares

On July 18, 2011, the Company issued convertible redeemable preference shares that are accounted for as a compound financial instrument. The shares are contractually redeemable on July 18, 2016 if the shareholder has not opted to convert the shares prior to this date. Dividends may be declared semi-annually by the Company's directors.

The redemption value is recognised as a contractual liability, and is measured initially at its discounted fair value. The discount rate reflects (i) the rate of interest applicable to a similar liability with a contractual dividend rate, and (ii) the interest premium required by the shareholder for an instrument with a non-contractual dividend. The liability component is disclosed in note 16.

The preference shareholders' rights to receive dividends is recognised within shareholders' equity, and is measured initially as the residual fair value of the preference shares in their totality after deducting the liability for the redemptive value. The equity component is initially recorded as a preference share reserve in note 22.

Incremental costs directly attributable to the issue of the preference shares are allocated between the liability for the redemption value and the equity reserve in proportion to their initial carrying amounts.

After initial recognition, the liability component is accreted to its ultimate redemption value using the effective interest yield method, with the accretion being recorded as a finance cost in the statement of income. After initial recognition, the preference share reserve is transferred to retained earnings pro-rata to the dividends declared over the period to redemption.

On the initial recognition of the preference shares, the conversion feature of the instrument was deemed to have no value. Subsequently, when a number of preference shares are converted to common shares, the associated liability for redemption will be extinguished and consequently will be transferred to the share capital account for common shares. Additionally at conversion, the proportion of the preference share reserve attributable to the converted number of preference shares will also be transferred to the share capital account for common shares. In summary, the total transfer to the share capital account for common shares will approximate the original consideration for the converted number of preference shares less attributable issue costs.

2.20 Common and preference shares (continued)

(c) Dividends

On the declaration by the Company's directors of common or preference share dividends payable, the total value of the dividend is recorded as an appropriation of retained earnings.

2.21 Participating accounts

(a) "Closed" participating account

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

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

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

(b) "Open" participating account

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

2.21 Participating accounts (continued)

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

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

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

(c) Financial statement presentation

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

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

2.22 Statutory reserves

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

2.23 Presentation of current and non-current assets and liabilities

In note 41.2, the maturity profiles of financial and insurance assets and liabilities are identified. For other assets and liabilities, balances presented in notes 5 to 8, 10 to 12, 14, 18, 19, 31 and 33 are non-current unless otherwise stated in those notes.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Impairment of financial assets

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

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.

3.3 Impairment of intangible assets

(a) Goodwill

The assessment of goodwill impairment involves the determination of the fair value of the cash generating business units to which the goodwill has been allocated. Determination of fair value involves the estimation of future cash flows or of income after tax 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 Valuation of actuarial liabilities

(a) Canadian asset liability method (CALM)

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

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

3.4 Valuation of actuarial liabilities (continued)

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

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

(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. The latter provision is established in recognition of the uncertainty in computing best estimate reserves, to allow for possible deterioration in experience and to provide greater comfort that reserves are adequate to pay future benefits.

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

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

3.4 Valuation of actuarial liabilities (continued)

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 Estimation of property and casualty claim liabilities

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. Reserving for claims payable, involves 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.

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

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

The Group utilises a variety of standard actuarial reserving methods, including chain ladder and Bornhuetter-Ferguson methodology, to estimate claim liabilities. The Group also engages independent actuaries either to assist in making or to confirm the claim liabilities recognised in the statement of financial position. The ultimate liability arising from claims incurred under property and casualty insurance contracts may be mitigated by recovery arising from reinsurance contracts held.

4. SEGMENTS

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

The Group CEO serves as Board Chairman or as a Board Member of the principal subsidiaries and is the Group's Chief Operating decision maker. Through subsidiary company reporting, the Group CEO obtains details of company performance and of resource allocation needs. Summarisation of planning and results and prioritisation of resource allocation is done at the parent company level where strategic decisions are taken.

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

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Amounts expressed in US$000

4. SEGMENTS (continued)

(a) Sagicor Life Inc

These comprise Group subsidiaries conducting life, health and annuity insurance business, and pension administration services in the Caribbean region, excluding Jamaica and Cayman Islands. During the year, the Trinidad and Tobago operations, comprising the Sagicor Life Inc Trinidad branch, Nationwide Insurance Company Limited and the investment in RGM Limited, were established as a separate operating segment. However, as these operations remain similar in all aspects with the remaining operations of the Sagicor Life Inc operating segment, the Group has decided that these two segments will be presented on an aggregated basis. The companies comprising these aggregated segments are set out in the following two tables.

Sagicor Life Inc Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Inc	Life and health insurance, annuities and pension administration services	Barbados	100%
Sagicor Capital Life Insurance Company Limited	Life and health insurance, annuities and pension administration services	Barbados [(1)]	100%
Sagicor Life Aruba NV	Life and health insurance, annuities and pension administration services	Aruba	100%
Capital Life Insurance Company Bahamas Limited	Life insurance	The Bahamas	100%
Sagicor Panamá, SA	Life and health insurance	Panamá	100%
Nationwide Insurance Company Limited	Life insurance	Trinidad & Tobago	100%

[(1)] Re-domiciled in Barbados on December 30, 2011; formerly incorporated in The Bahamas.

4. SEGMENTS (continued)

Sagicor Life Inc Segment 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	Property investment	Barbados	38%

Amounts expressed in US$000

4. SEGMENTS (continued)

(b) Sagicor Life Jamaica

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

Sagicor Life Jamaica Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Jamaica Limited	Life and health insurance and annuities	Jamaica	59%
Sagicor Life of the Cayman Islands Limited	Life insurance	The Cayman Islands	59%
Sagicor Pooled Investment Funds Limited	Pension fund management	Jamaica	59%
Employee Benefits Administrator Limited	Pension administration services	Jamaica	59%
Sagicor Re Insurance Limited	Property and casualty insurance	The Cayman Islands	59%
Sagicor Insurance Brokers Limited	Insurance brokerage	Jamaica	59%
Sagicor International Administrators Limited	Insurance brokerage	Jamaica	59%
Sagicor Insurance Managers Limited	Captive insurance management services	The Cayman Islands	59%
Pan Caribbean Financial Services Limited	Investment banking	Jamaica	51%
PanCaribbeanBank Limited	Commercial banking	Jamaica	51%

4. SEGMENTS (continued)

Sagicor Life Jamaica Segment Companies (continued)	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Property Services Limited	Property management	Jamaica	59%
LOJ Holdings Limited	Insurance holding company	Jamaica	100%

(c) Sagicor Life USA

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

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

Amounts expressed in US$000

4. SEGMENTS (continued)

(d) Sagicor Europe

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

Sagicor Europe Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor at Lloyd's Limited	Managing agent of Lloyd's of London insurance syndicates	UK – England & Wales	100% (1)
Sagicor Corporate Capital Limited (2)	Property and casualty insurance	UK– England & Wales	100% (1)
Sagicor Cayman Reinsurance Company Limited	Property and casualty reinsurance	The Cayman Islands	100% (1)
Sagicor Corporate Capital Two Limited (3)	Life insurance	UK– England & Wales	100% (1)
Sagicor Syndicate Services Limited	Property and casualty insurance agency	UK– England & Wales	100% (1)
Sagicor Underwriting Limited	Property and casualty insurance agency	UK– England & Wales	100% (1)
Sagicor Syndicate Holdings Limited	Service company	UK– England & Wales	100% (1)
Sagicor Claims Management Inc	Property and casualty insurance claims management	USA - California	100% (1)
Sagicor Europe Limited	Insurance holding company	The Cayman Islands	100% (1)

(1) Effective voting interest is 86% (see note 30.4)
(2) Lloyd's of London corporate underwriting member participating in Syndicate 1206
(3) Lloyd's of London corporate underwriting member participating in Syndicate 44

4. SEGMENTS (continued)

(e) Head office function and other operating companies

These comprise the following:

Other Group Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Financial Corporation	Group parent company	Barbados	100%
Sagicor General Insurance Inc	Property and casualty insurance	Barbados	53%
Sagicor Finance Inc	Loan and lease financing, and deposit taking	St. Lucia	70%
Sagicor Asset Management (T&T) Limited	Investment management	Trinidad & Tobago	100%
Sagicor Asset Management Inc	Investment management	Barbados	100%
Barbados Farms Limited	Farming and real estate development	Barbados	77%
Sagicor Funds Incorporated	Mutual fund holding company	Barbados	100%
Globe Finance Inc	Loan and lease financing, and deposit taking	Barbados	51%
The Mutual Financial Services Inc	Financial services holding company	Barbados	73%
Sagicor Finance Limited	Group financing vehicle	The Cayman Islands	100%

Amounts expressed in US$000

4.1 Statement of income by segment

2011	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor Europe	Sagicor USA	Head office and other	Adjustments	Total
Net premium revenue	232,938	252,353	406,096	102,059	17,200	(6,319)	1,004,327
Interest income	67,302	132,054	7,881	41,182	9,643	-	258,062
Other investment income	6,595	22,685	(1,360)	(2,494)	1,404	75	26,905
Fees and other revenues	12,053	24,211	(552)	1,876	22,401	1,333	61,322
Inter-segment revenues	8,907	1,284	-	-	23,517	(33,708)	-
	327,795	432,587	412,065	142,623	74,165	(38,619)	1,350,616
Net policy benefits	152,903	133,518	286,378	58,646	9,166	-	640,611
Net change in actuarial liabilities	23,526	58,920	479	34,089	-	-	117,014
Interest expense	14,827	47,004	-	5,638	3,526	-	70,995
Administrative expenses	55,719	68,201	43,195	22,860	31,431	2,275	223,681
Commissions and premium taxes	36,928	37,760	122,646	10,947	8,045	276	216,602
Finance costs	-	896	134	-	(164)	16,211	17,077
Depreciation and amortisation	7,093	5,406	1,613	1,329	3,866	-	19,307
Inter-segment expenses	1,857	971	194	546	9,892	(13,460)	-
	292,853	352,676	454,639	134,055	65,762	5,302	1,305,287
Segment income / (loss) before taxes	34,942	79,911	(42,574)	8,568	8,403	(43,921)	45,329
Income taxes	(3,888)	(13,009)	8,546	(2,999)	(1,542)	(594)	(13,486)
Segment income before undernoted items	31,054	66,902	(34,028)	5,569	6,861	(44,515)	31,843
Foreign exchange unwinding [1]	-	-	671	-	-	(671)	-
Group finance costs [2]	-	-	-	-	(23,177)	23,177	-
Net income / (loss) for the year	31,054	66,902	(33,357)	5,569	(16,316)	(22,009)	31,843
Net income attributable to shareholders	32,932	38,005	(33,357)	5,569	(19,603)	(22,573)	973
TCI [3] attributable to shareholders	28,855	37,125	(31,255)	10,036	(17,787)	(23,289)	3,685

Amounts expressed in US$000

4.1 Statement of income by segment (continued)

2010	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor Europe	Sagicor USA	Head office and other	Adjustments	Total
Net premium revenue	215,510	212,609	345,275	120,044	14,708	(7,196)	900,950
Interest income	66,412	128,935	3,219	36,273	10,054	-	244,893
Other investment income	13,855	28,517	(320)	4,521	1,949	(135)	48,387
Fees and other revenues	10,986	19,055	6,884	1,900	18,146	4,896	61,867
Loss on disposal of interest in subsidiary	-	-	-	-	(498)	498	-
Inter-segment revenues	4,348	762	-	-	14,117	(19,227)	-
	311,111	389,878	355,058	162,738	58,476	(21,164)	1,256,097
Net policy benefits	137,342	121,106	235,705	44,269	7,703	-	546,125
Net change in actuarial liabilities	33,747	39,793	221	71,823	-	-	145,584
Interest expense	14,153	52,562	-	5,927	5,355	-	77,997
Administrative expenses	50,878	67,860	38,561	22,006	32,866	(79)	212,092
Commissions and premium taxes	34,571	34,975	95,216	11,776	7,074	(896)	182,716
Finance costs	-	1,577	221	-	100	14,471	16,369
Depreciation and amortisation	5,931	5,309	1,531	1,566	3,932	-	18,269
Inter-segment expenses	335	1,627	97	535	6,867	(9,461)	-
	276,957	324,809	371,552	157,902	63,897	4,035	1,199,152
Segment income / (loss) before taxes	34,154	65,069	(16,494)	4,836	(5,421)	(25,199)	56,945
Income taxes	(5,183)	(8,789)	2,545	(1,692)	(1,885)	(306)	(15,310)
Segment income before undernoted items	28,971	56,280	(13,949)	3,144	(7,306)	(25,505)	41,635
Foreign exchange unwinding [1]	-	-	825	-	-	(825)	-
Group finance costs [2]	-	-	-	-	(18,835)	18,835	-
Net income / (loss) for the year	28,971	56,280	(13,124)	3,144	(26,141)	(7,495)	41,635
Net income attributable to shareholders	30,236	31,960	(13,124)	3,144	(28,161)	(7,495)	16,560
TCI [3] attributable to shareholders	29,977	53,992	(15,052)	7,435	(29,039)	(9,105)	38,208

Amounts expressed in US$000

4.1 Statement of income by segment (continued)

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

	2011	2010
Net premium revenue	680	(2,942)
Commissions	(276)	896
Exchange gains / losses	462	3,177
Income tax	(195)	(306)
Foreign exchange unwinding	671	825

[(2)] Group finance costs represent costs of borrowings and facilities initiated at Group level. These include finance costs relating to the Sagicor 2016 senior notes, the Company's preference shares, a bank loan (repaid in 2011), letter of credit facilities and reinsurance financing relating to Sagicor at Lloyd's. Where material, these costs have been removed from the individual segment which benefits from these borrowings and facilities.

[(3)] TCI denotes total comprehensive income.

4.2 Sagicor Europe - lines of insurance no longer written

In 2011, Sagicor Europe made the decision to exit direct motor and treaty (reinsurance assumed) lines of insurance. The treaty lines comprise international property, motor and liability risks. The adverse claims experience of these lines of insurance generated net underwriting losses in 2011 as illustrated in the following table. Note that the presentation of individual line items in this table may differ from the presentation on Note 4.1 because the effects of foreign exchange unwinding have not been dis-aggregated.

4.2 Sagicor Europe - lines of insurance no longer written (continued)

	Lines no longer written		On-going lines	Total Sagicor Europe
	Direct motor	Treaty		
Premium revenue:				
Gross revenue	94,355	39,192	340,924	474,471
Reinsurance ceded	(9,161)	(17,444)	(41,090)	(67,695)
	85,194	21,748	299,834	406,776
Claims and expenses:				
Gross claims	94,792	116,723	156,672	368,187
Ceded to reinsurers	(18,547)	(55,136)	(7,647)	(81,330)
	76,245	61,587	149,025	286,857
Commissions and brokerage	20,476	5,377	97,069	122,922
Administrative expenses	4,643	5,202	34,963	44,808
	101,364	72,166	281,057	454,587
Net underwriting (loss) / income	(16,170)	(50,418)	18,777	(47,811)
Net investment income				6,521
Other items				(418)
Taxation				8,351
Net Loss				(33,357)

For 2012, the lines of insurance no longer written are in runoff and will record activity at considerably reduced levels. In addition, some of the administrative overhead previously borne by those lines will be absorbed by the on-going lines.

4.3 Variations in segment income

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

(i) *Investment gains*

Fair value investment gains are recognised on:

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

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

(ii) *Allowances for impairment of financial investments*

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

(iii) *Foreign exchange gains and losses*

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

(iv) *Property and casualty catastrophe claims*

Property and casualty insurers are exposed to multiple claims which may arise from a catastrophic event. As these events do not occur frequently, the incidence of such events may have a significant adverse effect on the policy benefits incurred in any period.

4.3 Variations in segment income (continued)

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

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

Amounts expressed in US$000

4.3 Variations in segment income (continued)

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

	Variations in income by segment						
	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor Europe	Sagicor USA	Head office and other	Adjustments	Total
2011							
Investment gains / (losses)	4,689	30,614	(1,361)	(2,160)	2,113	-	33,895
Allowances for impairment of financial investments	4,714	10,033	-	188	558	-	15,493
Foreign exchange gains / (losses)	152	930	(2,309)	-	(1,681)	846	(2,062)
Property and casualty catastrophe claims, net of reinsurance recoveries [1]	-	-	72,134	-	-	-	72,134
(Increase) / decrease in actuarial liabilities arising from changes in assumptions	(12,508)	(4,304)	-	5,373	-	-	(11,439)
2010							
Investment gains / (losses)	7,512	27,229	(320)	5,843	1,908	-	42,172
Allowances for impairment of financial investments	139	1,561	-	1,248	238	-	3,186
Foreign exchange gains / (losses)	251	(5,809)	7,142	-	(2,301)	1,837	1,120
Property and casualty catastrophe claims, net of reinsurance recoveries	-	-	33,908	-	-	-	33,908
(Increase) / decrease in actuarial liabilities arising from changes in assumptions	(3,337)	(7,515)	557	3,157	-	-	(7,138)

[1] The Sagicor Europe segment incurred net claims of $24,787 arising from the March 11, 2011 earthquake and tsunami in Tōhoku, Japan. This amount represents the insurer's best estimate of the ultimate claims net of recoveries as of the date of the financial statements and includes the cost of reinstatement of reinsurance coverage.

Amounts expressed in US$000

4.4 Other comprehensive income

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

(i) *Unrealised investment gains*

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

(ii) *Changes in actuarial liabilities*

Changes in unrealised investment gains identified in *(i)* above may also generate significant changes in actuarial liabilities as a result of the use of asset liability matching in the liability estimation process.

