SAGICOR FINANCIAL CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Sagicor Financial Corporation

We have audited the accompanying consolidated financial statements of **Sagicor Financial Corporation** which comprise the consolidated balance sheet as of December 31, 2006 and the consolidated income statement, consolidated statement of changes in equity, and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

.../2

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Independent Auditors' Report .../cont'd.

entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Sagicor Financial Corporation** as of December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers.

PricewaterhouseCoopers
Chartered Accountants

April 4, 2007

SAGICOR FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEET
As of December 31, 2006 ***Amounts expressed in Barbados $000***

	Notes	**2006**	**2005**
ASSETS			
Investment property	7	181,156	181,586
Property, plant and equipment	8	161,055	148,248
Investment in associated companies	9	53,671	49,829
Intangible assets	10	225,416	240,187
Financial investments	11	5,049,644	4,732,847
Reinsurance assets	12	643,378	686,648
Income tax assets	13	36,665	35,711
Miscellaneous assets and receivables	14	200,202	202,888
Cash resources	15	175,367	118,863
Total assets		**6,726,554**	**6,396,807**
LIABILITIES			
Policy liabilities			
Actuarial liabilities	16	2,747,168	2,791,197
Other insurance liabilities	17	305,402	283,248
Investment contract liabilities	18	441,709	426,161
		3,494,279	3,500,606
Other liabilities			
Senior notes and loans payable	19	321,065	160,728
Deposit and security liabilities	20	1,490,783	1,440,445
Provisions	21	41,130	37,446
Income tax liabilities	22	37,355	30,958
Accounts payable and accrued liabilities	23	257,331	273,890
Total liabilities		5,641,943	5,444,073
EQUITY			
Share capital	24	460,470	458,451
Reserves	25	96,212	106,526
Retained earnings		271,017	165,329
Total shareholders' equity		827,699	730,306
Participating accounts	26	19,805	20,920
Minority interest in subsidiaries		237,107	201,508
Total equity		1,084,611	952,734
Total equity and liabilities		**6,726,554**	**6,396,807**

These financial statements have been approved for issue by the Board of Directors on April 4, 2007.

______________________ Director ______________________ Director

SAGICOR FINANCIAL CORPORATION
CONSOLIDATED INCOME STATEMENT
Year ended December 31, 2006 ***Amounts expressed in Barbados $000***

	Notes	2006	2005
REVENUE			
Premium revenue	27	937,406	748,707
Reinsurance premium expense	27	(182,162)	(111,689)
Net premium revenue		755,244	637,018
Net investment income	28	471,032	415,415
Share of operating income of associated companies	9	5,455	3,473
Fees and other revenue	29	87,115	76,951
Gains arising on business combinations and acquisitions	38	-	25,115
Total revenue		1,318,846	1,157,972
BENEFITS			
Policy benefits and change in actuarial liabilities	30	586,780	498,986
Policy benefits and change in actuarial liabilities reinsured	30	(59,395)	(38,189)
Net policy benefits and change in actuarial liabilities		527,385	460,797
Interest expense	31	158,739	147,869
Total benefits		686,124	608,666
EXPENSES			
Administrative expenses		250,743	214,544
Commissions and related compensation		114,132	94,961
Premium taxes		13,240	15,308
Finance costs		18,839	4,426
Depreciation and amortisation		34,700	25,636
Total expenses		431,654	354,875
INCOME FROM ORDINARY ACTIVITIES		201,068	194,431
Income taxes	33	(27,818)	(24,046)
NET INCOME FOR THE YEAR		**173,250**	**170,385**
NET INCOME ATTRIBUTABLE TO:			
Shareholders		135,325	121,455
Participating policyholders		(606)	12,013
Minority interest		38,531	36,917
		173,250	170,385
Net income attributable to shareholders - EPS			
Basic earnings per common share	35	50.8 cents	46.0 cents
Fully diluted earnings per common share	35	50.8 cents	46.0 cents

SAGICOR FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended December 31, 2006

Amounts expressed in Barbados $000

	Share capital	Reserves	Retained earnings	Par [1] accounts	Minority interest	Total
	Note 24	Note 25		Note 26		
Balance, beginning of year as restated (note 43)	458,451	106,526	165,329	20,920	201,508	952,734
Net gains / (losses) recognised directly in equity	-	(11,875)	(44)	2	7,920	(3,997)
Net income / (loss) for the year	-	-	135,325	(606)	38,531	173,250
Total recognised gains and income for the year	-	(11,875)	135,281	(604)	46,451	169,253
Issue of shares	5,652	-	-	-	4,123	9,775
Value of employee services rendered	-	2,944	-	-	-	2,944
Purchase of treasury shares	(3,633)	-	-	-	-	(3,633)
Dividends declared (note 35)	-	-	(31,980)	-	(14,482)	(46,462)
Other movements	-	(1,383)	2,387	(511)	(493)	-
	2,019	(10,314)	105,688	(1,115)	35,599	131,877
Balance, end of year	460,470	96,212	271,017	19,805	237,107	1,084,611

[1] Participating

SAGICOR FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended December 31, 2005