(iii) *Foreign exchange gains and losses*

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

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

	Variations in other comprehensive income by segment						
	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor Europe	Sagicor USA	Head office and other	Adjustments	Total
2011							
Unrealised investment gains / (losses)	(197)	663	470	16,119	231	-	17,286
Changes in actuarial liabilities	1,691	-	-	(13,150)	-	-	(11,459)
Retranslation of foreign currency operations	(422)	(2,258)	1,632	-	(38)	(717)	(1,803)
2010							
Unrealised investment gains / (losses)	8,042	28,363	(268)	11,536	(131)	-	47,542
Changes in actuarial liabilities	(2,282)	-	-	(8,294)	-	-	(10,576)
Retranslation of foreign currency operations	(369)	9,672	(1,660)	-	(20)	(1,616)	6,007

Amounts expressed in US$000

4.5 Statement of financial position by segment

A summary statement of financial position by segment is set out below. Eliminations on consolidation comprise adjustments to arrive at the Group financial position

	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor Europe	Sagicor USA	Head office and other	Adjustments	Total
2011							
Financial investments	1,079,329	1,633,074	288,202	921,943	169,618	-	4,092,166
Other external assets	301,164	209,136	416,528	179,688	165,391	-	1,271,907
Inter-segment assets	107,196	21,457	-	386	126,760	(255,799)	-
Total assets	1,487,689	1,863,667	704,730	1,102,017	461,769	(255,799)	5,364,073
Policy liabilities	1,058,866	550,552	608,388	708,520	54,390	-	2,980,716
Other external liabilities	68,938	952,602	30,014	194,808	339,462	-	1,585,824
Inter-segment liabilities	17,912	9,636	92,001	27,549	108,701	(255,799)	-
Total liabilities	1,145,716	1,512,790	730,403	930,877	502,553	(255,799)	4,566,540
Net assets	341,973	350,877	(25,673)	171,140	(40,784)	-	797,533
2010							
Financial investments	1,010,885	1,444,391	235,360	796,043	150,153	-	3,636,832
Other external assets	294,329	199,239	374,208	207,372	155,850	-	1,230,998
Inter-segment assets	111,546	24,315	-	339	126,657	(262,857)	-
Total assets	1,416,760	1,667,945	609,568	1,003,754	432,660	(262,857)	4,867,830
Policy liabilities	1,024,722	494,767	490,882	654,675	48,638	-	2,713,684
Other external liabilities	66,764	858,490	26,456	182,459	281,136	-	1,415,305
Inter-segment liabilities	8,766	5,127	72,939	23,613	152,412	(262,857)	-
Total liabilities	1,100,252	1,358,384	590,277	860,747	482,186	(262,857)	4,128,989
Net assets	316,508	309,561	19,291	143,007	(49,526)	-	738,841

Amounts expressed in US$000

4.6 Additions to non-current assets by segment

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

	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor Europe	Sagicor USA	Head office and other	Total
2011	10,996	4,068	3,154	1,788	5,511	25,517
2010	7,103	16,131	1,444	1,125	3,802	29,605

4.7 Products and services

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

	2011	2010
Life, health and annuity insurance contracts issued to individuals	546,204	535,724
Life, health and annuity insurance and pension administration contracts issued to groups	259,589	221,187
Property and casualty insurance	435,161	377,925
Banking, investment management and other financial services	99,251	98,040
Farming and unallocated revenues	10,411	23,221
	1,350,616	1,256,097

4.8 Geographical areas

The Group operates in certain geographical areas which are determined by the location of the subsidiary or branch initiating the business.

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

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

	External Revenue		Non-current assets	
	2011	2010	2011	2010
Barbados	140,829	128,727	180,325	178,869
Jamaica	410,413	357,786	90,861	91,863
Trinidad & Tobago	120,370	112,283	62,933	60,562
Other Caribbean	129,310	141,686	42,318	39,926
United Kingdom [(1)]	407,054	352,874	33,801	32,726
USA	142,640	162,741	3,434	2,938
	1,350,616	1,256,097	413,672	406,884

[(1)] Revenues include significant amounts derived from locations outside of the United Kingdom in North America, Europe, Asia, Australasia and elsewhere.

Amounts expressed in US$000

5. INVESTMENT PROPERTY

Investment property is carried at fair value as determined by independent valuers using internationally recognised valuation techniques. Direct sales comparisons, when such data is available, and income capitalisation methods, when appropriate, are included in the assessment of fair values. For some tracts of land which are currently un-developed or which are leased to third parties, the fair value may reflect the potential for development within a reasonable period of time.

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

	2011	2010
Balance, beginning of year	119,169	116,845
Additions at cost	4,344	11,233
Transfers to property, plant and equipment	-	(1,087)
Disposals and divestitures	(251)	(7,341)
Change in fair values	(796)	(1,399)
Effects of exchange rate changes	(281)	918
Balance, end of year	122,185	119,169

Investment property includes $16,206 (2010 - $16,527) which represents the Group's proportionate interest in joint ventures summarised in the following table.

Country	Description of property	Percentage ownership
Barbados	Freehold lands	50%
	Freehold office buildings	10% - 50%
Trinidad & Tobago	Freehold office building	60%

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

6. INVESTMENT IN ASSOCIATED COMPANIES

The movements in the investment in associated companies during the year and the aggregate balances and results of associated companies are summarised in the following table.

	2011	2010
Movement during the year:		
Investment, beginning of year	32,929	32,674
Dividends received	(1,655)	(1,357)
Share of:		
Income before taxes	2,997	2,478
Amortisation of intangible assets identified on acquisition	(177)	(557)
Income taxes	(176)	(216)
Other comprehensive income / (loss)	(121)	(28)
Effects of exchange rate changes	(114)	(65)
Investment, end of year	33,683	32,929
Aggregate balances and results of associates:		
Total assets	370,164	360,028
Total liabilities	241,895	234,592
Total revenue	132,562	122,296
Net income for the year	10,314	8,786

Amounts expressed in US$000

7. PROPERTY, PLANT AND EQUIPMENT

	2011					2010				
	Owner-occupied properties					Owner-occupied properties				
	Land	Land & buildings	Office furnishings, equipment & vehicles	Operating lease vehicles & equipment	Total	Land	Land & buildings	Office furnishings, equipment & vehicles	Operating lease vehicles & equipment	Total
Net book value, beginning of year	35,694	62,459	24,339	8,915	131,407	35,694	60,443	22,694	10,052	128,883
Additions at cost	-	664	10,202	4,081	14,947	-	529	10,394	2,383	13,306
Transfers from investment property	-	-	-	-	-	-	1,087	-	-	1,087
Transfers to intangible assets (note 8)	-	-	(1,189)	-	(1,189)	-	-	-	-	-
Other transfers	-	237	(237)	-	-	-	169	(169)	-	-
Disposals and divestitures	(21)	(3)	(99)	(1,210)	(1,333)	-	(16)	(2,356)	(1,160)	(3,532)
(Depreciation) / appreciation in fair values	2,831	521	-	-	3,352	-	770	-	-	770
Depreciation charge	-	(835)	(6,683)	(2,427)	(9,945)	-	(809)	(6,462)	(2,360)	(9,631)
Effects of exchange rate changes	-	(157)	(65)	-	(222)	-	286	238	-	524
Net book value, end of year	38,504	62,886	26,268	9,359	137,017	35,694	62,459	24,339	8,915	131,407
Represented by:										
Cost or valuation	38,504	63,606	85,897	15,734	203,741	35,694	64,252	81,360	15,151	196,457
Accumulated depreciation	-	(720)	(59,629)	(6,375)	(66,724)	-	(1,793)	(57,021)	(6,236)	(65,050)
	38,504	62,886	26,268	9,359	137,017	35,694	62,459	24,339	8,915	131,407

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

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

Land and buildings consist largely of occupied office buildings.

Amounts expressed in US$000

8. INTANGIBLE ASSETS

8.1 Analysis of intangible assets and changes for the year

	2011					2010				
	Goodwill	Customer & broker relationships	Syndicate capacity & licences	Software	Total	Goodwill	Customer & broker relationships	Syndicate capacity & licences	Software	Total
Net book value, beginning of year	57,948	32,569	20,331	12,531	123,379	58,289	36,978	21,021	13,140	129,428
Additions at cost	-	-	-	6,226	6,226	-	-	-	5,066	5,066
Transfer from property, plant and equipment (note 7)	-	-	-	1,189	1,189	-	-	-	-	-
Amortisation and impairment	-	(3,130)	(49)	(6,006)	(9,185)	-	(3,080)	(47)	(4,954)	(8,081)
Disposals and divestitures	-	-	-	-	-	(896)	(2,353)	-	(739)	(3,988)
Effects of exchange rate changes	(205)	(236)	(248)	(133)	(822)	555	1,024	(643)	18	954
Net book value, end of year	57,743	29,203	20,034	13,807	120,787	57,948	32,569	20,331	12,531	123,379
Represented by:										
Cost or valuation	59,556	46,567	20,231	39,169	165,523	59,761	46,962	20,484	31,997	159,204
Accumulated depreciation	(1,813)	(17,364)	(197)	(25,362)	(44,736)	(1,813)	(14,393)	(153)	(19,466)	(35,825)
	57,743	29,203	20,034	13,807	120,787	57,948	32,569	20,331	12,531	123,379

Amounts expressed in US$000

8.2 Impairment of intangible assets

Goodwill arises from past acquisitions and is allocated to cash generating units (CGUs). Syndicate capacity is the only other intangible asset with an indefinite useful life. Goodwill and syndicate capacity are tested annually for impairment. The recoverable amount of a CGU or an intangible asset with an indefinite useful life is determined as the higher of its value in use or its fair value less costs to sell.

Annually, the management of each operating segment or other operating company prepares financial projections for the next three years. Cash flows are extracted from these projections and are extrapolated for subsequent years. For those CGU's where the fair value less costs to sell methodology is used, the financial projections are used as inputs to determine maintainable earnings over time. The Group uses external data or obtains independent professional advice in order to select the relevant discount factors, growth factors and earnings multiples which are to be applied to the relevant cash flows and earnings.

From 2011, the Group has used after tax earnings multiples and discount rates to assess impairment. An iterative method has been used to determine the corresponding pre tax factors. The carrying values of goodwill and syndicate capacity and the impairment test factors used were as follows:

	2011 Carrying value	After tax earnings multiple	Pre tax earnings multiple	
Sagicor Life Inc segment	27,077	10.1, 14.5	8.69, 12.34	
Sagicor Life Jamaica segment	21,561	7.40	6.25	
		After tax discount factor	Pre tax discount factor	Residual growth rate
Sagicor Europe segment	23,774	11.8 %	12.3%	2.5%
Other operating companies	4,869	13.5%, 11.3%	15.2%, 13.2%	4.9%, 4.2%
	77,281			

8.2 Impairment of intangible assets (continued)

	2010 Carrying value	Pre tax discount factor	Residual growth rate	Pre tax earnings multiple
Sagicor Life Inc segment	27,102	n/a	n/a	9.9
Sagicor Life Jamaica segment	21,688	n/a	n/a	6.4
Sagicor Europe segment	24,073	11.5%	1.5%	n/a
Other operating companies	4,868	14.8%	4.1%	n/a
	77,731			

Sensitivity

Possible impairment of goodwill and syndicate capacity is sensitive to changes in earnings multiples, discount factors or residual growth rates. This is illustrated in the following table.

	Sagicor Life Inc segment		
After tax earnings multiples	10.1, 14.5	9.56, 12.1	9.1, 11.5
Excess of recoverable amount / (impairment)	39,046	-	(16,963)

	Sagicor Life Jamaica segment		
After tax earnings multiples	7.40	5.38	5.00
Excess of recoverable amount / (impairment), representing Sagicor's 59% interest in the segment	74,169	-	(13,815)

The Sagicor Europe goodwill and intangible assets are sensitive to the terminal rate of return in the valuation model. Adjusting that rate in the model would produce the following results:

	Sagicor Europe segment		
Change in terminal rate of return	-	- 2.8%	- 4.0%
Excess of recoverable amount / (impairment)	43,661	-	(18,193)

Amounts expressed in US$000

9. FINANCIAL INVESTMENTS

9.1 Analysis of financial investments

	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
Held to maturity securities:				
Debt securities	19,874	21,776	19,691	20,396
Available for sale securities:				
Debt securities	2,056,457	2,056,457	1,742,835	1,742,835
Equity securities	77,532	77,532	87,713	87,713
	2,133,989	2,133,989	1,830,548	1,830,548
Financial assets at fair value through income:				
Debt securities	113,732	113,732	96,333	96,333
Equity securities	28,980	28,980	23,839	23,839
Derivative financial instruments (note 41.6)	15,201	15,201	12,070	12,070
Mortgage loans	40,674	40,674	46,876	46,876
Securities purchased for re-sale	492	492	2,982	2,982
	199,079	199,079	182,100	182,100
Loans and receivables:				
Debt securities	916,877	962,761	749,693	798,626
Mortgage loans	232,306	232,832	250,206	251,461
Policy loans	124,626	134,856	123,250	130,092
Finance loans and finance leases	158,450	160,558	144,065	172,397
Securities purchased for re-sale	11,590	11,590	25,585	25,585
Deposits	295,375	295,375	311,694	311,694
	1,739,224	1,797,972	1,604,493	1,689,855
Total financial investments	4,092,166	4,152,816	3,636,832	3,722,899

9.1 Analysis of financial investments (continued)

	2011	2010
Non-derivative financial assets at fair value through income comprise:		
Assets designated at fair value upon initial recognition	183,878	170,030
Debt securities comprise:		
Government and government-guaranteed debt securities	1,808,509	1,497,082
Collateralised mortgage obligations	161,999	159,574
Corporate debt securities	1,072,238	898,452
Other securities	64,194	53,444
	3,106,940	2,608,552

Debt securities include $7,818 (2010 - $4,559) that contain options to convert to common shares of the issuer.

Corporate debt securities include $20,451 (2010 - $21,745) in bonds issued by an associated company.

Equity securities include $6,311 (2010 - $6,559) in mutual funds managed by the Group.

9.2 Pledged assets

Debt securities include $20,040 (2010 - $20,894) and policy loans include $20,671 (2010 - $22,461) in assets held in trust for a reinsurer (note 20). The income from these assets accrues to the reinsurer.

Debt and equity securities include $111,891 (2010 - $162,100) as collateral for loans payable and other funding instruments.

Amounts expressed in US$000

9.2 Pledged assets (continued)

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 $5,984 (2010 - $5,294), and mortgages and mortgage backed securities having a total market value of $131,258 (2010 - $123,312).

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, 2011, these pledged assets totalled $682,479 (2010 - $581,911). Of these assets pledged as security, $90,705 (2010 – $94,761) represents collateral for securities sold under agreements to repurchase in instances when the transferee has the right by contract or by custom to sell or re-pledge the collateral.

Deposits include $46,624 (2010 – $47,029) pledged as collateral for a letter of credit facility (note 39.2).

9.3 Returns accruing to the benefit of contract-holders

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

	2011	2010
Debt securities	106,058	95,156
Equity securities	25,576	19,517
Mortgage loans	40,674	46,876
Securities purchased for re-sale	492	2,982
	172,800	164,531

9.4 Reclassification of financial investments

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

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

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

The following disclosures are in respect of these reclassified assets.

	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
Government debt securities maturing after September 2018	56,403	50,642	76,095	79,049
Other debt securities	11,755	12,663	15,089	15,968
	68,158	63,305	91,184	95,017

	2011	2010
Cumulative net fair value loss, beginning of year	(4,885)	(41,805)
Net fair value (losses) / gains subsequent to restatement	(7,555)	23,835
Disposals	945	12,869
Effect of exchange rate changes	46	216
Cumulative net fair value loss, end of year	(11,449)	(4,885)

Amounts expressed in US$000

9.4 Reclassification of financial investments (continued)

The net fair value gain or loss subsequent to restatement approximates the fair value gain or loss that would have been recorded in total comprehensive income had the reclassification not been made. The disposal amount represents the net loss that would have been reclassified from other comprehensive income to income on disposal.

10. REINSURANCE ASSETS

	2011	2010
Reinsurers' share of:		
Actuarial liabilities (note 13.1)	169,159	178,078
Policy benefits payable (note 14.2)	115,801	57,907
Provision for unearned premiums (note 14.3)	41,608	40,909
Other items	4,741	4,954
	331,309	281,848

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

11. INCOME TAX ASSETS

	2011	2010
Deferred income tax assets (note 33)	17,803	9,209
Income and withholding taxes recoverable	23,903	18,555
	41,706	27,764

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

12. MISCELLANEOUS ASSETS AND RECEIVABLES

	2011	2010
Pension plan assets (note 31)	3,356	3,826
Real estate developed or held for resale	15,468	12,322
Deferred policy acquisition costs	62,115	60,486
Prepaid and deferred expenses	29,733	33,771
Premiums receivable	150,225	145,754
Other accounts receivable	39,661	39,708
	300,558	295,867

Other accounts receivable include $4,705 (2010 – $3,097) due from managed funds.

(a) Real estate developed or held for resale

Real estate developed for resale includes $7,703 (2010 - $2,990) which is expected to be realised within one year of the financial statements date.

(b) Deferred policy acquisition costs

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

Gross amount	2011	2010
Balance, beginning of year	60,486	46,525
Expensed	(131,726)	(102,150)
Additions	134,070	118,381
De-recognised on divestiture	-	(1,238)
Effect of exchange rate changes	(715)	(1,032)
Balance, end of year	62,115	60,486

Amounts expressed in US$000

13. ACTUARIAL LIABILITIES

13.1 Analysis of actuarial liabilities

	Gross liability		Reinsurers' share	
	2011	2010	2011	2010
Contracts issued to individuals:				
Life insurance - participating policies	312,428	316,100	1,348	1,497
Life insurance and annuity - non-participating policies	1,063,021	995,371	137,003	143,545
Health insurance	2,147	1,981	647	739
Unit linked funds	130,082	110,386	-	-
Reinsurance contracts held	17,125	13,995	-	-
	1,524,803	1,437,833	138,998	145,781
Contracts issued to groups:				
Life insurance	33,158	30,914	3,586	3,625
Annuities	281,902	248,111	26,428	28,549
Health insurance	36,614	36,854	147	123
	351,674	315,879	30,161	32,297
Total actuarial liabilities	1,876,477	1,753,712	169,159	178,078

The following notes are in respect of the foregoing table:

- Life insurance includes coverage for disability and critical illness.
- Actuarial liabilities include $113,542 (2010 - $117,341) in assumed reinsurance.
- The liability for reinsurance contracts held occurs because the reinsurance premium costs exceed the mortality costs assumed in determining the gross liability of a policy contract.