Amounts expressed in Barbados $000

	Share capital	Reserves	Retained earnings	Par [1] accounts	Minority interest	Total
	Note 24	Note 25		Note 26		
Balance, beginning of year as restated (note 43)	432,495	167,694	85,705	676	57,918	744,488
Net gains / (losses) recognised directly in equity	-	(63,499)	96	235	(23,469)	(86,637)
Net income for the year	-	-	121,455	12,013	36,917	170,385
Total recognised gains and income for the year	-	(63,499)	121,551	12,248	13,448	83,748
Issue of shares	25,956	-	-	-	88,200	114,156
Dividends declared (note 35)	-	-	(31,600)	-	(9,026)	(40,626)
Acquisition of subsidiary and insurance business	-	-	-	-	50,968	50,968
Other movements	-	2,331	(10,327)	7,996	-	-
	25,956	(61,168)	79,624	20,244	143,590	208,246
Balance, end of year	458,451	106,526	165,329	20,920	201,508	952,734

[1] Participating

SAGICOR FINANCIAL CORPORATION
CONSOLIDATED CASH FLOW STATEMENT
Year ended December 31, 2006 *Amounts expressed in Barbados $000*

	Notes	2006	2005
Cash flows from operating activities			
Income from ordinary activities		201,068	194,431
Adjustments for non-cash items, interest and dividends	36	(211,201)	(177,242)
Interest and dividends received		384,321	296,905
Interest paid		(172,731)	(151,634)
Income taxes paid		(27,048)	(29,690)
Changes in operating assets	36	(121,042)	214,384
Changes in operating liabilities	36	125,137	(33,210)
Net cash from operating activities		178,504	313,944
Cash flows from investing activities			
Property, plant and equipment, net	36	(22,690)	(18,295)
Investment in associated companies, net		620	(22,232)
Intangible assets, net		(4,456)	(6,117)
Acquisition of subsidiaries and insurance businesses, net of cash and cash equivalents		-	(214,939)
Net cash used in investing activities		(26,526)	(261,583)
Cash flows from financing activities			
Purchase of treasury shares		(3,633)	-
Dividends paid to shareholders		(31,594)	(31,435)
Shares issued to minority interest		3,534	5,554
Dividends paid to minority interest		(14,538)	(8,542)
Senior notes and loans payable, net	36	158,299	143,994
Net cash from financing activities		112,068	109,571
Effects of exchange rate changes		(23,676)	(23,198)
Net increase in cash and cash equivalents		240,370	138,734
Cash and cash equivalents, beginning of year		274,342	135,608
Cash and cash equivalents, end of year	36	514,712	274,342

SAGICOR FINANCIAL CORPORATION
INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2006

Year ended December 31, 2006 Amounts expressed in Barbados $000

1. INCORPORATION AND PRINCIPAL ACTIVITIES

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

The principal activities of the Sagicor Group are as follows:

- Insurance
- Annuities
- Pensions
- Pension fund management
- Mutual fund management
- Corporate trust services
- Securities dealing
- Currency dealing
- Merchant banking
- Loan finance and deposit taking

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

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

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Inc	Life and health insurance, annuities and pension administration services	Barbados	100%
Life of Jamaica Limited	Life and health insurance and annuities	Jamaica	60% (1)
Sagicor Life Insurance Company (formerly American Founders Life Insurance Company) (2)	Life insurance and annuities	Texas, USA	100%
Sagicor Capital Life Insurance Company Limited	Life and health insurance, annuities and pension administration services	The Bahamas	100%
Capital Life Insurance Company Bahamas Limited	Life insurance	The Bahamas	100%
Capital de Seguros, SA	Life and health insurance	Panama	100%
Nationwide Insurance Company Limited	Life insurance	Trinidad & Tobago	100%

Year ended December 31, 2006 Amounts expressed in Barbados $000

1. INCORPORATION AND PRINCIPAL ACTIVITIES (continued)

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life of the Cayman Islands Limited	Life insurance	The Cayman Islands	60% (1)
Laurel Life Insurance Company (2)	Life insurance	Texas, USA	100%
Sagicor Allnation Insurance Company	Health insurance	Delaware, USA	100%
Sagicor General Insurance Inc	Property and casualty insurance	Barbados	53%
Sagicor Re Insurance Limited	Property and casualty insurance	The Cayman Islands	60% (1)
Sagicor General Insurance (Cayman) Limited (formerly Cayman General Insurance Company Limited) (3)	Property, casualty and health insurance	The Cayman Islands	31%
LOJ Pooled Investment Funds Limited	Pension fund management	Jamaica	60% (1)
Employee Benefits Administrator Limited	Pension administration services	Jamaica	60% (4)
Pan Caribbean Financial Services Limited (5)	Development banking and investment management	Jamaica	65% (6)
Pan Caribbean Merchant Bank Limited (5)	Merchant banking	Jamaica	65% (6)
Pan Caribbean Asset Management Limited (5)	Investment management	Jamaica	65% (6)
Manufacturers Investments Limited (5)	Investment management	Jamaica	65% (6)
Sagicor Merchant Limited (7)	Investment management	Trinidad & Tobago	100%
Globe Finance Inc	Loan and lease financing, and deposit taking	Barbados	51%
Sagicor Finance Inc	Loan and lease financing, and deposit taking	St. Lucia	70%

Year ended December 31, 2006 Amounts expressed in Barbados $000

1. INCORPORATION AND PRINCIPAL ACTIVITIES (continued)

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Asset Management Inc	Investment management	Barbados	100%
LOJ Property Management Limited	Property management	Jamaica	60% (1)
Sagicor Insurance Managers Limited (formerly Cayman National Insurance Managers Limited) (3)	Captive insurance management services	The Cayman Islands	31%
Sagicor International Management Services, Inc	Management and business development services	Florida, USA	100%
Sagicor Finance Limited (8)	Group financing vehicle	The Cayman Islands	100%
LOJ Holdings Limited	Insurance holding company	Jamaica	100%
Sagicor USA Inc	Insurance holding company	Delaware, USA	100%
The Mutual Financial Services Inc	Financial services holding company	Barbados	73%
Sagicor Funds Incorporated	Mutual fund holding company	Barbados	100%
LTE Limited (9)	Holding company	Barbados	100%

(1) An equity interest of 78% until April 1, 2005.

(2) Acquired September 30, 2005.

(3) Acquired by Life of Jamaica Limited on November 30, 2005. Through control of Life of Jamaica Limited, the Group has a 51% voting interest in the subsidiary.

(4) An equity interest of 39% until April 1, 2005.

(5) Acquired January 7, 2005.

(6) An equity interest of 38% from January 7, 2005 to May 5, 2005. Between May 6 and September 1, interests totalling 28% were acquired. Through control of Life of Jamaica Limited, the Group held a 49% voting interest from January 7 to May 5, which increased to 87% effective September 1.

Year ended December 31, 2006 Amounts expressed in Barbados $000

1. INCORPORATION AND PRINCIPAL ACTIVITIES (continued)

(7) Incorporated on August 11, 2005 and commenced trading October 13, 2005.

(8) Incorporated March 30, 2006.

(9) Incorporated as a special purpose vehicle to temporarily hold the Company's direct 34% interest in Pan Caribbean Financial Services Limited.

The associated companies of the Group are as follows:

Associated Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
RGM Limited	Property ownership and management	Trinidad & Tobago	33%
FamGuard Corporation Limited [10]	Investment holding company	Bahamas	20%
Family Guardian Insurance Company Limited [10]	Life and health insurance and annuities	Bahamas	20%
Family Guardian General Insurance Agency Limited [10]	General insurance brokerage	Bahamas	20%
BahamaHealth Insurance Brokers and Benefit Consultants Limited [10]	Insurance brokers and benefit consultants	Bahamas	20%

(10) Acquired December 28, 2005.

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

2. ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

The Group had adopted accounting policies for the computation of actuarial liabilities on life insurance and annuity contracts which comply with the Canadian Asset Liability Method (CALM). As no specific guidance is provided by IFRS for computing actuarial liabilities, management has judged that CALM should continue to be applied. The adoption of IFRS 4 – insurance contracts, permits the Group to continue with this accounting policy, with the modification required by IFRS 4 that rights under reinsurance contracts are measured separately. The consolidated financial statements are prepared under the historical cost convention except as modified by the revaluation of investment property, owner-occupied property, available for sale investment securities and financial assets held at fair value through income.

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 where 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 Barbados dollars, unless otherwise stated. Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

(a) Changes in IFRS

New and revised IFRSs and revised International Accounting Standards (IASs) are effective from the 2006 reporting year.

A new standard which is effective for accounting periods beginning on January 1, 2006 has been introduced and is as follows:

IFRS 6 Exploration for and Evaluation of Mineral Resources.

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

The standards which have amendments effective for accounting periods beginning January 1, 2006 are as follows:

IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 4	Insurance Contracts
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 39	Financial Instruments: Recognition and Measurement

None of the above changes have a significant effect on the presentation, disclosure or accounting in the Group's financial statements.

(b) Prior period adjustments

Prior period adjustments have been made in respect of intangible assets, policy liabilities, participating accounts and gains arising on business combinations. These changes are summarised in note 43.

2.2 Basis of consolidation

(a) Subsidiaries

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

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

Minority interest balances represent the interest of minority shareholders in subsidiaries not wholly owned by the Group.

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

2. ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

(b) Investment in associated companies

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

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

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

The Group recognises in equity its share of associated companies reserve movements.

(c) Joint Ventures

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

(d) Divestitures

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

(e) Pension and investment funds

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

The Group manages a number of segregated pension funds and mutual funds. 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.

2. ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation (continued)

(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. Dividends accruing to the Trust are used to acquire additional Company shares on the open market.

2.3 Foreign currency translation

(a) Functional and presentational currency

Items included in the financial statements of each consolidated entity of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in thousands of Barbados dollars, which is the Group's presentational currency.

(b) Group Entities

The results and financial position of all Group entities that have a functional currency other than the presentational currency are translated into the presentational currency as follows:

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

Currency exchange rates are determined by reference to the respective central banks. Currencies which are fixed to the United States dollar are converted into Barbados dollars at the equivalent fixed rates. Currencies which float are converted to the Barbados dollar by reference to the average of buying and selling rates quoted by the respective central banks.

Year ended December 31, 2006 Amounts expressed in Barbados $000

2. ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation (continued)

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

	December 2006 closing rate	2006 average rate	December 2005 closing rate	2005 average rate
Bahamas dollar	0.50	0.50	0.50	0.50
Belize dollar	1.00	1.00	1.00	1.00
Cayman Islands dollar	0.4175	0.4175	0.4175	0.4175
Eastern Caribbean dollar	1.35	1.35	1.35	1.35
Jamaica dollar	33.4741	32.8257	32.1903	31.1218
Netherlands Antillean guilder	0.90	0.90	0.90	0.90
Trinidad & Tobago dollar	3.1473	3.1450	3.1493	3.1332
United States dollar	0.50	0.50	0.50	0.50

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

Goodwill and other purchase accounting adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the rate ruling on December 31.