13.2 Movement in actuarial liabilities

	Gross liability		Reinsurers' share	
	2011	2010	2011	2010
Balance, beginning of year	1,753,712	1,612,531	178,078	207,696
Assumed on acquisitions	-	2,409	-	1,345
Changes in actuarial liabilities:				
Recorded in income	108,152	117,889	(8,862)	(27,695)
Recorded in other comprehensive income	18,539	15,041	-	-
De-recognised on divestiture	-	(3,489)	-	(3,260)
Effect of exchange rate changes	(3,926)	9,331	(57)	(8)
Balance, end of year	1,876,477	1,753,712	169,159	178,078
Analysis of changes in actuarial liabilities				
Arising from increments and decrements of inforce policies and from the issuance of new policies	149,277	144,559	(8,862)	(27,927)
Arising from changes in assumptions for mortality, lapse, expenses, investment yields and asset default	(11,439)	(7,138)	-	232
Other changes:				
Actuarial modelling, refinements, improvements and corrections	(5,321)	(8,288)	-	-
Margins for adverse deviations	(4,277)	368	-	-
Other items	(1,549)	3,429	-	-
Total	126,691	132,930	(8,862)	(27,695)

Amounts expressed in US$000

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.

Annually, insurers update studies of recent mortality experience. The resulting experience is compared to external mortality studies including the Canadian Institute of Actuaries (CIA) 1986 - 1992 tables. Appropriate modification factors are selected and applied to underwritten and non-underwritten business respectively. Annuitant mortality is 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 are updated annually by insurers to determine the most recent experience of persistency. Appropriate rates of termination by policy duration were determined and applied in the actuarial valuations.

13.3 Assumptions – life insurance and annuity contracts (continued)

(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.

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

Ultimate rate of return	2011	2010
Barbados	5.25%	5.0%
Jamaica	7.0%	7.0%
Trinidad & Tobago	5.0%	5.5%
Other Caribbean	5.0%	5.0 – 5.5%
USA	4.0%	4.0%

(e) Assumptions for operating expenses and taxes

Policy acquisition and policy maintenance expense costs for the 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 are updated annually and are applied on a per policy basis.

Taxes reflect assumptions for future premium taxes and income taxes levied directly on investment income (see note 32). For income taxes levied on net income, actuarial liabilities are adjusted for policy related recognised deferred tax assets and liabilities.

Amounts expressed in US$000

13.3 Assumptions – life insurance and annuity contracts (continued)

(f) Asset defaults

The AA of each insurer includes a provision for asset default in the modelling of the cash flows. The provision is based on industry and Group experience and includes specific margins, where appropriate, for assets backing the actuarial liabilities, e.g. for investment property, equity securities, debt securities, mortgage loans and deposits.

(g) Margins for adverse deviations

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

Provisions for adverse deviations	2011	2010
Mortality and morbidity	67,813	50,155
Lapse	48,553	39,209
Investment yields and asset default	67,814	67,620
Operating expenses and taxes	18,511	18,561
	202,691	175,545

13.4 Assumptions – health insurance contracts

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

14. OTHER INSURANCE LIABILITIES

14.1 Analysis of other insurance liabilities

	2011	2010
Dividends on deposit and other policy balances	69,726	70,101
Policy benefits payable	494,198	355,395
Provision for unearned premiums	224,756	240,138
	788,680	665,634

14.2 Policy benefits payable

	Gross liability		Reinsurers' share	
	2011	2010	2011	2010
Analysis of policy benefits payable:				
Life insurance and annuity benefits	55,396	54,969	9,930	10,565
Health claims	3,021	2,647	2,025	2,643
Property and casualty claims:				
Notified outstanding claims	262,506	174,640	66,500	31,035
Claims incurred but not reported	173,275	123,139	37,346	13,664
	494,198	355,395	115,801	57,907
Claims discount included in property and casualty claims payable	16,154	14,440	2,089	1,645
Discount rate percentages (1)	0.1 – 3.7	0.27 - 3.40	0.1 – 3.7	0.27 - 3.40

(1) The discount rates reflect the achievable yield over 10 years of the insurer's investment portfolio.

Amounts expressed in US$000

14.2 Policy benefits payable (continued)

	Gross liability		Reinsurers' share	
	2011	2010	2011	2010
Movement for the year:				
Balance, beginning of year	355,395	232,406	57,907	35,900
Policy benefits incurred	764,429	626,071	121,966	77,419
Policy benefits paid	(620,742)	(496,884)	(61,549)	(49,607)
De-recognised on divestiture	-	(7,014)	-	(5,701)
Effect of exchange rate changes	(4,884)	816	(2,523)	(104)
Balance, end of year	494,198	355,395	115,801	57,907

14.3 Provision for unearned premiums

	Gross liability		Reinsurers' share	
	2011	2010	2011	2010
Analysis of the provision:				
Property and casualty insurance	223,889	239,385	41,608	40,909
Health insurance	867	753	-	-
	224,756	240,138	41,608	40,909
Movement for the year:				
Balance, beginning of year	240,138	202,200	40,909	45,766
Premiums written	519,399	514,085	119,478	111,087
Premium revenue	(532,787)	(457,938)	(118,486)	(103,984)
De-recognised on divestiture	-	(14,348)	-	(11,811)
Effect of exchange rate changes	(1,994)	(3,861)	(293)	(149)
Balance, end of year	224,756	240,138	41,608	40,909

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

Amounts expressed in US$000

15. INVESTMENT CONTRACT LIABILITIES

	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Deposit administration liabilities	113,434	113,434	109,739	109,739
Other investment contracts	109,125	111,744	100,752	101,537
	222,559	225,178	210,491	211,276
At fair value through income:				
Unit linked deposit administration liabilities	93,000	93,000	83,847	83,847
	315,559	318,178	294,338	295,123

16. NOTES AND LOANS PAYABLE

	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
7.5% senior notes due 2016	145,217	156,017	144,028	154,696
6.5% convertible redeemable preference shares due 2016	87,313	90,072	-	-
12.5% cumulative redeemable preference shares due 2013	-	-	7,191	7,191
Bank loans and other funding instruments	-	-	30,666	30,666
	232,530	246,089	181,885	192,553

16. NOTES AND LOANS PAYABLE (continued)

The Group issued ten year $150,000 senior notes which are repayable in 2016. The notes carry a 7.5% rate of interest fixed for the period and interest is payable semi-annually. The notes are traded and are listed on the Luxembourg Euro MTF Market. Financial covenants in respect of these notes are summarised in note 45.3(a).

Details of the 6.5% convertible redeemable preference shares due 2016 are set out in note 21.2. The movement during the year in the liability for their redemption value is as follows:

	2011
Initial fair value of subscription proceeds	87,586
Issue costs	(2,989)
Initial carrying value	84,597
Finance cost recognised during the year	2,716
Carrying value, end of year	87,313

The initial fair value of the subscription proceeds was determined by discounting the ultimate redemption value ($120,000), at a rate of 6.5% for 5 years. The discount rate was determined as the estimated interest rate of 5.71% for 5 year borrowings, plus a premium of 0.79% attributable to the non-contractual nature of the dividends. The finance cost recognised is the amortisation for the period from issue to December 31, 2011, of the difference between the ultimate redemption value and the initial carrying value, calculated on an effective interest method for the 5 years to maturity.

The 12.5% cumulative redeemable preference shares were issued by Pan Caribbean Financial Services Limited in February 2008. The shares, which are denominated in Jamaican dollars, were redeemed in 2010 and 2011.

Other bank loans and funding instruments carried interest rates between 4.75% and 7.5% and were repaid in 2011.

Amounts expressed in US$000

17. DEPOSIT AND SECURITY LIABILITIES

	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Other funding instruments	261,524	268,825	229,617	240,875
Customer deposits	194,104	187,871	168,134	202,620
Securities sold for re-purchase	612,981	602,735	575,716	644,094
Bank overdrafts	3,657	3,657	2,580	2,580
	1,072,266	1,063,088	976,047	1,090,169
At fair value through income:				
Structured products	3,184	3,184	5,655	5,655
Derivative financial instruments (note 41.6)	8,115	8,115	1,849	1,849
	11,299	11,299	7,504	7,504
	1,083,565	1,074,387	983,551	1,097,673

Other funding instruments consist of loans from banks and other financial institutions and include balances of $130,307 (2010 - $120,402) 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 are offered by a banking subsidiary. A structured product is a pre-packaged investment strategy created to meet specific needs that cannot be met from the standardised financial instruments available in the market. Structured products can be used as an alternative to a direct investment, as part of the asset allocation process to reduce risk exposure of a portfolio, or to capitalise on current market trends.

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

18. PROVISIONS

	2011	2010
Pension plans and other retirement benefits (note 31)	37,429	32,006
Cash-settled compensation benefits (note 30.4)	6,677	4,448
Other provisions	66	2,380
	44,172	38,834

19. INCOME TAX LIABILITIES

	2011	2010
Deferred income tax liabilities (note 33)	22,705	16,089
Income taxes payable	8,465	7,711
	31,170	23,800

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

20. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2011	2010
Amounts due to policyholders	25,537	24,095
Amounts due to reinsurers (1)	66,975	60,714
Amounts due to managed funds	875	3,046
Other accounts payable and accrued liabilities	101,000	99,380
	194,387	187,235

(1) Includes $40,711 (2010 - $43,355) in respect of assets held in trust (see note 9.2).

Amounts expressed in US$000

21. COMMON AND PREFERENCE SHARES

The Company is authorised to issue:

- an unlimited number of common shares,
- an unlimited number of preference shares, and
- an unlimited number of convertible redeemable preference shares.

In each case the shares are without nominal or par value.

21.1 Common shares

	2011		2010	
	Number in 000's	Share capital	Number in 000's	Share capital
Issued and fully paid:				
Balance, beginning of year	291,341	281,801	290,903	281,142
Allotments arising from:				
New share issue [1]	12,576	19,799	-	-
LTI	-	-	438	659
Balance, end of year	303,917	301,600	291,341	281,801
Treasury shares:				
Shares held for LTI and ESOP, end of year (note 30.1)	(2,966)	(5,552)	(2,381)	(4,629)
Total	300,951	296,048	288,960	277,172

The common shares are listed on the Barbados, Trinidad & Tobago and London stock exchanges.

[1] Share issue at US $1.63 or Barbados $3.26 per share on July 18, 2011. Price protection rights in relation to the new share issue are disclosed in note 45.3(c).

21.2 Convertible redeemable preference shares

On July 18, 2011, the Company issued 120,000,000 convertible redeemable preference shares with the following features:

- Issue price of US $1.00 or Barbados $2.00 per share;
- Annual dividend rate of 6.5%, dividends to be declared by the Company's directors' and payable half yearly on May 15 and November 15;
- Convertible into common shares at a ratio of 1.98 preference shares to 1.00 common shares, conversion to be at the option of the shareholder and exercisable on May 16 or November 16 in any year prior to the redemption date;
- Redeemable on July 18, 2016 at issue price, if not converted before.

The preference shares are listed on the Barbados and Trinidad & Tobago stock exchanges. Put option rights in respect of the preference shares are disclosed in note 45.3(c)

These preference shares are accounted for as a compound financial instrument (see note 2.20(b)). The subscription consideration, the issue costs, and the initial recognition of the shares in the statement of financial position are set out in the following table:

	2011
Subscription proceeds	120,000
Issue costs	(4,094)
Initial carrying value	115,906
Recognised as:	
Liability for redemption value, net of issue costs of $2,988 (note 16)	84,597
Preference share reserve, net of issue costs of $1,106 (note 22)	31,309
	115,906

Amounts expressed in US$000

21.3 Dividends

The dividends declared in respect of the Company's convertible redeemable preference shares and common shares are set out in the following table.

	2011		2010	
	Dividend per share	Total dividends	Dividend per share	Total dividends
Dividends declared and paid:				
Preference shares - November 15	2.12 ¢ [(1)]	2,544	-	-
Common shares - final for prior year	2.0 ¢	5,765	2.0 ¢	5,794
Common shares - interim for current year	2.0 ¢	6,019	2.0 ¢	5,797
	4.0 ¢	11,784	4.0 ¢	11,591
Total dividends declared and paid	6.12 ¢	14,328	4.0 ¢	11,591
Declared dividends to be recorded in the next year:				
Preference shares - May 15	3.25 ¢	3,900	-	-
Common shares - final for current year	2.0 ¢	6,078	2.0 ¢	5,765

(1) Prorated amount from issue date to November 15.

21.4 Restrictions on common share dividends

On June 2, 2011, the Company's Articles of Incorporation were amended to impose the following limitations on the payment of common share dividends.

(i) For any 6 month period that the convertible redeemable preference shares are not paid, dividends on common shares shall be suspended for that period plus the next 6 month period, and the Company shall not repurchase any of its common shares, except when pursuant to the LTI pan and ESOP.

(ii) The Company shall not pay any dividends on its common shares, in respect of the 2011 financial year or thereafter, or repurchase any of its common shares, other than a repurchase pursuant to the LTI plan and ESOP, if the cumulative amount of such dividends and repurchases after July 31, 2011 would exceed 50% of the cumulative amount of Group net income from January 1, 2011.

Amounts expressed in US$000

22. RESERVES

	<<<<<<<< Fair value reserves >>>>>>>>				Currency translation reserves	Preference share reserve	Other reserves	Total reserves
	Owner occupied property	Available for sale assets	Actuarial liabilities	Cash flow hedges				
2011								
Balance, beginning of year	21,137	24,237	(15,268)	-	(71,797)	-	27,285	(14,406)
Other comprehensive income	2,282	12,152	(10,929)	-	(793)	-	-	2,712
Transactions with holders of equity instruments:								
Allocated to preference share reserve	-	-	-	-	-	31,309	-	31,309
Allocated to reserve for equity compensation benefits	-	-	-	-	-	-	3,533	3,533
Eliminated from reserve for equity compensation benefits	-	-	-	-	-	-	(1,486)	(1,486)
Transfers to retained earnings and other movements	-	-	-	-	-	(2,042)	1,245	(797)
Balance, end of year	23,419	36,389	(26,197)	-	(72,590)	29,267	30,577	20,865
2010								
Balance, beginning of year	20,444	(5,255)	(5,424)	594	(73,762)	-	20,794	(42,609)
Other comprehensive income	693	28,834	(9,844)	-	1,965	-	-	21,648
Transactions with holders of equity instruments:								
Allocated to reserve for equity compensation benefits	-	-	-	-	-	-	3,282	3,282
Eliminated from reserve for equity compensation benefits	-	-	-	-	-	-	(961)	(961)
Disposal of interest in subsidiaries	-	64	-	-	-	-	-	64
Transfers to retained earnings and other movements	-	594	-	(594)	-	-	4,170	4,170
Balance, end of year	21,137	24,237	(15,268)	-	(71,797)	-	27,285	(14,406)

Other reserves comprise reserves for equity compensation benefits of $10,031 (2010 – $7,984) and statutory reserves of $20,546 (2010 - $19,301).

Amounts expressed in US$000

23. PARTICIPATING ACCOUNTS

The movements in the participating accounts during the year and the amounts in the financial statements relating to participating accounts were as follows:

	Closed participating account		Open participating account	
	2011	2010	2011	2010
Movement for the year:				
Balance, beginning of year	6,585	9,158	(2,238)	(3,307)
Total comprehensive income / (loss)	(2,438)	(2,573)	545	1,326
Return of transfer to support profit distribution to shareholders	-	-	(253)	(257)
Balance, end of year	4,147	6,585	(1,946)	(2,238)
Financial statement amounts:				
Assets	100,520	101,498	246,167	248,922
Liabilities	96,373	94,913	248,113	251,160
Revenues	9,380	10,602	30,007	33,472
Benefits	10,179	11,392	22,927	24,704
Expenses	1,477	1,623	5,948	6,536
Income taxes	154	211	580	873

24. PREMIUM REVENUE

	Gross premium		Ceded to reinsurers	
	2011	2010	2011	2010
Life insurance	362,439	331,776	39,174	37,109
Annuity	142,043	128,295	322	622
Health insurance	132,471	132,748	3,369	4,356
Life, annuity and health premium	636,953	592,819	42,865	42,087
Property and casualty insurance:				
Direct property	149,113	139,902	51,178	47,993
Direct motor	116,375	96,531	21,825	16,893
Direct accident and liability	181,883	136,818	25,417	26,695
Reinsurance assumed	81,355	80,951	20,067	12,403
Property and casualty premium	528,726	454,202	118,487	103,984
Total premium revenue	1,165,679	1,047,021	161,352	146,071

Amounts expressed in US$000

25. NET INVESTMENT INCOME

	2011	2010
Investment income:		
Interest income	258,062	244,893
Dividend income	3,071	3,988
Rental income from investment property	5,380	4,934
Net investment gains	33,895	42,172
Share of operating income of associated companies	2,997	2,478
Other investment income	727	1,302
	304,132	299,767
Investment expenses:		
Allowances for impairment losses	15,493	3,186
Direct operating expenses of investment property	1,702	1,662
Other direct investment expenses	1,970	1,639
	19,165	6,487
Net investment income	284,967	293,280

The Group operates across both active and inactive financial markets. The financial investments placed in both types of market support the insurance and operating financial liabilities of the Group. Because the type of financial market is incidental and not by choice, the Group manages its financial investments by the type of financial instrument (i.e. debt securities, equity securities, mortgage loans etc). Therefore, the income from financial instruments is presented consistently with management practice, rather than by accounting classification.

The capital and income returns of most investments designated at fair value through income accrue to the holders of unit linked policy and deposit administration contracts which do not affect net income of the Group.

25. NET INVESTMENT INCOME (continued)

Further details of interest income and investment gains are set out in the following table.

	2011	2010
Interest income:		
Debt securities [1]	200,662	187,055
Mortgage loans	22,302	24,214
Policy loans	7,998	8,268
Finance loans and finance leases	16,494	15,058
Securities purchased for re-sale	1,228	3,034
Deposits	9,294	7,115
Other balances	84	149
	258,062	244,893
Net investment gains / (losses):		
Debt securities	25,284	27,744
Equity securities	13,824	11,168
Investment property	(839)	(1,399)
Other financial instruments	(4,374)	4,659
	33,895	42,172

[1] Includes $1,750 (2010 - $2,172) from an associated company.

Amounts expressed in US$000

26. FEES AND OTHER REVENUE

	2011	2010
Fee income – assets under administration	15,838	15,587
Fee income – deposit administration and policy funds	1,282	1,050
Commission income on insurance and reinsurance contracts	17,184	16,102
Other fees and commission income	15,011	11,559
Foreign exchange gains / (losses)	(2,062)	1,120
Other operating and miscellaneous income	14,069	16,449
	61,322	61,867

27. POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

	Gross benefit		Ceded to reinsurers	
	2011	2010	2011	2010
Life insurance benefits	165,259	154,950	18,449	23,574
Annuity benefits	111,810	89,629	9,894	12,279
Health insurance claims	99,877	97,932	2,480	3,827
Life, annuity and health benefits	376,946	342,511	30,823	39,680
Property & casualty insurance claims:				
Direct property	68,270	60,689	2,527	5,162
Direct motor	110,270	87,236	25,808	5,661
Direct accident and liability	66,556	74,166	770	11,525
Reinsurance assumed	141,091	62,588	62,594	19,037
Property and casualty claims	386,187	284,679	91,699	41,385
Total policy benefits	763,133	627,190	122,522	81,065
Change in actuarial liabilities (note 13.2)	108,152	117,889	(8,862)	(27,695)
Total policy benefits and change in actuarial liabilities	871,285	745,079	113,660	53,370

Amounts expressed in US$000

28. INTEREST EXPENSE

	2011	2010
Insurance contracts	3,934	2,980
Investment contracts	19,262	20,433
Other funding instruments	6,822	6,656
Customer deposits	7,366	8,617
Securities sold for re-purchase	30,803	36,165
Other items	2,808	3,146
	70,995	77,997

The Group manages its interest-bearing obligations by the type of obligation (i.e. investment contracts, securities etc). Therefore, the interest expense is presented consistently with management practice, rather than by accounting classification.

The capital and income returns of most financial liabilities designated at fair value through income accrue directly from the capital and income returns of financial assets designated at fair value through income. Therefore, the related interest expense does not affect the net income of the Group.

29. EMPLOYEE COSTS

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

	2011	2010
Administrative staff salaries, directors' fees and short-term benefits	94,461	86,293
Employer contributions to social security schemes	7,914	7,381
Equity-settled compensation benefits (note 30.1 to 30.3)	4,045	3,862
Cash-settled compensation benefits (note 30.4)	2,612	(1,799)
Employer contribution to defined contribution pension schemes	1,724	1,522
Costs – defined retirement benefits (note 31 (b))	9,208	8,506
	119,964	105,765

30. EQUITY COMPENSATION BENEFITS

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. 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.

30.1 The Company (continued)

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

	2011		2010	
	Number of grants '000	Weighted average price	Number of grants '000	Weighted Average price
Balance, beginning of year	752	US$1.45	353	US$1.59
Grants issued	1,101	US$1.44	1,023	US$1.43
Grants vested	(440)	US$1.45	(624)	US$1.50
Balance, end of year	1,413	US$1.44	752	US$1.45

Grants issued may be satisfied out of new shares issued by the Company or by shares acquired in the market. The shares acquired in the market and distributed during the year were as follows:

	2011		2010	
	Number in 000's	$000	Number in 000's	$000
Shares acquired	317	459	-	-
Shares distributed	(301)	(435)	-	-
Balance, end of year	16	24	-	-

30.1 The Company (continued)

(b) LTI plan – share options

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

The movement in share options for the year and details of the share options and assumptions used in determining their pricing are as follows:

	2011		2010	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	7,342	US $2.07	5,807	US $2.26
Options granted	2,557	US $1.48	1,749	US $1.60
Options lapsed/forfeited	-	-	(214)	US $2.09
Balance, end of year	9,899	US $1.92	7,342	US $2.07
Exercisable at the end of the year	4,658	US $2.13	2,966	US $2.17
Share price at grant date	US $1.48 – 2.50		US $1.60 – 2.50	
Fair value of options at grant date	US $0.39 – 0.69		US $0.41 – 0.69	
Expected volatility	19.3% - 35.8%		19.3% - 35.8%	
Expected life	7.0 years		7.0 years	
Expected dividend yield	2.8% - 3.1%		2.8% - 3.1%	
Risk-free interest rate	4.8% – 6.8%		4.8% – 6.8%	

30.1 The Company (continued)

The expected volatility of options is based on statistical analysis of monthly share prices over the 8 years (2010 - 7 years) prior to grant date.

(c) ESOP

From 2006, 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.

The shares acquired by the Trustees during the year were as follows:

	2011		2010	
	Number in 000's	$000	Number in 000's	$000
Balance, beginning of year	2,381	4,629	1,201	2,890
Shares acquired	569	899	1,180	1,739
Balance, end of year	2,950	5,528	2,381	4,629

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.

Amounts expressed in US$000

30.2 Sagicor Life Jamaica Limited (SLJ) (continued)

SLJ introduced a new Long Term Incentive (LTI) plan effective January 2007, which replaced the previous Stock Option plan. Under the LTI plan, stock options are granted each year following the measurement year.

Stock options vest in 4 equal installments beginning the first December 31 following the grant date and for the next three December 31 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 March 31 of the measurement year. The exercise price of the options is the closing bid price on March 31 of the measurement year.

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

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

	2011		2010	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	40,917	J$6.23	26,539	J$8.04
Options granted	17,393	J$6.51	20,564	J$4.20
Options exercised	(6,937)	J$6.44	(1,044)	J$5.19
Options lapsed/forfeited	(3,251)	J$8.10	(5,142)	J$9.20
Balance, end of year	48,122	J$6.18	40,917	J$6.23
Exercisable at the end of the year	25,494	J$6.56	20,040	J$7.30

30.2 Sagicor Life Jamaica Limited (SLJ) (continued)

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

	2011	2010
Fair value of options outstanding	J$48,122,000	J$40,917,000
Share price at grant date	J$4.20 – 9.00	J$4.20 – 9.86
Exercise price	J$4.20 – 9.00	J$4.20 – 9.86
Standard deviation of expected share price returns	39.0%	39.0%
Remaining contractual term	1 - 6 years	1 - 6 years
Risk-free interest rate	12.6%	9.4%

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 $719 (2010 – $459).

30.3 Pan Caribbean Financial Services Limited (PCFS)

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

Amounts expressed in US$000

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

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

	2011		2010	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	11,393	J$16.01	4,799	J$18.53
Options granted	3,138	J$18.00	8,886	J$15.10
Options exercised	(1,275)	J$14.68	(192)	J$12.20
Options lapsed / forfeited	(300)	J$21.75	(2,100)	J$17.91
Balance, end of year	12,956	J$16.54	11,393	J$16.01
Exercisable at the end of the year	6,935	J$17.41	4,410	J$17.77

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

	2011	2010
Fair value of options outstanding	J$ 12,956,000	J$ 11,393,000
Share price at grant date	J$ 13.00 – 21.05	J$ 13.00 – 21.50
Exercise price	J$ 12.20 – 20.50	J$ 12.20 – 21.75
Standard deviation of expected share price returns	30%	10.0% - 21.7%
Weighted average remaining contractual term	3 years	3 years
Risk-free interest rate	11.54% - 13.24%	11.6% - 21.79%

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% each on the 6th to 10th anniversaries. The first tranche of put options vest in 2012.

The shares subscribed by participating employees, and the relevant fair values at the date of subscription are set out in the following table.

	2011		2010	
	Number of Shares '000	Fair value at Subscription (in £ 000)	Number of Shares '000	Fair value at Subscription (in £ 000)
Balance, beginning of year	337	2,489	337	2,489
Shares redeemed	(4)	(116)	-	-
Balance, end of year	333	2,373	337	2,489

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.

Amounts expressed in US$000

30.4 Sagicor Europe Limited (SEL) (continued)

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, 2011 of $6,677 (2010 – $4,448) is recognised in the financial statements. The valuation of the put options have been derived from:

- Valuation of SEL using a variety of methods;
- Discounting the expected cash outflows from the put options, assuming the options are exercised at the earliest possible dates. The discount rate used was 11.8% (2010 – 11.5%).

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 accretion 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.

31. EMPLOYEE RETIREMENT BENEFITS (continued)

(a) Amounts recognised in the financial statements

	2011	2010
Fair value of retirement plan assets	105,127	94,059
Present value of funded retirement obligations	(109,083)	(97,922)
	(3,956)	(3,863)
Present value of unfunded retirement obligations	(38,635)	(36,991)
Unrecognised actuarial losses	8,518	12,674
Amounts recognised in the financial statements	(34,073)	(28,180)
Represented by:		
Amounts held on deposit by the Group as deposit administration contracts	(25,101)	(25,371)
Other recognised liabilities	(12,328)	(6,635)
Total recognised liabilities (note 18)	(37,429)	(32,006)
Recognised assets (note 12)	3,356	3,826
	(34,073)	(28,180)

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

	2011	2010	2009	2008	2007
Present value of retirement obligations	(147,718)	(134,913)	(110,952)	(107,289)	(108,451)
Fair value of plan assets	105,127	94,059	81,062	75,883	77,231
Net obligation	(42,591)	(40,854)	(29,890)	(31,406)	(31,220)
Experience adjustment on:					
Plan liabilities	3,216	2,394	(2,238)	(9,565)	(1,848)
Plan assets	(1,252)	(759)	(811)	9,952	965

Amounts expressed in US$000

31. EMPLOYEE RETIREMENT BENEFITS (continued)

(b) Amounts recognised in the income statement

	2011	2010
Current service cost	5,492	4,858
Interest cost	11,705	10,979
Net actuarial (gains) / losses recognised during the year	247	1,282
Past service cost	1,703	65
Curtailment gain	39	-
Expected return on retirement plan assets	(9,978)	(8,678)
Total cost	9,208	8,506

The actual return on retirement plan assets was $11,835 (2010 – $9,572).

(c) Retirement plan assets

Movement in retirement plan assets	2011	2010
Plan assets, beginning of year	94,059	81,062
Expected return on plan assets	9,978	8,678
Actuarial gains and losses	439	(203)
Contributions made by the Group	3,981	4,780
Contributions made by plan participants	3,625	2,337
Benefits paid	(5,969)	(3,560)
Other	(370)	(1,482)
Effects of exchange rate changes	(616)	2,447
Plan assets, end of year	105,127	94,059

For the next financial year, the total employer contributions are estimated at $5,231 (2010- $4,904).

31. EMPLOYEE RETIREMENT BENEFITS (continued)

Distribution of the plan assets	2011	2010
Equity unit linked pension funds under management	97,977	91,887
Other assets	7,150	2,172
Total plan assets	105,127	94,059

(d) Movement in retirement obligations

	2011	2010
Retirement obligations, beginning of year	134,913	110,952
Current service cost	6,912	6,149
Interest cost	11,705	10,979
Contributions made by employees	2,814	2,563
Actuarial gains and losses	(3,457)	5,987
Benefits paid	(7,048)	(4,302)
Past service cost	1,703	65
Curtailments	39	-
Other	845	(158)
Effects of exchange rate changes	(708)	2,678
Retirement obligations, end of year	147,718	134,913

Pension plans have purchased annuities from insurers in the Group to pay benefits to plan retirees. These obligations are included in actuarial liabilities in the statement of financial position and are excluded from the table above.

Amounts expressed in US$000

31. EMPLOYEE RETIREMENT BENEFITS (continued)

(e) Principal assumptions

The principal actuarial assumptions by geographic area used for 2011 were as follows:

Pension benefits	Barbados	Jamaica	Trinidad	Other Caribbean
Discount rate	7.8%-8.0%	10.0%	7.0%	7.8%
Expected return on plan assets	7.8%-8.0%	7.0%	6.0%	7.8%
Future salary increases	3.0%-6.5%	6.0%	2.5%-5.5%	2.0%-3.0%
Future pension increases	2.5%-3.5%	2.0%	1.0%	2.5%-3.5%
Portion of employees opting for early retirement	15.0%	-	-	-
Future changes in National Insurance Scheme Ceilings	3.5%-3.8%	-	2.0%	3.5%

Other retirement benefits	Barbados	Jamaica
Discount rate	8.0%	10.0%
Expected return on plan assets	-	7.0%
Future salary increases	-	6.0%
Long term increase in health costs	4.5%	8.0%

31. EMPLOYEE RETIREMENT BENEFITS (continued)

The effect of a change of 1% in the assumption for long-term increase in health costs as of December 31, 2011 is estimated as follows:

	Effect of 1% decrease	Effect of 1% increase
Revised service cost	621	978
Revised interest cost	1,048	1,453
Revised accumulated retirement benefit	9,090	12,448

32. INCOME TAXES

Group companies operating in Caribbean countries are largely taxed according to the taxation rules of the country where the operations are carried out. The principal rates of taxation are summarised in note 2.19(b). The income tax expense and the income subject to taxation in the statement of income are set out in the following table.

	2011	2010
Income tax expense:		
Current tax	19,451	14,816
Deferred tax	(6,141)	278
Share of tax of associated companies	176	216
	13,486	15,310
Sources of income subject to tax:		
Investment income subject to direct taxation	112,831	96,997
Net income subject to direct taxation	3,171	12,105
Total income subject to taxation	116,002	109,102

Amounts expressed in US$000

32. INCOME TAXES (continued)

Income tax on the total income subject to taxation differs from the theoretical amount that would arise is as follows:

	2011	2010
Total income subject to taxation	116,002	109,102
Taxation at the applicable rates on income subject to tax	21,015	21,126
Adjustments to current tax for items not subject to / allowed for tax	(14,521)	(15,681)
Other current tax adjustments	52	(26)
Adjustments for current tax of prior periods	23	(117)
Movement in unrecognised deferred tax asset	6,185	6,708
Deferred tax relating to the origination of temporary differences	377	959
Deferred tax relating to changes in tax rates or new taxes	1,064	97
Deferred tax that arises from the write down / (reversal of a write down) of a tax asset	(1,300)	465
Other taxes	591	1,779
	13,486	15,310

In addition to the above, the income tax on items in other comprehensive income is set out in note 35.

33. DEFERRED INCOME TAXES

	2011	2010
Analysis of deferred income tax assets:		
Pensions and other retirement benefits	1,093	680
Unrealised losses on financial investments	522	261
Unused tax losses	16,238	7,579
Off-settable tax liabilities in respect of policy liability timing differences and other items	(1,101)	(8)
Other items	1,051	697
Total deferred income tax assets (note 11)	17,803	9,209
Deferred income tax assets to be recovered within one year	1,533	2,396
Unrecognised tax balances:		
Tax losses	150,481	126,292
Potential deferred income tax assets	38,440	32,403
Expiry period for unrecognised tax losses:		
2012	1,262	914
2013	2,592	3,332
2014	9,178	9,570
2015 – 2016	33,218	33,080
2017 – 2019	70,478	70,478
After 2019	24,761	-
No specified expiry date	8,992	8,918
	150,481	126,292

33. DEFERRED INCOME TAXES (continued)

Analysis of deferred income tax liabilities	2011	2010
Accelerated tax depreciation	1,549	2,184
Policy liabilities taxable in the future	28,306	29,245
Pensions and other retirement benefits	-	11
Accrued interest	1,707	2,554
Unrealised gains on financial investments	23,265	13,812
Off-settable tax assets in respect of unused tax losses and other items	(35,264)	(34,136)
Other items	3,142	2,419
Total (note 19)	22,705	16,089
Deferred income tax liabilities to be settled within one year	9,923	9,222

34. EARNINGS PER COMMON SHARE

The basic earnings per common share is computed by dividing earnings attributable to common shareholders by the weighted average number of shares in issue during the year, after deducting treasury shares. Earnings attributable to common shareholders recognise the impact on net income of the Company's convertible redeemable preference shares (note 21.2).

The table below derives the earnings attributable to common shareholders and the basic earnings per common share.

	2011	2010
Net income attributable to common shareholders	973	16,560
Finance costs attributable to preference share subscription	2,114	-
Amortisation of issue expenses allocated to preference share reserve	(72)	-
Preference share dividends declared	(2,544)	-
Earnings attributable to common shareholders	471	16,560
Weighted average number of shares in issue in thousands	294,768	290,037
Basic earnings per common share	0.2 ¢	5.7 ¢

The computation of diluted earnings per common share recognises the dilutive impact of LTI share grants and share options (note 30.1), ESOP shares grants (note 30.1), and the convertible redeemable preference shares. In computing diluted earnings per share, the income attributable to common shareholders is adjusted by the dilutive impact of the convertible preference shares and the weighted average number of common shares is adjusted by the dilutive impacts of the aforementioned share grants, options and preference shares.

34 EARNINGS PER COMMON SHARE (continued)

The table below derives the adjusted earnings attributable to common shareholders, the adjusted weighted average number of common shares, and the fully diluted earnings per common share.

	2011	2010
Earnings attributable to common shareholders	471	16,560
Weighted average number of shares in issue in thousands	294,768	290,037
LTI restricted share grants	966	605
ESOP shares	1,328	815
Adjusted weighted average number of shares in issue	297,062	291,457
Fully diluted earnings per common share	0.2 ¢	5.7 ¢

By substituting net income with total comprehensive income, the amounts deriving basic total comprehensive earnings per common share are set out below.