(c) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

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

2. ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation (continued)

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

2.4 Segment reporting

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

Geographical segments are determined by the location of the subsidiary or branch initiating the business. This segmentation is not materially different from the segmentation by location of the customers.

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

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

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

2.5 Investment property

Investment property is recorded initially at cost. At subsequent balance sheet dates, investment property is recorded at fair values determined by independent valuers, with the appreciation or depreciation in value being taken to investment income. Investment property includes property held under partnership and joint venture arrangements with third parties. These are accounted for under the proportionate consolidation method.

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

Investment property may include property of which a portion is held for rental to third parties and another portion is occupied by the Group for administrative purposes. This type of property is accounted for as an investment property if the Group's occupancy level is 25% or less of the total available occupancy. In other instances, this type of property is accounted for as an owner-occupied property.

Rental income is recognised on an accruals basis.

2. ACCOUNTING POLICIES (continued)

2.6 Property, plant and equipment

Property, plant and equipment are recorded initially at cost.

Owner-occupied property is re-valued at least every three years to its fair value as determined by independent valuers. Movements in fair value are taken to the fair value reserve in equity, unless there is a net depreciation in respect of an individual property, which is then recorded in the income statement. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. On disposal of owner-occupied property, the amount included in the reserve is transferred to retained earnings. Owner-occupied property includes property held under partnership and joint venture arrangements with third parties. These are accounted for under the proportionate consolidation method.

Subsequent expenditure is capitalised when it will result in future economic benefits to the Group.

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

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

Depreciation is calculated on the straight-line method to write down the cost of assets to their residual values over their estimated useful lives. The carrying amount of an asset is written down immediately through the depreciation account if the carrying amount is greater than its estimated recoverable amount.

The estimated useful lives of property, plant and equipment are as follows:

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

2. ACCOUNTING POLICIES (continued)

2.7 Intangible assets

(a) Goodwill

Goodwill (defined in note 2.2(a)) arising from an acquisition of a subsidiary or insurance business is allocated to appropriate cash generating units. A cash generating unit is not larger than a subsidiary's operations in a geographical segment or in a business segment. Goodwill arising from an investment in an associate is included in the carrying value of the investment in associated companies.

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

(b) Other intangible assets

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

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

On acquisition the useful life of the asset is estimated. If the estimated useful life is definite, then the cost of the asset is amortised over its life, and is tested for impairment when there is evidence of same. If the estimated useful life is indefinite, the asset is tested annually for impairment. The estimated useful lives of recognised intangible assets are as follows:

Asset	**Estimated useful life**
Customer relationships and contracts	4 - 20 years
Trade names	4 years, indefinite
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 at initial recognition.

2. ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

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

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

Financial assets in the category at fair value through income include held for trading securities. An asset is classified as held for trading at inception if acquired principally for the purpose of selling in the short-term or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Financial assets at fair value through income include investments held to back certain deposit administration and unit linked policy contracts where the full return on the asset accrues to the contract-holder.

Other financial assets are classified as available for sale.

(b) Recognition and measurement

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

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

Financial assets in the category at fair value through income are measured initially at cost 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 investment income.

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

A financial asset is considered impaired if its carrying amount exceeds its estimated recoverable amount. The impairment loss for assets carried at amortised cost is calculated as the difference between the carrying amount and the present value of expected cash flows discounted at the original effective interest rate. The recoverable amount for assets carried at fair value is the present value of expected future cash flows discounted at the current market interest rate for a similar financial asset.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed, and the amount of the reversal is recognised in revenue.

2. ACCOUNTING POLICIES (continued)

2.8 Financial assets (continued)

(c) Securities purchased under agreements to resell

Securities purchased under agreements to resell are treated as collateralised financing transactions. The difference between the purchase and resale price is treated as interest and is accrued over the life of the agreements using the effective yield method.

(d) 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.

(e) Derivative financial instruments

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.

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

These assets are held in trust for a reinsurer and are in respect of policy liabilities ceded to the reinsurer. The assets are included in the balance sheet along with a corresponding account payable to the reinsurer. No income is recorded from these assets in the income statement.

2.9 Real estate developed or held for resale

Lands being made ready for resale along with the cost of infrastructural works are classified as real estate held for resale and are valued at the lower of cost and net realisable value.

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

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

2. ACCOUNTING POLICIES (continued)

2.10 Impairment of assets

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

2.11 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, call deposits, other liquid balances with original maturities of ninety days or less, and bank overdrafts. Cash and cash equivalents do not include balances held to meet statutory requirements.

2.12 Policy contracts

(a) <u>Classification</u>

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

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

Insurance contracts transfer insurance risk and may also transfer financial risk. Investment contracts transfer financial risk and no insurance risk. Financial risk includes credit risk, interest rate risk and fair value risk.

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

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

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

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

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

Residual gains in the participating accounts constitute discretionary participation features which the Group classifies as equity.

(b) Recognition and measurement

Policy contracts issued by the Group are summarised below.

(i) Property and casualty insurance contracts

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

Property insurance contracts provide coverage for the risk of property damage or of loss of property. For commercial policyholders insurance may include coverage for loss of earnings arising from the inability to use property which has been damaged or lost.

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

Premium revenue is recognised as earned on a pro-rated basis over the term of the respective policy coverage. 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 represent estimates of future payments of reported and unreported claims and related expenses with respect to insured events that have occurred up to balance sheet date. Reserving involves uncertainty and the use of informed estimates and judgements. The claim reserve is included in other insurance liabilities.

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

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

Commissions and premium taxes payable are recognised on the same basis as premiums earned. At balance sheet date, commissions and premium taxes arising on unearned premiums are included in miscellaneous assets and receivables.

(ii) Health insurance contracts

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

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

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

An insurer may obtain reinsurance coverage for its health insurance risks. The reinsurance premium is expensed over the coverage period of respective policies. Reinsurance claims recoveries are established at the time of claim settlement.

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

(iii) Long-term traditional insurance contracts

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

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

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

Policy benefits are recognised on notification of death, receipt of surrender request, on the maturity date of endowment policies, on the declaration of a cash bonus or dividend or on the annuity payment date. Policy loans advanced are recorded as loans and receivables in the balance sheet and are secured by the cash values of the respective policies. Policy bonuses may be "non-cash" and utilised to purchase additional amounts of insurance coverage. Accumulated cash bonuses and dividends are recorded as interest bearing policy balances.

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

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

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

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

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (Continued)

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

(v) Reinsurance contracts assumed

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

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

(vi) Reinsurance contracts held

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

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

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

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

(vii) Deposit administration and other investment contracts

Deposit administration contracts are issued by an insurer to registered pension schemes which deposit the pension plan assets with the insurer. The insurer is obligated to provide investment returns to the pension scheme in the form of interest or 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.

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

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

Other investment contracts are valued at amortised cost and are otherwise accounted in a manner similar to deposit administration contracts.

(c) Embedded derivatives

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

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

(d) Liability adequacy tests

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

2.13 Actuarial liabilities

(a) Life insurance and annuity contracts

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

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

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

2. ACCOUNTING POLICIES (continued)

2.13 Actuarial liabilities (continued)

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

(b) Health insurance contracts

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

2.14 Financial liabilities

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

(a) Securities sold under agreements to repurchase

Securities sold under agreements to repurchase are treated as collateralised financing transactions. The difference between the sale and repurchase price is treated as interest and is accrued over the life of the agreements using the effective yield method.

(b) Deposit liabilities

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

(c) Borrowings

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

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

2. ACCOUNTING POLICIES (continued)

2.15 Provisions

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

2.16 Interest income and expenses

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

2.17 Fees and other revenue

Fees and other revenue are recognised on an accrual basis when the related service has been provided.

2.18 Employee benefits

(a) Pension benefits

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

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

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

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

2. ACCOUNTING POLICIES (continued)

2.18 Employee benefits (continued)

(b) Other retirement benefits

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

(c) Profit sharing and bonus plans

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

(d) Equity compensation benefits

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

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

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

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

Where the equity instruments do not vest until the individual has completed a further period of service, the services received are accounted for in the income statement during the vesting period, with a corresponding increase in the share based payment reserves or in minority interest. Until the instrument vests, the number of instruments vesting is re-measured annually and the corresponding change in fair value is adjusted at the re-measurement date.

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

2. ACCOUNTING POLICIES (continued)

2.18 Employee benefits (continued)

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

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

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

The equity instruments granted consist either of grants of, or options to purchase, common shares of listed entities within the Group. Common shares granted are measured at the listed price prevailing on the grant date. Options granted are measured using standard option pricing valuation models, which incorporate 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 (12) months after the balance sheet date are discounted to present value.

2. ACCOUNTING POLICIES (continued)

2.19 Taxes

(a) Premium taxes

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

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

Year ended December 31, 2006 Amounts expressed in Barbados $000

2. ACCOUNTING POLICIES (continued)

2.19 Taxes (continued)

(b) Income taxes

The Group is subject to taxes on income in the jurisdictions in which business operations are conducted. Rates of taxation in the principal jurisdictions for income year 2006 are as follows:

	Life insurance, and non-registered annuities	Registered annuities	Other lines of business
Barbados	5% of gross investment income	Nil	25% of net income
Jamaica	15% of investment income	Nil	$33^{1/3}$ % of net income
Trinidad and Tobago	15% of investment income	Nil	25% - 35% of net income
United States of America	35% of net income	35% of net income	35% of net income

(i) Current income taxes

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

(ii) Deferred income taxes

The Group uses the balance sheet liability method of accounting for deferred income tax. Deferred tax assets and liabilities resulting from temporary differences are computed at tax rates that are expected to apply to the period when the asset is realised or the liability settled. Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the asset may be utilised. No provision is made for deferred taxes which could arise on the remittance of retained earnings from subsidiaries, unless there is a current intention to remit such earnings.

2. ACCOUNTING POLICIES (continued)

2.20 Participating Accounts

(a) “Closed” participating fund

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

Sagicor Life Inc also established an open participating fund for participating policies it issues after de-mutualisation. The rules of this fund require that premiums, benefits, actuarial reserve movements, investment returns, expenses and taxes, attributable to the said policies are recorded in an 'open' participating account. The open participating fund was established at de-mutualisation. In 2003 and 2004, transfers were made from retained earnings to the fund as initial seed capital to support the issue of new participating policies.

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 fund. Accordingly, the liabilities of these participating policies and matching assets were transferred to the open participating fund. 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 into the fund.

Effective June 30, 2005, on the recommendation of the Appointed Actuary of Sagicor Life Inc, the open participating fund had reached a size at which capital self sufficiency had been attained, and the seed capital was returned to retained earnings. A return on the seed capital, as determined by the Appointed Actuary, was charged to the participating account.