	2011	2010
Total comprehensive income attributable to common shareholders	3,685	38,208
Total comprehensive earnings attributable to common shareholders	3,183	38,208
Weighted average number of shares in issue in thousands	294,768	290,037
Basic total comprehensive earnings per common share	1.1 ¢	13.2 ¢

Amounts expressed in US$000

35. OTHER COMPREHENSIVE INCOME

The following additional information is provided in respect of items in other comprehensive income (OCI).

	2011					2010				
	OCI tax expense	After tax OCI is attributable to				OCI tax expense	After tax OCI is attributable to			
		Shareholders	Participating policyholders	Minority interests	Total		Shareholders	Participating policyholders	Minority interests	Total
Items that may be reclassified subsequently to income:										
Available for sale assets:										
Unrealised gains / (losses) arising on revaluation	(8,575)	16,007	530	749	17,286	(17,652)	33,514	750	13,278	47,542
(Gains) / losses transferred to income	(2,011)	(3,855)	-	(1,483)	(5,338)	(316)	(4,680)	-	235	(4,445)
Net change in actuarial liabilities	7,080	(10,929)	(530)	-	(11,459)	4,465	(9,844)	(732)	-	(10,576)
Retranslation of foreign currency operations	-	(793)	(15)	(995)	(1,803)	-	1,965	-	4,042	6,007
Other items	-	-	-	-	-	-	-	-	(309)	(309)
	(3,506)	430	(15)	(1,729)	(1,314)	(13,503)	20,955	18	17,246	38,219
Items that will not be reclassified subsequently to income:										
Unrealised gains / (losses) arising on revaluation of owner occupied property	(345)	2,282	-	727	3,009	-	693	-	77	770
	(3,851)	2,712	(15)	(1,002)	1,695	(13,503)	21,648	18	17,323	38,989

Amounts expressed in US$000

36. CASH FLOWS

36.1 Operating activities

	2011	2010
Adjustments for non-cash items, interest and dividends:		
Interest and dividend income	(261,133)	(248,881)
Net investment gains	(33,895)	(42,172)
Net increase in actuarial liabilities	117,014	145,584
Interest expense and finance costs	88,072	94,366
Depreciation and amortisation	19,307	18,269
Increase in provision for unearned premiums	(14,383)	46,377
Other items	21,402	(7,005)
	(63,616)	6,538
Net increase in investments and operating assets:		
Investment property	(375)	(3,857)
Debt securities	(450,809)	(260,781)
Equity securities	309	(4,416)
Mortgage loans	20,432	16,512
Policy loans	(2,098)	795
Finance loans and finance leases	(14,802)	(16,650)
Securities purchased for re-sale	740	(1,563)
Deposits	51,906	(56,512)
Other assets and receivables	(64,335)	(50,762)
	(459,032)	(377,234)

36.1 Operating activities (continued)

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

	2011	2010
Investment property:		
Disbursements	(626)	(11,233)
Disposal proceeds	251	7,376
	(375)	(3,857)
Debt securities:		
Disbursements	(2,041,121)	(1,731,222)
Disposal proceeds	1,590,312	1,470,441
	(450,809)	(260,781)
Equity securities:		
Disbursements	(73,130)	(62,975)
Disposal proceeds	73,439	58,559
	309	(4,416)
Net increase in operating liabilities:		
Insurance liabilities	140,238	109,600
Investment contract liabilities	21,501	(14,536)
Other funding instruments	31,221	(14,154)
Deposits	20,713	11,925
Securities sold for re-purchase	46,869	85,005
Other liabilities and payables	8,565	(7,798)
	269,107	170,042

Amounts expressed in US$000

	2011	2010
36.2 Investing activities		
Property, plant and equipment:		
Purchases	(14,947)	(13,306)
Disposal proceeds	2,155	3,054
	(12,792)	(10,252)

	2011	2010
36.3 Financing activities		
Other notes and loans payable:		
Repayments	(36,808)	(14,452)

	2011	2010
36.4 Cash and cash equivalents		
Cash resources	184,662	218,635
Call deposits and other liquid balances	99,181	80,085
Bank overdrafts	(3,657)	(2,580)
Other short-term borrowings	(15,527)	(17,072)
	264,659	279,068

37. STATUTORY RESTRICTIONS ON ASSETS

Insurers are registered to conduct insurance business under legislation in place in each relevant jurisdiction. This legislation may prescribe a number of requirements with respect to deposits, investment of funds and solvency for the protection of policyholders. In general, these requirements do not restrict the ability of the insurer to trade investments. Banking subsidiaries may also be required to hold deposits with Central Banks which regulate the conduct of banking operations.

To satisfy the above requirements, invested assets and cash totalling $1,361,659 (2010 - $1,262,023) 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.

38. COMMITMENTS

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

Amounts expressed in US$000

39. CONTINGENT LIABILITIES

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

	2011	2010
Customer guarantees and letters of credit [(1)]	12,495	12,594
Letter of credit facility [(2)]	80,550	81,559
	93,045	94,153

[(1)] 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.

[(2)] Collateral for this facility is disclosed on note 9.2 and the associated financial covenants are disclosed in note 45.3(b).

(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.

39 CONTINGENT LIABILITIES (continued)

(c) Insurance contracts

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

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

A review of the Universal Life portfolio revealed that approximately 17,000 policies were affected by fund values which were insufficient to cover these costs through the life of the policies. Once the issue was recognised, the Group initiated discussion with the Regulators, the Financial Services Commission (FSC), as a result of which the affected policyholders were given the opportunity to reduce their existing coverage under the policies or to increase the premiums at their expense. Approximately 95% of these policyholders agreed to adjustments to their policies.

The Group estimates that less than 1% of the affected policyholders have filed complaints with the FSC, which carried out investigations and made a submission to the Group. The FSC suggested a number of alternatives to remedy the issue. The Group is in discussions with the FSC on the matter. The cost, if any, of resolving this issue cannot be quantified at this time.

Amounts expressed in US$000

40. RELATED PARTY TRANSACTIONS

Certain related party transactions and balances are included in notes 5, 9, 12, 20, 26, 30 and 44 of the financial statements.

Key management transactions and balances

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

Compensation	2011	2010
Salaries, directors' fees and other short-term benefits	18,079	17,412
Equity-settled and cash-settled compensation benefits	4,541	1,619
Pension and other retirement benefits	1,702	832
	24,322	19,863

	Mortgage loans	Other loans	Total loans
Balance, beginning of year	4,143	324	4,467
Advances	221	299	520
Repayments	(397)	(197)	(594)
Effects of exchange rate changes	(3)	(2)	(5)
Balance, end of year	3,964	424	4,388
Interest rates prevailing during the year	5% - 8.25%	5% - 17.7%	

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 default, liquidity and market risks. Market risks arise from changes in interest rates, equity prices, currency exchange rates or other market factors. The principal insurance risks are identified in notes 42 and 43.

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.

Credit risk

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

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

The Group has developed an internal credit rating standard. The internal rating is a 10 point scale which allows for distinctions in risk characteristics and is referenced to the rating scales of international credit rating agencies. The scale is set out in the following table.

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

41.1 Credit risk (continued)

The Group applies this rating scale to three categories of exposures:

- Investment portfolios, comprising debt securities, deposits, securities purchased for re-sale, and cash balances;
- Lending portfolios, comprising mortgage, policy and finance loans and finance leases;
- Reinsurance exposures, comprising reinsurance assets for life, annuity and health insurance (see note 43.3) or realistic disaster scenarios for property and casualty insurance (see note 42.3).

The 3 default grades are used for lending portfolios while investment portfolios and reinsurance exposures use one default grade: 8.

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.

	2011		2010	
	$000	%	$000	%
Investment portfolios	3,599,059	76.9	3,167,448	75.5
Lending portfolios	556,056	11.9	564,397	13.5
Reinsurance assets	289,701	6.2	240,939	5.7
Other financial assets	205,087	4.3	197,532	4.7
Total financial statement exposures	4,649,903	99.3	4,170,316	99.4
Loan commitments	17,465	0.4	13,002	0.3
Customer guarantees and letters of credit	12,495	0.3	12,594	0.3
Total off financial statement exposures	29,960	0.7	25,596	0.6
Total	4,679,863	100.0%	4,195,912	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.

41.1 Credit risk (continued)

The Group's largest exposures to individual counterparty credit risks as of December 31 are set out below. The individual ratings reflect the rating of the counterparty listed below, while the amounts include exposures with subsidiaries of the counterparty.

	Sagicor Risk Rating	2011	Sagicor Risk Rating	2010
Investment portfolios:				
Government of Jamaica	5	1,122,561	5	916,457
Government of Trinidad and Tobago	2	143,613	2	126,697
Government of Barbados	3	182,740	3	133,892
The Bank of Nova Scotia	1	130,307	1	115,260
Government of USA	1	102,452	1	108,305
The Federal National Mortgage Association	1	72,394	1	77,149
The Federal Home Loan Mortgage Corporation	1	58,174	1	49,243
CIBC	2	61,897	2	34,963
Lending portfolios:				
Value Assets International S.A. and Egret Limited	4	54,247	4	44,193
Reinsurance assets:				
Scottish Re (U.S.) Inc [1]	7	104,112	7	109,624
Washington National Insurance Company [2]	5	53,238	5	56,745

[1] 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 $147,782 (2010 - $149,819).

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

41.1 Credit risk (continued)

(a) Investment portfolios

The results of the risk rating of investment portfolios are as follows:

Investment portfolios					
Risk Rating	Classification	2011 Exposure $000	2011 Exposure %	2010 Exposure $000	2010 Exposure %
1	Minimal risk	638,481	18%	641,112	20%
2	Low risk	679,735	19%	563,679	18%
3	Moderate risk	764,604	21%	623,461	20%
4	Acceptable risk	179,571	5%	142,013	4%
5	Average risk	1,297,212	36%	1,098,358	35%
6	Higher risk	16,712	1%	17,091	1%
7	Special mention	4,055	0%	19,030	1%
8	Substandard	4,903	0%	3,466	0%
TOTAL RATED EXPOSURES		3,585,273	100%	3,108,210	99%
UN-RATED EXPOSURES		13,786	0%	59,238	1%
TOTAL		3,599,059	100%	3,167,448	100%

Investment portfolio assets are mostly unsecured except for securities purchased under agreement to resell for which title to the securities is transferred to the Group for the duration of each agreement.

41.1 Credit risk (continued)

(b) Lending portfolios

The results of the risk rating of lending portfolios are as follows:

Lending portfolios					
Risk Rating	Classification	2011		2010	
		Exposure $000	Exposure %	Exposure $000	Exposure %
1	Minimal risk	124,626	22%	141,614	25%
2	Low risk	129,312	23%	92,948	16%
3	Moderate risk	133,991	24%	154,455	27%
4	Acceptable risk	35,055	6%	35,561	6%
5	Average risk	34,559	6%	39,320	7%
6	Higher risk	8,837	2%	12,512	2%
7	Special mention	5,675	1%	3,487	1%
8	Substandard	16,123	3%	24,830	4%
9	Doubtful	4,500	1%	5,099	1%
10	Loss	3,051	1%	1,404	1%
TOTAL RATED EXPOSURES		495,729	89%	511,230	90%
UN-RATED EXPOSURES		60,327	11%	53,167	10%
TOTAL		556,056	100%	564,397	100%

41.1 Credit risk (continued)

Exposure to credit risk is also managed in part by obtaining collateral and guarantees for lending portfolios. 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.

Policy loans are advanced on the security of the underlying insurance policy cash values. Cash loans are advanced to a maximum of 82% to 100% of the cash surrender value. Automatic premium loans may be advanced to the extent of available cash surrender value.

Exposure to the lending portfolios by geographic area is as follows.

	2011	2010
Barbados	193,204	187,761
Jamaica	129,442	131,492
Trinidad & Tobago	93,873	106,038
Other Caribbean	74,790	72,299
USA	64,747	66,807
	556,056	564,397

(c) Past due and impaired financial assets

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 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.

Amounts expressed in US$000

41.1 Credit risk (continued)

Mortgage loans less than 90 to 180 days past due and finance loans and finance leases less than 90 days past due are not assessed for impairment unless other information is available to indicate the contrary.

The assessment for impairment includes a review of the collateral. If the past due period is less than the trigger for impairment review, the collateral is not normally reviewed and re-assessed. Accumulated allowances for impairment reflect the Group's assessment of total individually impaired assets at the date of the financial statements. The following tables set out the carrying values of debt securities, mortgage loans, finance loans and finance leases, analysed by past due or impairment status.

	Debt securities	Mortgage loans	Finance loans & leases
2011			
Neither past due nor impaired	3,060,640	184,501	126,485
Past due up to 3 months, but not impaired	34,233	53,269	23,333
Past due up to 12 months, but not impaired	470	11,438	1,403
Past due up to 5 years, but not impaired	3,082	7,121	5
Past due over 5 years, but not impaired	31	5,473	-
Total past due but not impaired	37,816	77,301	24,741
Impaired assets	8,484	11,178	7,224
Total carrying value	3,106,940	272,980	158,450
Accumulated allowances on impaired assets	9,961	2,486	3,764
Accrued interest on impaired assets	52	309	77

41.1 Credit risk (continued)

	Debt securities	Mortgage loans	Finance loans & leases
2010			
Neither past due nor impaired	2,589,040	202,034	100,325
Past due up to 3 months, but not impaired	10,945	54,833	39,599
Past due up to 12 months, but not impaired	1,836	9,296	598
Past due up to 5 years, but not impaired	331	6,952	-
Past due over 5 years, but not impaired	33	8,127	-
Total past due but not impaired	13,145	79,208	40,197
Impaired assets	6,367	15,840	3,543
Total carrying value	2,608,552	297,082	144,065
Accumulated allowances on impaired assets	6,437	3,325	2,706
Accrued interest on impaired assets	43	461	23

The Group is also exposed to impaired premiums receivable. Property and casualty insurers frequently provide settlement terms to customers and intermediaries which extend up to 6 months. 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.

(d) 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.

Amounts expressed in US$000

41.1 Credit risk (continued)

(e) 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.

41.2 Liquidity risk

Liquidity risk is the exposure that the Group may encounter difficulty in meeting obligations associated with financial or insurance liabilities that are settled by cash or by another financial asset. Liquidity risk also arises when excess funds accumulate resulting in the loss of opportunity to increase investment returns.

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

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.

Investment property may be held to back insurance liabilities. As these assets are relatively illiquid, the insurers hold less than 2% - 10% of their total assets in investment property.

41.2 Liquidity risk (continued)

(a) Insurance liabilities

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

	Expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
2011				
Actuarial liabilities	105,910	354,577	1,415,990	1,876,477
Other insurance liabilities	272,061	188,662	103,201	563,924
Total	377,971	543,239	1,519,191	2,440,401
2010				
Actuarial liabilities	79,292	326,522	1,347,898	1,753,712
Other insurance liabilities	244,530	88,881	92,085	425,496
Total	323,822	415,403	1,439,983	2,179,208

Amounts expressed in US$000

41.2 Liquidity risk (continued)

(b) Financial liabilities and commitments

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

	2011 - Contractual un-discounted cash flows				2010 - Contractual un-discounted cash flows			
	On demand or within 1 year	1 to 5 years	After 5 years	Total	On demand or within 1 year	1 to 5 years	After 5 years	Total
Financial liabilities:								
Investment contract liabilities	280,669	30,877	10,261	321,807	264,112	27,785	6,221	298,118
Notes and loans payable	11,250	308,963	-	320,213	42,929	52,963	151,845	247,737
Deposit and security liabilities:								
Other funding instruments	213,949	51,066	15,755	280,770	179,998	37,413	32,707	250,118
Customer deposits	159,067	35,020	14,894	208,981	135,637	38,943	12,107	186,687
Structured products	-	1,055	3,162	4,217	4,702	6,057	2,598	13,357
Securities sold for re-purchase	618,036	128	-	618,164	578,773	709	-	579,482
Derivative financial instruments	5,211	2,608	296	8,115	1,372	66	411	1,849
Bank overdrafts	3,657	-	-	3,657	2,750	-	-	2,750
Accounts payable and accrued liabilities	163,936	5,628	28,842	198,406	149,510	7,054	30,894	187,458
Total financial liabilities	1,455,775	435,345	73,210	1,964,330	1,359,783	170,990	236,783	1,767,556
Off financial statement commitments:								
Loan commitments	13,024	3,296	1,145	17,465	12,793	199	10	13,002
Non-cancellable operating lease and rental payments	3,858	7,703	7,569	19,130	4,253	6,214	-	10,467
Guarantees, acceptances and other financial facilities	7,277	4,831	387	12,495	-	-	-	-
Total off financial statements commitments	24,159	15,830	9,101	49,090	17,046	6,413	10	23,469
Total	1,479,934	451,175	82,311	2,013,420	1,376,829	177,403	236,793	1,791,025

Amounts expressed in US$000

41.2 Liquidity risk (continued)

(c) Financial and insurance assets

The contractual maturity periods of monetary financial assets and the expected maturity periods of monetary insurance assets are summarised in the following table. Amounts are stated at their carrying values recognised in the financial statements. For this disclosure, monetary insurance assets comprise policy loans and reinsurance assets.