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

2. ACCOUNTING POLICIES (continued)

2.20 Participating accounts (continued)

(c) Financial statement presentation

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

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

2.21 Treasury shares

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

2.22 Dividend distributions

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

2.23 Statutory reserves

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.1 Impairment of financial assets

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

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

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, consumer 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) <u>Goodwill</u>

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

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

(b) <u>Other intangible assets</u>

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. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.4 Actuarial liabilities

(a) Canadian asset liability method (CALM)

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

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

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

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

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

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

For the respective reserve assumptions for mortality and morbidity, lapse, future investment yields, operating expenses and taxes, best estimate reserve assumptions are determined where appropriate for each major geographical segment, namely Barbados, Jamaica, Trinidad & Tobago, USA and other Caribbean.

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.4 Actuarial liabilities (continued)

The principal assumptions and margins used in the determination of actuarial liabilities are summarised in note 16.3. 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.

4. RISK MANAGEMENT

The Group's activities are related principally to the use of financial instruments and insurance contracts. As such, the Group is exposed to financial and insurance risks and the principles utilised by management in dealing with these risks are set out below.

4.1 Credit risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. 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, 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. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

Significant concentrations of credit risk associated with financial investments are set out in notes 11.3 and 15.

The risks associated with reinsurance contracts held are set out in note 4.9.

4.2 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 operating currencies. Management considers that these assets diversify the range of investments available, and in the long-term are likely to either maintain capital value and/or provide satisfactory returns.

Assets and liabilities by currency are set out in note 37.

4. RISK MANAGEMENT (continued)

4.3 Interest rate risk

The Group is exposed to interest rate risk, which arises when the returns earned from invested assets are insufficient either to maintain returns or to fulfil the minimum returns within policy contracts 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.

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

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

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

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

The effective interest rates of the Group's financial assets and financial liabilities are set out in the notes 11, 18, 19 and 20.

4.4 Liquidity risk

In order to manage liquidity risks, management seeks to maintain levels of cash and short-term deposits in each of its operating currencies, which are sufficient to meet reasonable expectations of its short-term obligations.

4. RISK MANAGEMENT (continued)

4.4 Liquidity risk (continued)

The Group is exposed to daily calls on its available cash resources for policy benefits and withdrawals, operating expenses and taxes, loan draw-downs, repayment of borrowings, maturing deposit liabilities and other security obligations. The Group does not maintain cash resources to meet all these needs as experience shows that a minimum level of revenue flows and maturing investments can be predicted with a high level of certainty.

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

The maturity profiles of the Group's financial assets and liabilities are disclosed in notes 11, 18, 19 and 20.

4.5 Fair values of financial assets and financial liabilities

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 assets and financial liabilities are based on market values of quoted securities as at December 31 where available. In assessing the fair value of non-traded financial assets and 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.

The Group's financial assets and financial liabilities as disclosed in the balance sheet approximate their fair value, except as disclosed in notes 11, 19 and 20.

4.6 Insurance risk - short term insurance contracts

Short-term contracts are typically for one year's coverage, with an option to renew under terms that may be amended by the insurer. In determining the premium payable under the contract, the insurer considers the nature and amount of the risk assumed, and recent experience and industry statistics of the benefits payable. This is the process of underwriting, which establishes appropriate pricing guidelines, and may include specific tests and enquiries which determine the insurer's assessment of the risk. Insurers may also establish deductibles to limit amounts of potential losses incurred.

Policy benefits payable under short-term contracts are generally triggered by an insurable event, i.e. a property or casualty claim, a medical expense or a death claim. Settlement of these benefits is expected generally within six months. However, some benefits are settled over a longer duration.

4. RISK MANAGEMENT (continued)

4.6 Insurance risk – short term insurance contracts (continued)

For the Group's property and casualty insurance contracts, significant risk exposures arise from low frequency high severity events such as hurricanes. Single events, such as major fires and accidents may also generate significant claims.

For the Group's health insurance contracts, significant risk exposures arise from mortality and morbidity experience.

4.7 Insurance risks - long-term insurance contracts

Long-term contracts are typically for a minimum period of 5 years and a maximum period which is determined by the remaining life of the insured. In addition to the estimated benefits which may be payable under the contract, the insurer has to assess the cash flows which may be attributable to the contract. The process of underwriting may also be undertaken and may include specific medical tests and other enquiries which affect the insurer's assessment of the risk. The insurer assesses the likely benefits and cash flows both in establishing the amount of premium payable under the contract and in estimating the balance sheet liability arising from the contract.

For long-term contracts inforce, 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.

Policy benefits payable under long-term contracts may be triggered
- by an insurable event, i.e. a death, disability or critical illness claim;
- at a specified time, i.e. an annuity settlement or a policy maturity;
- on the exercise of a surrender or withdrawal request by the policyholder.

Settlement of these benefits is therefore expected over a wide time span, extending over the remaining lives of the insureds and annuitants. Industry and Group experience do suggest that settlement will in fact occur over this time period, but does not remove the uncertainty which exists over the timing of future benefit cash outflows.

Significant risks arise from mortality and morbidity experience. Worsening mortality and morbidity will increase the incidence of death and disability claims. Improving mortality will lengthen the payout period of annuities.

Insurers are also exposed to lapse and expense risk. At early durations, lapses and surrenders are likely to result in a loss to the insurer, as the acquisition costs associated with the policy contract would not have been recovered from product margins. Higher expenses in maintaining a policy contract may mean that the policy reserve may be inadequate to cover future policy maintenance expenses, thereby requiring the insurer to increase the associated policy reserve.

Year ended December 31, 2006 Amounts expressed in Barbados $000

4. RISK MANAGEMENT (continued)

4.8 Concentrations of insurance risk

The Group carries significant insurance risks concentrated in certain countries within the Caribbean. In these countries, the Group carries a notable proportion of the insured population (life, annuity health) or insured assets or casualty risk (property and casualty) of the country as a whole.

Significant concentration of life insurance, annuity, and health risks occurs in Antigua, Barbados, Cayman Islands, Jamaica, Netherlands Antilles, St Lucia and Trinidad and Tobago. Significant concentration of property and casualty risks occurs in Barbados and Cayman Islands.

Total insurance coverage on insurance policies quantifies some of the risk exposures. Typically, claims arising in any one year are a very small proportion in relation to the total insurance coverage provided. The total sums insured at December 31, 2006, gross and net of reinsurance on life, property and casualty risks are summarised below.

	Gross amount insured		Net amount insured	
	2006	**2005**	**2006**	**2005**
Contracts issued to individuals – life insurance	30,579,784	27,270,155	21,288,570	20,988,717
Contracts issued to groups – life insurance	11,848,761	8,800,346	9,842,180	7,242,619
Property and casualty insurance	14,932,984	11,920,398	7,818,375	7,295,843

4.9 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 which generally have high credit ratings. The credit ratings of reinsurers are monitored.

Year ended December 31, 2006 Amounts expressed in Barbados $000

4. RISK MANAGEMENT (continued)

4.9 Reinsurance risk (continued)

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers. The retention programs used by insurers are summarised below:

Type of insurance contract	Retention by insurers
Property and casualty insurance	
Property risks	• maximum retention of $20,000 for a single event; • maximum retention of $10,000 for a catastrophic event; • quota share retention to maximum of 60% in respect of the treaty limits; • quota share retention is further reduced to a maximum of $1,000 per event.
Motor and liability risks	• maximum retention of $1,000 for a single event; • treaty limits apply.
Miscellaneous accident risks	• maximum retention of $216 for a single event; • treaty limits apply.
Engineering business risks	• maximum retention of $300 • treaty limits apply for material damage and for liability claims.
Marine risks	• maximum retention of $150 for a single event; • treaty limits apply.
Property, motor, liability, and engineering risk	• catastrophic excess of loss reinsurance cover is available per event for amounts in excess of treaty limits; • treaty limits apply to catastrophic excess of loss coverage.
Health insurance contracts with individuals	Retention per individual to a maximum of $800
Health insurance contracts with groups	Retention per individual to a maximum of $400
Life insurance contracts with individuals	Retention per individual life to a maximum of $700
Life insurance contracts with groups	Retention per individual life to a maximum of $200
Life insurance and annuity blocks of contracts	0% to 37.5% retention on policy liabilities

4. RISK MANAGEMENT (continued)

4.9 Reinsurance risk (continued)

Certain insurers of the Group have ceded to a re-insurer further amounts representing 50% of the retentions above $10 for individual life contracts.

Insurers may also have catastrophic reinsurance coverage in place whereby reinsurance coverage is obtained for multiple claims arising from one event or occurring within a specified time period.

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.

Reinsurance balances and the effects of reinsurance ceded on income are disclosed in the notes 12, 16, 17, 23, 27 and 30.

4.10 Fiduciary activities

The Group provides investment management, administration and corporate trust services to pension and mutual funds and other corporate entities which involve the Group making allocation, purchase and sale decisions in relation to a wide range of investments. Those 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.

Total assets under administration are disclosed in note 41.

5. 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.

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 $1,319 million (2005 - $1,271 million) 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.

Year ended December 31, 2006 Amounts expressed in Barbados $000

6. SEGMENTS

6.1 Geographical Segments

	Year ended December 31, 2006				
	Total assets	Total liabilities	Total revenue	Income from ordinary activities	Total cash flows
Barbados	1,156,090	1,079,964	252,431	39,092	47,760
Jamaica	2,114,599	1,611,756	560,323	103,814	52,108
Trinidad & Tobago	798,949	559,237	167,130	51,652	(27,079)
USA	1,680,068	1,538,795	106,310	13,887	(3,780)
Other Caribbean	821,188	519,464	232,576	32,101	(11,351)
Not allocated to segments	155,660	332,727	76	(39,478)	182,712
	6,726,554	5,641,943	1,318,846	201,068	240,370

	Year ended December 31, 2005				
	Total assets	Total liabilities	Total revenue	Income from ordinary activities	Total cash Flows
Barbados	1,159,784	1,029,101	218,652	6,835	(9,114)
Jamaica	1,990,820	1,561,793	513,850	92,270	71,340
Trinidad & Tobago	734,358	536,803	191,558	64,153	25,104
USA	1,782,293	1,646,972	46,012	(9,970)	5,588
Other Caribbean	729,148	493,711	160,892	37,647	54,998
Not allocated to segments	404	175,693	27,008	3,496	(9,182)
	6,396,807	5,444,073	1,157,972	194,431	138,734

Other balances by geographical segment are disclosed in notes 8, 9, 10, 16 and 41.