	2011 – Contractual or expected discounted cash flows				2010 – Contractual or expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
Debt securities	421,159	879,013	1,806,768	3,106,940	373,984	682,412	1,552,156	2,608,552
Mortgage loans	19,878	47,570	205,532	272,980	25,527	32,884	238,671	297,082
Policy loans	6,482	14,241	103,903	124,626	3,958	14,155	105,137	123,250
Finance loans and finance leases	65,511	54,177	38,762	158,450	65,832	58,481	19,752	144,065
Securities purchased for re-sale	12,082	-	-	12,082	28,530	-	37	28,567
Deposits	282,538	11,842	995	295,375	264,670	46,270	754	311,694
Derivative financial instruments	7,234	7,671	296	15,201	2,018	9,640	412	12,070
Reinsurance assets: share of actuarial liabilities	15,118	51,030	103,011	169,159	15,688	53,875	108,515	178,078
Reinsurance assets: other	56,035	51,639	12,868	120,542	44,921	13,366	4,574	62,861
Premiums receivable	150,225	-	-	150,225	145,754	-	-	145,754
Other accounts receivable	36,588	2,753	320	39,661	33,491	1,174	5,043	39,708
Cash resources	184,662	-	-	184,662	218,635	-	-	218,635
Total	1,257,512	1,119,936	2,272,455	4,649,903	1,223,008	912,257	2,035,051	4,170,316

41.3 Interest rate risk

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

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

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

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

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.

41.3 Interest rate risk (continued)

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.

Amounts expressed in US$000

41.3 Interest rate risk (continued)

The table following summarises the exposures to interest rates on the Group's monetary 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.

	2011					2010				
	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Other insurance liabilities	237,565	5,062	54,660	266,637	563,924	183,753	5,430	56,134	180,179	425,496
Investment contract liabilities	279,237	27,895	8,357	70	315,559	257,945	26,400	5,096	4,897	294,338
Notes and loans payable	-	236,553	-	(4,023)	232,530	30,527	7,155	145,838	(1,635)	181,885
Deposit and security liabilities:										
Other funding instruments	204,615	42,657	11,477	2,775	261,524	174,792	27,445	27,033	347	229,617
Customer deposits	154,203	30,938	7,973	990	194,104	125,948	31,479	9,655	1,052	168,134
Structured products	-	-	-	3,184	3,184	2,309	740	1,533	1,073	5,655
Securities sold for re-purchase	609,043	116	-	3,822	612,981	571,198	649	-	3,869	575,716
Derivative financial instruments	-	-	-	8,115	8,115	-	-	-	1,849	1,849
Bank overdrafts	3,657	-	-	-	3,657	2,580	-	-	-	2,580
Accounts payable and accrued liabilities	18	-	-	194,369	194,387	264	108	-	186,863	187,235
Total	1,488,338	343,221	82,467	475,939	2,389,965	1,349,316	99,406	245,289	378,494	2,072,505

Amounts expressed in US$000

41.3 Interest rate risk (continued)

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

	2011					2010				
	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Debt securities	666,613	779,874	1,604,613	55,840	3,106,940	580,495	567,323	1,416,369	44,365	2,608,552
Equity securities	-	-	-	106,512	106,512	-	-	-	111,552	111,552
Mortgage loans	79,786	46,907	142,052	4,235	272,980	84,318	27,457	180,850	4,457	297,082
Policy loans	5,653	14,496	100,858	3,619	124,626	3,220	13,991	102,400	3,639	123,250
Finance loans and leases	66,883	53,959	36,423	1,185	158,450	64,476	58,318	20,104	1,167	144,065
Securities purchased for re-sale	12,017	-	-	65	12,082	28,401	-	37	129	28,567
Deposits	277,498	11,811	670	5,396	295,375	307,682	1,389	431	2,192	311,694
Derivative financial instruments	2,829	-	-	12,372	15,201	845	1,661	-	9,564	12,070
Reinsurance assets: other	34,835	94	4,564	81,049	120,542	18,216	114	4,574	39,957	62,861
Premiums receivable	715	-	-	149,510	150,225	72	-	-	145,682	145,754
Other accounts receivable	415	359	17	38,870	39,661	415	1,159	-	38,134	39,708
Cash resources	119,042	-	-	65,620	184,662	122,528	1,568	-	94,539	218,635
Total	1,266,286	907,500	1,889,197	524,273	4,587,256	1,210,668	672,980	1,724,765	495,377	4,103,790

Amounts expressed in US$000

41.3 Interest rate risk (continued)

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

	2011	2010
Financial assets:		
Debt securities	7.3%	8.1%
Mortgage loans	8.1%	8.3%
Policy loans	7.7%	8.6%
Finance loans and finance leases	11.5%	11.4%
Securities purchased for re-sale	6.2%	5.6%
Deposits	3.1%	2.5%
Financial liabilities		
Investment contract liabilities	8.3%	7.5%
Notes and loans payable	8.6%	8.7%
Other funding instruments	2.8%	2.9%
Deposits	4.2%	5.3%
Securities sold for re-purchase	5.3%	7.0%

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 43.4. 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 has short-term maturities. The sensitivity of the Group's principal operating subsidiaries engaged in banking, investment management and other financial services are considered in the following paragraphs.

41.3 Interest rate risk (continued)

Pan Caribbean Financial Services Limited and its subsidiaries (PCFS)

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

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

2011				2010			
Change in interest rate		Effect on net income	Effect on TCI	Change in interest rate		Effect on net income	Effect on TCI
JMD	USD			JMD	USD		
- 1%	- 0.5%	2,413	8,727	- 1%	- 0.5%	1,841	10,112
+ 1%	+ 0.5%	(2,413)	(9,071)	+ 2%	+ 0.5%	(3,401)	(14,974)

41.4 Foreign exchange risk

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

In order to manage the risk associated with movements in currency exchange rates, the Group seeks to maintain investments and cash in each operating currency, which are sufficient to match liabilities denominated in the same currency. Exceptions are made to invest limited proportions in United States dollar assets which are held to back liabilities in Caribbean currencies. Management considers that these assets diversify the range of investments available in the Caribbean, and in the long-term are likely to either maintain capital value and/or provide satisfactory returns.

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

41.4 Foreign exchange risk (continued)

2011	US$ 000 equivalents of balances denominated in						
	Barbados $	Jamaica $	Trinidad $	UK £	US $	Other Currencies	Total
ASSETS							
Financial investments[1]	370,443	786,116	309,268	67,514	2,053,524	398,789	3,985,654
Reinsurance assets	5,637	1,129	10,215	69,918	195,317	7,485	289,701
Receivables [1]	17,047	24,372	9,364	49,183	54,481	35,439	189,886
Cash resources	10,106	9,557	34,868	29,960	60,963	39,208	184,662
	403,233	821,174	363,715	216,575	2,364.285	480,921	4,649,903
Other assets [2]	212,963	158,255	83,145	109,259	96,002	54,546	714,170
Total assets	616,196	979,429	446,860	325,834	2,460,287	535,467	5,364,073
LIABILITIES							
Actuarial liabilities	396,429	306,089	264,960	2,854	789,036	117,109	1,876,477
Other insurance liabilities[1]	64,067	20,260	25,328	181,124	143,756	129,389	563,924
Investment contracts	34,254	73,461	98,988	-	66,782	42,074	315,559
Notes and loans payable	13,078	-	-	-	219,452	-	232,530
Deposit and security liabilities	58,299	377,336	3,215	9,558	614,214	20,943	1,083,565
Provisions	13,248	9,857	7,443	6,677	433	6,514	44,172
Accounts payable and accruals	6,601	41,698	11,168	20,486	83,995	30,439	194,387
	585,976	828,701	411,102	220,699	1,917,668	346,468	4,310,614
Other liabilities [2]	14,824	13,850	18,880	76,825	85,592	45,955	255,926
Total liabilities	600,800	842,551	429,982	297,524	2,003,260	392,423	4,566,540
Net position	15,396	136,878	16,878	28,310	457,027	143,044	797,533

[1] Monetary balances [2] Non-monetary balances, income tax balances and retirement plan assets

41.4 Foreign exchange risk (continued)

2010	US$ 000 equivalents of balances denominated in						
	Barbados $	Jamaica $	Trinidad $	UK £	US $	Other currencies	Total
ASSETS							
Financial investments[1]	325,300	660,971	306,771	66,939	1,836,535	328,764	3,525,280
Reinsurance assets	4,336	515	7,791	17,425	203,283	7,589	240,939
Receivables [1]	11,196	27,524	9,293	48,788	53,431	35,230	185,462
Cash resources	14,242	9,260	24,456	33,506	75,669	61,502	218,635
	355,074	698,270	348,311	166,658	2,168,918	433,085	4,170,316
Other assets [2]	217,804	141,862	80,029	98,314	105,278	54,227	697,514
Total assets	572,878	840,132	428,340	264,972	2,274,196	487,312	4,867,830
LIABILITIES							
Actuarial liabilities	403,035	248,201	238,997	2,085	729,644	131,750	1,753,712
Other insurance liabilities[1]	62,412	20,179	19,739	146,242	120,193	56,731	425,496
Investment contracts	32,251	69,758	90,011	-	63,789	38,529	294,338
Notes and loans payable	-	7,192	-	-	174,693	-	181,885
Deposit and security liabilities	53,573	342,108	7,299	4,216	562,405	13,950	983,551
Provisions	11,467	7,772	6,539	4,448	2,669	5,939	38,834
Accounts payable and accruals	20,022	36,538	19,346	18,253	77,242	15,834	187,235
	582,760	731,748	381,931	175,244	1,730,635	262,733	3,865,051
Other liabilities [2]	14,969	12,204	17,943	79,952	88,352	50,518	263,938
Total liabilities	597,729	743,952	399,874	255,196	1,818,987	313,251	4,128,989
Net position	(24,851)	96,180	28,466	9,776	455,209	174,061	738,841

[1] Monetary balances

[2] Non-monetary balances, income tax balances and retirement plan assets

41.4 Foreign exchange risk (continued)

(a) Sensitivity

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

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

41.4 Foreign exchange risk (continued)

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

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

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

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

- Currency risk of reported results of foreign operations

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

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

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

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

Amounts expressed in US$000

41.4 Foreign exchange risk (continued)

(i) JMD currency risk

The effect of a 5% depreciation in the JMD relative to the USD arising from JMD reporting units as of December 31, 2011 and for the year then ended are considered in the following table.

	Amounts denominated in JMD	Amounts denominated in USD	Total amounts	Effect of a 5% depreciation
Financial position:				
Assets	975,474	728,782	1,704,256	(48,774)
Liabilities	842,382	508,925	1,351,307	(42,119)
Net position	133,092	219,857	352,949	(6,655)
Represented by:				
Currency risk of the Group's investment in foreign operations				(6,655)
Income statement:				
Revenue	311,790	49,721	361,511	(4,534)
Benefits	(167,712)	(16,420)	(184,132)	8,386
Expenses	(100,319)	(4,046)	(104,365)	5,016
Income taxes	(10,244)	-	(10,244)	512
Net income	33,515	29,255	62,770	9,380
Represented by:				
Currency risk relating to the future cash flows of monetary balances				11,056
Currency risk of reported results of foreign operations				(1,676)
				9,380

A 5% appreciation in the JMD relative to the USD would have equal and opposite effects to those disclosed above.

41.4 Foreign exchange risk (continued)

(ii) GBP currency risk

The effect of a 10% depreciation in the GBP relative to the USD arising from GBP reporting units as of December 31, 2011 and for the year then ended are considered in the following table.

	Amounts denominated in GBP	Amounts denominated in USD	Total amounts	Effect of a 10% depreciation
Financial position:				
Assets	316,024	224,371	540,395	(31,616)
Liabilities	280,701	193,091	473,792	(28,082)
Net position	35,323	31,280	66,603	(3,534)
Represented by:				
Currency risk of the Group's investment in foreign operations				(3,534)
Income statement:				
Revenue	133,313	125,107	258,420	(4,907)
Benefits	(68,704)	(82,636)	(151,340)	6,869
Expenses	(82,843)	(50,746)	(133,589)	8,283
Income taxes	8,351	-	8,351	(835)
Net income	(9,883)	(8,275)	(18,158)	9,410
Represented by:				
Currency risk relating to the future cash flows of monetary balances				8,423
Currency risk of reported results of foreign operations				987
				9,410

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

41.5 Fair value of financial instruments

(a) Financial instruments carried at amortised cost

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

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.

In assessing the fair value of non-traded financial liabilities, the Group uses a variety of methods including obtaining dealer quotes for specific or similar instruments and the use of internally developed pricing models, such as the use of discounted cash flows. If the non-traded liability is backed by a pool of assets, then its value is equivalent to the value of the underlying assets.

(b) Financial instruments carried at fair value

Financial instruments carried at fair value in the financial statements are measured according to a fair value hierarchy which reflects the significance of market inputs in the valuation. This hierarchy is described and discussed in sections (i) to (iii) below.

(i) *Level 1 – unadjusted quoted prices in active markets for identical instruments*.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other independent source, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The Group considers that market transactions should occur with sufficient frequency that is appropriate for the particular market, when measured over a continuous period preceding the date of the financial statements. If there is no data available to substantiate the frequency of market transactions of a financial instrument, then the instrument is not classified as Level 1.

41.5 Fair value of financial instruments (continued)

(ii) Level 2 – inputs that are observable for the instrument, either directly or indirectly

A financial instrument is classified as Level 2 if:

- The fair value is derived from quoted prices of similar instruments which would be classified as Level 1; or
- The fair value is determined from quoted prices that are observable but there is no data available to substantiate frequent market trading of the instrument.

The techniques and methods described in 41.5 (a) for non traded financial assets and liabilities may also be used in determining the fair value of Level 2 instruments.

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

(iii) *Level 3 – inputs for the instrument that are not based on observable market data*.

A financial instrument is classified as Level 3 if:

- The fair value is derived from quoted prices of similar instruments that are observable and which would be classified as Level 2; or
- The fair value is derived from inputs that are not based on observable market data.

Level 3 available for sale securities comprise primarily of corporate and government agency debt instruments issued in the Caribbean, with significant amounts in Jamaica and Trinidad. The fair values of these instruments have been derived from December 31 market yields of government instruments of similar durations in the country of issue of the instruments.

Level 3 assets designated include mortgage loans and securities purchased for re-sale for which the full income return and capital returns accrue to holders of unit linked policy and deposit administration contracts. These assets are valued with inputs other than observable market data.

The techniques and methods described in 41.5 (a) for non traded financial assets and liabilities may also used in determining the fair value of Level 3 instruments.

Amounts expressed in US$000

41.5 Fair value of financial instruments (continued)

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

	2011				2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Available for sale securities:								
Debt securities	470,805	1,548,210	37,442	2,056,457	377,490	1,323,030	42,315	1,742,835
Equity securities	49,717	19,170	8,645	77,532	57,770	22,038	7,905	87,713
	520,522	1,567,380	46,087	2,133,989	435,260	1,345,068	50,220	1,830,548
Investments at fair value through income:								
Debt securities	19,205	88,030	6,497	113,732	14,699	79,283	2,351	96,333
Equity securities	14,742	10,834	3,404	28,980	15,548	3,969	4,322	23,839
Derivative financial instruments	-	6,894	8,307	15,201	-	889	11,181	12,070
Mortgage loans	-	-	40,674	40,674	-	-	46,876	46,876
Securities purchased for re-sale	-	-	492	492	-	-	2,982	2,982
	33,947	105,758	59,374	199,079	30,247	84,141	67,712	182,100
Total assets	554,469	1,673,138	105,461	2,333,068	465,507	1,429,209	117,932	2,012,648
Total assets by percentage	24%	72%	4%	100%	23%	71%	6%	100%

There have been no material transfers between Level 1 and Level 2 during 2011 and 2010.

Amounts expressed in US$000

41.5 Fair value of financial instruments (continued)

	2011				2010			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Policy liabilities:								
Unit linked deposit administration liabilities	-	93,000	-	93,000	-	83,847	-	83,847
Deposit and security liabilities:								
Structured products	-	-	3,184	3,184	-	-	5,655	5,655
Derivative financial instruments	1,291	6,824	-	8,115	1,328	521	-	1,849
	1,291	6,824	3,184	11,299	1,328	521	5,655	7,504
Total liabilities	1,291	99,824	3,184	104,299	1,328	84,368	5,655	91,351
Total liabilities by percentage	1%	96%	3%	100%	1%	93%	6%	100%

There have been no material transfers between Level 1 and Level 2 during 2011 and 2010.

For Level 3 instruments, reasonable changes in inputs which could be applied to the valuation of available for sale instruments would affect other comprehensive income. Reasonable changes in inputs which could be applied to the valuations of Level 3 instruments designated at fair value are largely offset in income, since the changes in fair value are borne by contract holders.

Amounts expressed in US$000

41.5 Fair value of financial instruments (continued)

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

	2011				2010	2011		2010
	Available for sale securities	Investments at fair value through income	Derivative instruments	Total assets	Total assets	Structured products	Total liabilities	Total liabilities
Balance, beginning of year	50,220	56,531	11,181	117,932	161,619	5,655	5,655	5,299
Additions	11,618	16,068	3,827	31,513	16,857	-	-	390
Issues	-	-	-	-	-	-	-	48
Transfers in	50	-	-	50	95	-	-	-
Fair value changes recorded in income	943	521	(4,891)	(3,427)	3,751	-	-	-
Fair value changes recorded in other comprehensive income	713	-	-	713	2,206	-	-	-
Disposals and divestitures	(17,170)	(68,669)	(1,790)	(87,629)	(53,684)	-	-	-
Settlements	-	-	-	-	-	(2,427)	(2,427)	(77)
Transfers out	-	-	-	-	(15,507)	-	-	-
Movements arising from business acquisitions and divestitures	72	46,876	-	46,948	-	-	-	-
Effect of exchange rate changes	(359)	(260)	(20)	(639)	2,595	(44)	(44)	(5)
Balance, end of year	46,087	51,067	8,307	105,461	117,932	3,184	3,184	5,655
Fair value changes recorded in income for instruments held at end of year	-	17	343	360	3,655	-	-	-

(c) Equity price risk

The Group is exposed to equity price risk arising from changes in the market values of its equity securities. The Group mitigates this risk by establishing overall limits of equity holdings for each investment portfolio and by maintaining diversified holdings within each portfolio of equity securities.

Amounts expressed in US$000

41.5 Fair value of financial instruments (continued)

(d) Sensitivity

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

The effects of an across the board 20% change in equity prices of the Group's available for sale equity securities as of December 31, 2011 on total comprehensive income before tax (TCIBT) are as follows.

Available for sale equities	Carrying value	20% change on TCIBT
Listed on Caribbean stock exchanges and markets	25,094	5,019
Listed on US stock exchanges and markets	42,811	8,562
Listed on other exchanges and markets	9,627	1,925
	77,532	15,506

41.6 Derivative financial instruments and hedging activities

Derivatives are carried at fair value and presented in the financial statements as separate assets and liabilities. Asset values represent the cost to the Group of replacing all transactions with a fair value in the Group's favour assuming that all relevant counterparties default at the same time, and that transactions can be replaced instantaneously. Liability values represent the cost to the Group counterparties of replacing all their transactions with the Group with a fair value in their favour if the Group were to default. Derivative assets and liabilities on different transactions are only set off if the transactions are with the same counterparty, a legal right of set-off exists and the cash flows are intended to be settled on a net basis.

41.6 Derivative financial instruments and hedging activities (continued)

The contract or notional amounts of derivatives and their fair values are set out below.

	Contract / notional amount	Fair value	
		Assets	Liabilities
2011			
Derivatives held for trading:			
Currency forwards	275	6,573	6,503
Exchange traded funds – short sale	1,292	-	1,291
Equity indexed options	75,380	5,799	321
Interest rate swap	20,008	2,829	-
	96,955	15,201	8,115
2010			
Derivatives held for trading:			
Currency forwards	-	71	-
Exchange traded funds – short sale	1,328	-	1,328
Foreign exchange collar option	-	298	-
Equity indexed options	47,905	9,197	521
Interest rate swap	19,986	2,506	-
	69,219	12,072	1,849

41.6 Derivative financial instruments and hedging activities (continued)

(i) Currency forward

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. The contracts expire on various settlement dates.

(ii) Exchange traded funds – short sale

During 2009, the Group entered into transactions to sell euro currencies that were borrowed from a broker. The Group benefits if there is a decline in the asset price between the sale and the repurchase date. The contract expires in January 2012.

(iii) Equity indexed options

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

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

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

41.6 Derivative financial instruments and hedging activities (continued)

(iv) Interest rate swap

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 had been negotiated to match the terms of an available-for-sale financial instrument. Both the interest rate swap and the floating rate available-for-sale financial instrument mature in 2015. The interest rate swap is settled on a net basis.

On January 1, 2010 the Group discontinued hedge accounting as the hedge relationship was no longer effective. The hedge accounting gains and losses up to December 31, 2009 will be transferred to the statement of income as interest income is recognised on the floating rate financial instrument.

42. INSURANCE RISK – PROPERTY & CASUALTY CONTRACTS

Property and casualty insurers in the Group are exposed to insurance risks such as underwriting, claims, availability of reinsurance and claims liability estimation, and to credit risk in respect of reinsurance counterparties.

The capital supporting Sagicor Europe's Lloyd's syndicate 1206 operations is derived in part from the significant insurance, financial and operational risks and how they are identified, quantified, measured, assessed and managed. The risk management process has the following features:

- The use of appropriate and reliable tools, including risk indicators, risk and control self assessments and stress and scenario testing.
- Executive Directors, management and staff are accountable for managing risk in line with established roles and responsibilities.
- Compliance with relevant legislation, regulatory requirements, guidance and codes of practice.
- Assurance that the syndicates are managing all significant risks.

Insurance and other risks are recorded within the risk register with the prime risks stresses to calculate the syndicate's capital requirements (ICA – see also note 45.2(b)).

42. INSURANCE RISK – PROPERTY & CASUALTY CONTRACTS (continued)

The Corporation of Lloyd's oversees the operations of all syndicates. Lloyd's uses various tools to control and monitor insurance risk, including:

- Setting guidelines for catastrophe exposure and reinsurance usage,
- Setting realistic disaster scenarios to assist in the measurement and management of catastrophe exposures at syndicate level,
- Establishing and monitoring underwriting standards, including claims and exposure management principles,
- Reviewing annual underwriting year business plans and determining appropriate capital requirements.

In the submission of annual plans, consideration is given to cycle management, historical and projected performance, reinsurance ceded, syndicate specific issues and franchise guidelines. The key risks assessed are:

- Exposures (premium and loss ratios),
- Catastrophe losses and realistic disaster scenarios,
- Claims reserves.

Syndicates submit quarterly returns and performance is benchmarked against plan.

Sagicor General Insurance is the other insurer within the Group that issues a significant amount of property and casualty insurance contracts. It operates mainly in Barbados and Trinidad and Tobago and has experienced management, supported by external professional expertise, which manages all aspects of insurance risk.

The principal insurance risks affecting property and casualty contracts are disclosed below. These apply to both direct insurance written and reinsurance assumed by insurers.

42. INSURANCE RISK – PROPERTY & CASUALTY CONTRACTS (continued)

42.1 Underwriting risk

Risks are priced to achieve an adequate return on capital on the insurer's business as a whole. This return is expressed as a premium target return. Budgeted expenses and reinsurance costs are included in the pricing process. Various pricing methodologies are used and are generally applied by class of insurance. The principal methodologies are:

- Benchmark exposure rates,
- External stochastic models,
- Internal stochastic models,
- Historic experience.

All methods produce a technical price, which is compared against the market to establish a price margin.

Pricing techniques are subject to constant review from independent pricing audits, claims patterns, underwriters' input, market developments and actuarial best practice. There are minimum pricing margins for each class of business.

Annually, the overall risk appetite is reviewed and approved. The risk appetite is defined as the maximum loss the insurer is willing to incur from a single event or proximate cause. Risks are only underwritten if they fall within the risk appetite. Individual risks are assessed for their contribution to aggregate exposures by nature of risk, by geography, by correlation with other risks, before acceptance. Underwriting a risk may include specific tests and enquiries which determine the insurer's assessment of the risk. Insurers may also establish deductibles, exclusions, and coverage limits which will limit the potential losses incurred.

Inaccurate pricing or inappropriate underwriting of insurance contracts, which may arise from poor pricing or lack of underwriting control, can lead to either financial loss or reputational damage to the insurer.

42.1 Underwriting risk (continued)

Sagicor Europe writes a proportion of its premium by delegated authority to insurance intermediaries. Due to delays in the notification of complete and accurate premium income written, the premium income earned and the associated reinsurance and commission balances may have to be estimated. Accordingly, premium income written has to be re-assessed in future periods and adjustments made to earned premium, reinsurance and commissions. These intermediaries are assessed and are subject to authority limits and reporting procedures. The performance of contracts written by each delegated authority is monitored periodically.

42.2 Claims risk

Incurred claims are triggered by an event and may be categorised as:

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

The insurer records claims based on submissions made by claimants. In certain instances, the insurer obtains additional information from loss adjustors, medical reports and other specialist sources. However, the possibility exists that claim submissions are either fraudulent or are not covered under the terms of the policy. The initial claim recorded may only be an estimate, which has to be refined over time until final settlement occurs. In addition, from the pricing methodology used for risks, it is assumed that at any particular date, there are claims incurred but not reported (IBNR).

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

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

Amounts expressed in US$000

42.2 Claims risk (continued)

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

Region	2011 premium	Property	Motor	Accident & liability	Total
United Kingdom	Gross	20,872	105,257	49,561	175,690
	Net	15,603	93,069	45,447	154,119
Europe & Ireland	Gross	8,751	1,428	25,723	35,902
	Net	5,065	1,216	22,479	28,760
USA	Gross	79,782	142	43,035	122,959
	Net	68.370	126	37,669	106,165
Canada	Gross	23,022	818	18,486	42,326
	Net	19,908	696	15,638	36,242
Caribbean	Gross	38,648	21,730	10,058	70,436
	Net	7,268	10,543	5,368	23,179
Asia & Australasia	Gross	17,499	259	46,508	64,266
	Net	7,255	221	40,493	47,969
Rest of the world	Gross	10,973	313	5,861	17,147
	Net	8,332	267	5,206	13,805
Total	Gross	199,547	129,947	199,232	528,726
	Net	131,801	106,138	172,300	410,239

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

42.2 Claims risk (continued)

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

Six realistic disaster scenarios modelled for 2011 are presented below and resulted in estimated gross and net losses. Amounts are stated in currency 000's.

	Gross loss	Net loss
Prescribed Lloyd's scenarios:		
California Quake - San Francisco. A $78,000,000 industry property (shake and fire following) loss, including consideration of demand surge, from an earthquake originating from the San Andreas Fault (North) near San Francisco.	$71,807	$13,822
North East Windstorm: A $78,000,000 industry loss, for a major hurricane making landfall in New York State, with damage also occurring in neighbouring states.	$69,078	$29,707
Canadian Earthquake – British Columbia. Market return period 1 in 250 years	£28,570	£11,490
A Northern European windstorm hitting southern England, France, Belgium, Netherlands, Luxembourg, Germany and Denmark, with an industry property loss of €23,000,000	£25,260	£9,736
Scenarios developed by management:		
Florida Caribbean hurricane clash. Storm is a category 4 at US landfall. Property loss is across Bahamas, Puerto Rico, US Virgin Islands, St. Martin & Florida.	$76,194	$33,272
A Barbados and St. Lucia windstorm having a 250 year return period.	$238,717	$5,000

42.2 Claims risk (continued)

Therefore, the occurrence of one or more catastrophic events in any year may have a material impact on the reported net income of the Group.

42.3 Reinsurance risk

To limit the potential loss for single policy claims and for aggregations of catastrophe claims, 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 holding a recovery from 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 a Sagicor credit risk rating of 1 or 2. Insurers also place reinsurance coverage with various reinsurers to limit their exposure to any one reinsurer.

The reinsurance programmes are negotiated annually with reinsurers for coverage generally over a 12 month period. It is done by class of insurance, though for some classes there is aggregation of classes and / or subdivision of classes by the location of risk.

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

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

42.3 Reinsurance risk (continued)

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

SAGICOR EUROPE	
Type of risk	Retention by insurers - currency amounts in thousands
Property direct and facultative	• maximum retention of $2,500 per risk; • maximum retention of $15,000 for 1st loss, $5,000 for 2nd loss, for catastrophe exposed events; • treaty limits apply.
Personal accident	• maximum retention of $2,000 per risk; • maximum retention of $3,000 per event; • maximum retention of $2,000 per person • maximum retention of £300 per travel and medical risk; • treaty limits apply
Special lines (liability) and liability	• maximum retention of £2,000 per event; • maximum retention £2,000 for 1st loss, £1,000 for 2nd loss; • treaty limits apply.
International treaty property	• maximum retention of £5,000 for 1st loss, £5,000 for 2nd loss; • treaty limits apply.
Direct motor	• 70% quota share retention per event; • maximum retention - £500 per event; • treaty limits apply.

42.3 Reinsurance risk (continued)

SAGICOR GENERAL	
Type of risk	Retention by insurers - currency amounts in thousands
Property	• maximum retention of $4,500 for a single event; • maximum retention of $5,000 for a catastrophic event; • quota share retention to maximum of 30% in respect of treaty limits; • quota share retention is further reduced to a maximum of $500 per event.
Motor and liability	• maximum retention of $500 for a single event; • quota share retention a maximum of 50% in respect of treaty limits; • treaty limits apply.
Miscellaneous accident	• maximum retention of $75 for a single event; • treaty limits apply.
Engineering business	• maximum retention of $250 for a single risk; • treaty limits apply for material damage and for liability claims.
Property, motor, and engineering	• 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.

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

In order to assess the potential reinsurance recoveries on the occurrence of a catastrophic insurance event, the Sagicor credit risk ratings of the reinsurance recoverable are assessed using the following realistic disaster scenarios:

- California Quake - San Francisco. A $78,000,000 industry property (shake and fire following) loss, including consideration of demand surge, from an earthquake originating from the San Andreas Fault (North) near San Francisco;
- Hurricane with a 250 year return period affecting Barbados and St. Lucia and an earthquake with a 250 year return period affecting Trinidad within a 24 hour period.

42.3 Reinsurance risk (continued)

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

Risk Rating	Classification	Exposure $000	Exposure %
1	Minimal risk	244,876	30%
2	Low risk	577,791	70%
3	Moderate risk	-	0%
4	Acceptable risk	-	0%
5	Average risk	-	0%
6	Higher risk	-	0%
7	Special mention	-	0%
8	Substandard	-	0%
TOTAL		822,667	100%

42.4 Estimation of claim liabilities

Due to the inherent uncertainties in estimating claim liabilities described above and in note 3.5, 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. In the following tables, estimates of total ultimate claims incurred and recoverable from reinsurers for each year are provided at successive year ends. The most recent estimate is then reconciled to the recognised liability.

For Sagicor Europe, the disclosures are by underwriting year. Underwriting year is the period to which a policy's annual premium has been allocated.

For Sagicor General, the disclosures are by accident year. Accident year is the financial period in which the claim is incurred.

Amounts expressed in US$000

42.4 Estimation of claim liabilities (continued)

SAGICOR EUROPE - BY UNDERWRITING YEAR	Prior years [1]	2006	2007	2008	2009	2010	2011	Total
Estimate of gross claims incurred as of December 31	-	47,687	55,412	109,125	191,625	266,859	242,228	912,936
One year later	-	36,285	57,064	118,348	215,736	355,821		
Two years later	-	34,267	58,029	133,434	204,015			
Three years later	-	33,318	58,525	137,089				
Four years later	-	32,649	59,003					
Five years later	-	31,835						
Most recent year	-	31,835	59,003	137,089	204,015	355,821	242,228	1,029,991
Cumulative payments to date	-	(31,058)	(55,226)	(104,745)	(148,869)	(146,828)	(12,646)	(499,372)
Claims on unearned premiums	-	-	-	-	(240)	(9,294)	(118,635)	(128,169)
Gross liability recognised	9,560	777	3,777	32,344	54,906	199,699	110,947	412,010
Net favourable (unfavourable) development	-	15,852	(3,591)	(27,964)	(12,390)	(88,962)	-	(117,055)
Estimate of reinsurers' share as of December 31	-	13	-	9,836	8,043	15,070	27,556	60,518
One year later	-	-	2,779	6,726	15,016	64,880		
Two years later	-	95	2,043	18,168	14,332			
Three years later	-	23	2,125	18,578				
Four years later	-	50	1,907					
Five years later	-	37						
Most recent year	-	37	1,907	18,578	14,332	64,880	27,556	127,290
Cumulative receipts to date	-	(33)	(1,158)	(7,414)	(6,350)	(14,912)	-	(29,867)
Recoverable from claims on unearned premiums	-	-	-	-	(475)	(303)	(6,395)	(7,173)
Total recoverable recognised from reinsurers	1,285	4	749	11,164	7,507	49,665	21,161	91,535
Net (favourable) unfavourable development	-	(24)	(1,907)	(8,742)	(6,289)	(49,810)	-	(66,772)

[1] Claims development of prior years is not included.

Amounts expressed in US$000

42.4 Estimation of claim liabilities (continued)

SAGICOR GENERAL - BY ACCIDENT YEAR	Prior years (1)	2007	2008	2009	2010	2011	Total
Estimate of gross claims incurred as of December 31	-	21,306	16,952	15,338	18,290	17,956	89,842
One year later	-	16,228	16,239	15,030	17,812		
Two years later	-	15,251	16,087	15,174			
Three years later	-	15,183	16,136				
Four years later	-	15,147					
Most recent year	-	15,147	16,136	15,174	17,812	17,956	82,225
Cumulative payments to date	-	(14,385)	(14,413)	(12,107)	(13,411)	(9,164)	(63,480)
Gross liability recognised	4,168	762	1,723	3,067	4,401	8,792	22,913
Net favourable (unfavourable) development	-	6,159	816	164	478	-	7,617
Estimate of reinsurers' share as of December 31	-	9,903	9,410	8,209	10,667	-	38,189
One year later	-	6,674	9,523	8,022	10,366		
Two years later	-	6,273	9,378	7,997			
Three years later	-	6,239	9,392				
Four years later	-	6,205					
Most recent year	-	6,205	9,392	7,997	10,366	-	33,960
Cumulative receipts to date	-	(6,180)	(8,418)	(6,462)	(7,729)	-	(28,789)
Total recoverable recognised from reinsurers	1,975	25	974	1,535	2,637	-	7,146
Net (favourable) unfavourable development	-	3,698	18	212	301	-	4,229

(1) Claims development of prior years is not included.

Amounts expressed in US$000

42.5 Sensitivity of incurred claims

The impact on claims expense of incurring a maximum likely loss from a catastrophic insurance event is disclosed in the table of realistic disaster scenarios in the foregoing note 42.2. The impact on gross claims of increasing the total claims liability by 5% for un-reinsured losses is illustrated in the following table.

	2011		2010	
	Claims liability	5% increase in liability	Claims liability	5% increase in liability
Direct property	64,229	3,211	54,930	2,747
Direct motor	96,983	4,849	64,267	3,213
Direct accident and liability	105,170	5,259	80,667	4,033
Reinsurance assumed	169,399	8,470	97,915	4,896
	435,781	21,789	297,779	14,889

43. INSURANCE RISK – LIFE, ANNUITY & HEALTH CONTRACTS

Insurers are exposed to insurance risks such as product design and pricing, mortality and morbidity, lapse, expense, reinsurance, and actuarial liability estimation in respect of life, annuity and health contracts. Disclosure of these risks is set out in the following sections.

43.1 Contracts without investment returns

These contracts are principally term life, critical illness and health insurance. Individual term life and critical illness products are generally long-term contracts while group term life and health insurance products are generally one year renewable. The principal insurance risks associated with these contracts are product design and pricing and mortality and morbidity.

43.1 Contracts without investment returns (continued)

(a) Product design and pricing risk

Product design and pricing risk arises from poorly designed or inadequately priced contracts and can lead to both financial loss and reputational damage to the insurer.

Risks are priced to achieve an adequate return on capital on the insurer's business as a whole. 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. Pricing inadequacy may arise either from the use of inadequate experience and statistical data in deriving pricing factors or from market softening conditions.

The underwriting process has established 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.

(b) Mortality and morbidity risk

Mortality risk is the risk that worsening mortality rates will result in an increase of death claims. Morbidity is the incidence of disease or illness and the associated risk is that of increased disability and medical claims. Insurance claims are triggered by the incurrence 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.

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

The concentration risks of term life and critical illness contracts are included in the related disclosure on other long-term contracts in note 43.2(b).

Amounts expressed in US$000

43.1 Contracts without investment returns (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 increased health insurance claims. In such circumstances, the insurer may adjust the pricing or re-pricing of these contracts.

For health insurance contracts, the concentration of insurance risk is illustrated by the distribution of premium revenue by the location of the insured persons.

2011 Premium revenue by location of insureds	Gross	Ceded	Net
Barbados	20,576	805	19,771
Jamaica	67,365	1,344	66,021
Trinidad & Tobago	17,175	126	17,049
Other Caribbean	27,109	889	26,220
USA	246	205	41
Total	132,471	3,369	129,102

(c) Sensitivity of incurred claims

The sensitivity of term life and critical illness claims is included in the related disclosure on other long-term contracts in note 43.4. The impact on gross claims of increasing the total liability by 5% for un-reinsured health insurance claims is illustrated in the following table.

	2011		2010	
	Liability	5% increase in liability	Liability	5% increase in liability
Actuarial liability	38,761	1,938	38,835	1,942
Claims payable	3,021	151	2,647	132
	41,782	2,089	41,482	2,074

43.2 Contracts with investment returns

Life and annuity insurance contracts with investment returns generally have durations of 5 or more years. The contract terms provide for the policyholder to pay either a single premium at contract inception, or periodic premiums over the duration of the contract. From the premium received, acquisition expenses and maintenance expenses 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 in respect of product design and pricing, mortality and longevity, lapse, expense and investment.

(a) Product design and pricing risk

Product design and pricing risk arises from poorly designed or inadequately priced contracts and can lead to both financial loss and reputational damage to the insurer.

Risks are priced to achieve an adequate return on capital on the insurer's business as a whole. In determining the pricing of a contract, the insurer considers the age of the policyholder and/or beneficiary, the expenses and taxes associated with the contract, the prospective investment returns to be credited to the contract, and the guaranteed values within the contract. Pricing inadequacy may arise either from the use of inadequate experience and statistical data in deriving pricing factors or from future changes in the economic environment.

(b) Mortality and longevity risk

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

For contracts providing death benefits, higher mortality rates will result in an increase in death claims over time. For contracts providing the payout of annuities, improving mortality rates will lead to increased annuity benefits over time. Insurers annually review their mortality experience and compare it to industry mortality tables. This review may result in future adjustments to the pricing or re-pricing of these contracts.

Amounts expressed in US$000

43.2 Contracts with investment returns (continued)

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

Total insurance coverage on insurance policies provides a quantitative measure of absolute mortality risk. However, 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 by geographic area below.

Total insurance coverage		2011		2010	
		Individual contracts	Group contracts	Individual contracts	Group contracts
Barbados	Gross	2,971,794	1,566,161	2,919,752	1,594,171
	Net	2,602,757	1,451,511	2,539,688	1,485,842
Jamaica	Gross	6,502,180	3,798,600	5,836,078	3,556,172
	Net	6,160,337	3,779,952	5,466,309	3,537,377
Trinidad & Tobago	Gross	2,251,480	1,474,597	2,086,410	1,483,627
	Net	1,716,213	1,361,386	1,565,267	1,293,226
Other Caribbean	Gross	6,409,169	2,875,174	6,192,439	3,345,078
	Net	5,608,097	1,823,219	5,133,811	1,924,583
UK & Europe	Gross	303,766	3,031,670	662,388	1,431,105
	Net	142,178	2,267,343	434,323	951,843
USA	Gross	1,704,249	123,381	1,688,931	87,941
	Net	894,842	74,726	848,621	43,902
Total	Gross	20,142,638	12,869,583	19,385,998	11,498,094
	Net	17,124,424	10,758,137	15,988,019	9,236,773

43.2 Contracts with investment returns (continued)

(c) Lapse risk

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

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

(d) Expense risk

The Group monitors policy acquisition and policy maintenance expenses. Expenses are managed through policy design, fees charged and expense control. However, there are a significant number of inforce contracts for which insurers have limited or no ability to re-price for increases in expenses caused by inflation or other factors. Therefore growth in maintenance expenses has to be funded either by increasing the volume of inforce policies or by productivity gains. Failure to achieve these goals will require increases in actuarial liabilities held.

(e) Investment risk

A substantial proportion of the Group's financial investments support insurer obligations under life and annuity contracts with investment returns. The financial risks outlined in note 41 pertaining to credit, liquidity, interest rate, foreign exchange and equity price are considered integral investment risks associated with these insurance contracts.

Asset defaults, mismatches in asset and liability cash flows, interest rate and equity price volatility generally have the effect of increasing investment risk and consequential increases in actuarial liabilities held.

43.3 Reinsurance risk

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 for new business a Sagicor credit risk rating of 1 or 2 is usually selected. 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.

Insurers have limited their exposure per person by excess of loss or quota share treaties. Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The principal features of retention programs used by insurers are summarised in the following table.

Type of insurance contract	Retention by insurers - currency amounts in thousands
Health insurance contracts with individuals	Retention per individual to a maximum of $75
Health insurance contracts with groups	Retention per individual to a maximum of $75
Life insurance contracts with individuals	Retention per individual life to a maximum of $773
Life insurance contracts with groups	Retention per individual life to a maximum of $773
Life insurance and annuity blocks of contracts	0% to 37.5% retention on policy liabilities

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43.4 Sensitivity arising from the valuation of actuarial liabilities

The estimation of actuarial liabilities is sensitive to a number of assumptions. Changes in those assumptions could have a significant effect on the valuation results which are discussed below.

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 (note 13.3 (b) to (f)), and
- the margins for adverse deviations (note 13.3 (g)).

Under the CALM methodology, the AA is required to test the actuarial liability under 9 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.

Amounts expressed in US$000

43.4 Sensitivity arising from the valuation of actuarial liabilities (continued)

The scenarios developed and tested by insurers were as follows.

Sensitivity	Scenario		
	Sagicor Life Inc segment	Sagicor Life Jamaica segment	Sagicor USA segment
Worsening rate of lapse	Lapse rates were either doubled or halved, and the more adverse result was selected.		Lapse rates were doubled.
High interest rate	Assumed increases in the investment portfolio yield rates of 0.25% per year for 5 years, with the rates remaining constant thereafter.	Assumed increases in the investment portfolio yield rates of 0.5% for 10 years.	A 1% increase was applied to the investment portfolio rate.
Low interest rate	Assumed decreases in investment portfolio yield rates of 0.25% per year for 5 years, with the rates remaining constant thereafter.	Assumed decreases in investment portfolio yield rates of 0.5% per year for 10 years.	A 1% decrease was applied to the investment portfolio rate.
Worsening mortality and morbidity	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 rates were decreased by 3% of the base rate for 5 years.		For life insurance products only, the base assumed rates were increased annually by 3% cumulatively over the next 5 years.
Higher expenses	Policy unit maintenance expense rates were increased by 5% per year for 5 years above those reflected in the base scenario.		

43.4 Sensitivity arising from the valuation of actuarial liabilities (continued)

The following table represents the estimated sensitivity of each of the above scenarios to net actuarial liabilities for insurers by segment. Correlations that may exist between scenario assumptions were not explicitly taken into account.

	Sagicor Life Inc segment		Sagicor Life Jamaica segment		Sagicor USA segment	
	2011	2010	2011	2010	2011	2010
Base net actuarial liability	785,729	759,399	403,926	347,449	508,715	454,397
Scenario	increase in liability		increase in liability		increase in liability	
Worsening rate of lapse	64,660	64,978	44,540	37,183	16,881	19,022
High interest rate	(94,935)	(62,479)	(75,447)	(57,884)	(28,115)	(27,401)
Low interest rate	132,801	106,512	111,371	93,590	32,223	31,559
Worsening mortality / morbidity	25,538	24,830	27,997	24,229	8,048	8,795
Higher expenses	26,164	30,509	19,936	19,967	2,784	1,166

43.5 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.

Amounts expressed in US$000

43.5 Dynamic capital adequacy testing (continued)

The financial position of an insurer is reflected by the amounts of assets, liabilities and equity in the financial statements at a given date. The financial position therefore relies on the valuation assumptions used for establishing the actuarial liabilities being adequate to measure future adverse deviations in experience. The financial position does not offer any indication of an insurer's ability to execute its business plan.

The financial condition of an insurer at a particular date is its prospective ability at that date to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits and to its shareholders. The financial condition analysis examines both an insurer's ability to execute its business plan and to absorb adverse experience beyond that provided for when its actuarial liabilities are established.

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 is conducted periodically by some insurers within the Group.

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44. FIDUCIARY RISK

The Group provides investment management and pension administration services to investment and pension funds which involve the Group making allocation, purchase and sale decisions in relation to a wide range of investments. These assets are held in a fiduciary capacity and are not included in these financial statements. These services give rise to fiduciary risk that may expose the Group to claims for mal-administration or under-performance of these funds.

In the ordinary course of business, the Group manages assets of pension funds, mutual funds and unit trusts which are not included in the Group's financial statements. The investments and cash under administration are summarised in the following table.

	2011	2010
Pension and insurance fund assets	1,247,709	1,134,473
Mutual fund, unit trust and other investment fund assets	364,749	348,593
	1,612,458	1,483,066

Amounts expressed in US$000

45. CAPITAL MANAGEMENT

The Group manages its capital resources according to the following objectives:

- To comply with capital requirements established by insurance, banking and other financial intermediary regulatory authorities;
- To comply with internationally recognised capital requirements for insurance, where local regulations do not meet these international standards;
- To safeguard its ability as a going concern to continue to provide benefits and returns to policyholders, depositors, note-holders and shareholders;
- To provide adequate returns to shareholders;
- To maintain a strong capital base to support the future development of Group operations.

45.1 Capital resources

The principal capital resources of the Group are as follows:

	2011	2010
Shareholders' equity	607,135	565,552
Minority interest	188,197	168,942
Notes and loans payable	232,530	181,885
Total financial statement capital resources	1,027,862	916,379
Letter of credit facilities, net of collateral assets	33,926	34,530
Total off financial statement resources	33,926	34,530
Total capital resources	1,061,788	950,909

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.

45.2 Capital adequacy

The capital adequacy of the principal operating subsidiaries is discussed in this section.

(a) Life insurers

Capital adequacy is managed at the operating company level. It is calculated by the Appointed Actuary and reviewed by executive management, the audit committee and the board of directors. In addition, the Group seeks to maintain internal capital adequacy at levels higher than the regulatory or internationally recognised requirements.

To assist in evaluating the current business and strategy opportunities, a risk-based capital approach is a core measure of financial performance. The risk-based assessment measure which has been adopted is the Canadian Minimum Continuing Surplus and Capital Requirement (MCCSR) standard. The minimum standard recommended by the Canadian regulators for companies is an MCCSR of 150%. A number of jurisdictions in the Caribbean region have no internationally recognised capital adequacy requirements, and in accordance with its objectives for managing capital, the Group has adopted the Canadian MCCSR standard.

The consolidated MCCSR for the Sagicor Group as of December 31 was 269% (2010 – 224%) and is the main standard of capital adequacy used by the Sagicor Group.

(i) Sagicor Life Inc

The consolidated MCCSR of Sagicor Life Inc (comprising the life insurance entities within the Sagicor Life Inc. and Sagicor Life Jamaica operating segments) was 222% as of December 31, 2011 (2010 – 197%).

Sagicor Life Jamaica is governed by the Jamaican MCCSR regime which requires an insurer to maintain a minimum ratio of 150%. For the years ended December 31, 2011 and 2010, this ratio was 160% and 203% respectively. The decline in ratio in 2011 is primarily a consequence of the reorganisation of holdings of a subsidiary within the Sagicor Life Jamaica Group and additionally, the increase in fair value of the investment in subsidiaries reported by Sagicor Life Jamaica.

45.2 Capital adequacy (continued)

(ii) Sagicor Life Insurance Company (USA)

A risk-based capital (RBC) formula and model were adopted by the National Association of Insurance Commissioners (NAIC) of the United States. RBC is designed to assess minimum capital requirements and raise the level of protection that statutory surplus provides for policyholder obligations. The RBC formula for life insurance companies measures four major areas of risk: (i) underwriting, which encompasses the risk of adverse loss developments and property and casualty insurance product mix; (ii) declines in asset values arising from credit risk; (iii) declines in asset values arising from investment risks, including concentrations; and (iv) off-balance sheet risk arising from adverse experience from non-controlled assets such as reinsurance guarantees for affiliates or other contingent liabilities and reserve and premium growth. If an insurer's statutory surplus is lower than required by the RBC calculation, it will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy.

The RBC methodology provides for four levels of regulatory action. The extent of regulatory intervention and action increases as the ratio of surplus to RBC falls. The least severe regulatory action is the "Company Action Level" (as defined by the NAIC) which requires an insurer to submit a plan of corrective actions to the regulator if surplus falls below 200% of the RBC amount.

Sagicor Life Insurance Company looks to maintain at least 300% of the Company Action Level, and has maintained these ratios as of December 31, 2011 and 2010 respectively.

45.2 Capital adequacy (continued)

(b) Sagicor Europe - 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 and there is a clearly defined link between risk and capital setting.

Sagicor at Lloyd's has adopted an approach whereby risks which are 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, banker's irrevocable standby letters of credit or reinsurance financing. 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.

Amounts expressed in US$000

45.2 Capital adequacy (continued)

The FaL requirements for the Syndicates at the beginning of each underwriting are as follows:

	Underwriting year		
	2012 - £000	2011 - £000	2010 - £000
FaL requirement:			
Syndicate 1206	152,004	137,241	98,440
Syndicate 44	5,199	4,438	4,899
	157,203	141,679	103,339
Represented by:			
Banker's letters of credit	52,100	52,100	52,100
Financial investments	31,619	31,622	30,934
Reinsurance financing	78,750	78,750	18,750
Solvency surplus	238	-	1,555
	162,707	162,472	103,339

(c) Pan Caribbean Financial Services (PCFS) 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, and to maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

45.2 Capital adequacy (continued)

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off financial statements exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the ratios of the regulated companies within the PCFS Group (PCFS itself and PanCaribbeanBank Limited (PCB)). During 2011 and 2010, these companies complied with all of the externally imposed capital requirements to which they are subject.

	PCFS		PCB	
	2011	2010	2011	2010
Actual capital base to risk weighted assets	21%	46%	26%	32%
Required capital base to risk weighted assets	10%	10%	10%	10%

The risk-weighted capital ratios declined in 2011 due to the inclusion of new capital charges for market risks of Government of Jamaica debt securities.

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 permitted lien covenant, which will not allow the Company nor 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 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 whose outstanding principal amounts in aggregate outstanding principal amount do not exceed 10% of the consolidated net tangible assets (as is defined in the indenture). As of December 31, 2011, the Group satisfied this requirement.

Amounts expressed in US$000

45.3 Financial covenants (continued)

(b) Letter of credit facilities

Financial covenants in the letter of credit facility granted by the Bank of Nova Scotia are as follows:

Covenant	Description
Tangible net worth (1)	The Group is required to maintain a tangible net worth greater than $250,000 at all times, such covenant to be tested annually. As of December 31, 2011 and 2010, the Group satisfied this requirement.
Interest coverage ratio (1)	The Group is required to maintain an interest coverage ratio of at least 5:1 at all times, such covenant to be tested annually. For the years ended December 31, 2011 and 2010, the Group's interest coverage ratio was 4.8:1 and 5.6:1 respectively.
Financial strength (2)	Sagicor Life Inc is required to maintain minimum financial strength ratings of BBB- from Standard & Poor's and of B+ from A.M. Best. Sagicor Life Inc has maintained the required financial strength ratings for the year and up to the date of issue of these financial statements.
Permitted liens	The covenant described in section (a) is incorporated in the facility.

(1) As defined in the letter of credit agreement.
Failure to satisfy these covenants may result in an event of default in which case the bank may cancel the facility; the facility currently has a four year notice period with Lloyd's of London.

(2) There is a further requirement of no material adverse change in the financial condition of Sagicor Life Inc.
Failure to satisfy the ratings and / or material adverse change criteria may result in the bank requiring the Group to fully collateralise the facility.

45.3 Financial covenants (continued)

(c) International Finance Corporation (IFC)

On March 31, 2011, the Company entered into subscription and policy agreements with IFC, regarding the latter's participation in the issue of new common and convertible redeemable preference shares. Pursuant to the aforementioned agreements, on July 18, 2011, 12,269,938 common shares and 78,339,530 convertible redeemable preference shares were issued to IFC. The financial covenants included in these agreements are summarised below.

(i) Price protection rights

IFC has been granted price protection rights to in relation to the common shares held. If within a 2 year period of the subscription date, the Company issues or sells any shares, except as pursuant to any employee stock incentive plan, at a price less than Barbados $3.26 per share, the Company shall compensate IFC by the issue to IFC of additionally fully-paid true-up shares to place IFC in the position as if it had subscribed at the lower price.

(ii) *Put option*

IFC has been granted the right to require the Company to purchase IFC's holding of convertible redeemable preference shares in the event that the Company is in breach of any of the policy reporting or IFC policy covenants. The Company may nominate a third party to purchase the shares. The purchase must take place within 10 and 60 days of the date of notice. If the Company either fails to purchase or does not arrange a third party purchase, IFC may sell the shares to a third party and the Company is required to pay a late payment charge of 6.5% per annum.