Year ended December 31, 2006 Amounts expressed in Barbados $000

6. SEGMENTS (continued)

6.2 Business segments

	Total assets		Total revenue	
	2006	**2005**	**2006**	**2005**
Life insurance, health insurance and annuities from contracts issued to individuals	3,914,456	3,975,728	724,401	609,367
Life insurance, health insurance, annuities and pensions from contracts issued to groups	832,719	788,075	327,162	279,147
Property and casualty insurance	230,041	188,803	58,535	44,785
Banking, investment management and other financial services	1,549,887	1,416,207	207,098	197,665
Not allocated to segments [(1)]	199,451	27,994	1,650	27,008
	6,726,554	6,396,807	1,318,846	1,157,972

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

7. INVESTMENT PROPERTY

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

	2006	**2005**
Balance, beginning of year	181,586	179,015
Additions at cost	3,043	8,873
Transfers to real estate developed for resale	(2,551)	(5,849)
Transfers to property, plant & equipment	(9,017)	-
Disposals	(8,977)	(336)
Appreciation in fair values	18,602	1,710
Effects of exchange rate changes	(1,530)	(1,827)
Balance, end of year	181,156	181,586

Investment property includes $37,302 (2005 - $43,552) which represents the Group’s proportionate interest in joint ventures set out below.

Year ended December 31, 2006 Amounts expressed in Barbados $000

7. INVESTMENT PROPERTY (continued)

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

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

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

	2006	2005
Cash, miscellaneous assets and receivables	2,084	4,830
Other funding instruments, accounts payable and accrued liabilities	886	553
Revenue	4,492	3,588
Expenses	47	221

Year ended December 31, 2006 Amounts expressed in Barbados $000

8. PROPERTY, PLANT AND EQUIPMENT

	Year ended December 31, 2006				
	Owner-occupied properties	**Furnishings & leasehold improvements**	**Office equipment & vehicles**	**Leased vehicles & equipment**	**Total**
Net book value, beginning of year	91,263	10,036	27,224	19,725	148,248
Additions at cost	980	10,200	8,135	7,290	26,605
Transfers from investment property	9,017	-	-	-	9,017
Transfers to intangible assets	-	-	(2,270)	-	(2,270)
Disposals	(261)	(41)	(666)	(3,134)	(4,102)
Appreciation in fair values	1,579	-	-	-	1,579
Depreciation charge	(1,447)	(2,283)	(8,090)	(5,400)	(17,220)
Effects of exchange rate changes	(383)	(119)	(300)	-	(802)
Net book value, end of year	100,748	17,793	24,033	18,481	161,055
Represented by:					
Cost or valuation	102,792	41,455	82,084	28,154	254,485
Accumulated depreciation	(2,044)	(23,662)	(58,051)	(9,673)	(93,430)
	100,748	17,793	24,033	18,481	161,055

Year ended December 31, 2006 Amounts expressed in Barbados $000

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	Year ended December 31, 2005				
	Owner-occupied properties	**Furnishings & leasehold improvements**	**Office equipment & vehicles**	**Leased vehicles & equipment**	**Total**
Net book value, beginning of year	88,270	6,939	20,264	16,089	131,562
Additions at cost	539	5,333	7,671	10,322	23,865
Assumed on acquisitions	-	2,113	7,497	-	9,610
Disposals	(819)	(2,349)	(461)	(2,094)	(5,723)
Appreciation in fair values	4,896	-	-	-	4,896
Depreciation charge	(1,380)	(1,886)	(7,162)	(4,592)	(15,020)
Effects of exchange rate changes	(243)	(114)	(585)	-	(942)
Net book value, end of year	91,263	10,036	27,224	19,725	148,248
Represented by:					
Cost or valuation	91,980	31,629	77,261	28,318	229,188
Accumulated depreciation	(717)	(21,593)	(50,037)	(8,593)	(80,940)
	91,263	10,036	27,224	19,725	148,248

Year ended December 31, 2006 Amounts expressed in Barbados $000

8. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	Additions		Depreciation	
	2006	**2005**	**2006**	**2005**
Barbados	16,591	16,998	9,993	9,163
Jamaica	1,770	3,819	3,170	2,872
Trinidad & Tobago	3,289	1,089	1,266	1,097
USA	1,258	260	718	342
Other Caribbean	3,628	1,695	2,062	1,546
Not allocated to segments	69	4	11	-
	26,605	23,865	17,220	15,020

Owner-occupied property includes $2,972 which represents the Group's proportionate interest in joint ventures set out below.

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

Year ended December 31, 2006 Amounts expressed in Barbados $000

9. INVESTMENT IN ASSOCIATED COMPANIES

	2006	2005
Investment, beginning of year	49,829	24,276
Additions	1,327	25,280
Income from ordinary activities	5,455	3,473
Amortisation of intangible assets which were identified on acquisition	(987)	-
Income taxes	(16)	(16)
Dividends received	(1,948)	(3,102)
Effects of exchange rate changes	11	(82)
Investment, end of year	53,671	49,829

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

	Investment in associated companies		Income from ordinary activities	
	2006	2005	2006	2005
Barbados	249	253	(4)	40
Jamaica	81	85	-	68
Trinidad & Tobago	28,128	24,775	3,373	3,365
Other Caribbean	25,213	24,716	2,086	-
	53,671	49,829	5,455	3,473

The aggregate balances and results in respect of associated companies for the period are set out below. For associates acquired during 2005, the full year's revenue and net income are included.

	2006	2005
Total assets	586,047	447,823
Total liabilities	406,736	284,502
Total revenue	176,527	34,099
Net income for the year	21,951	10,321

Year ended December 31, 2006 Amounts expressed in Barbados $000

10. INTANGIBLE ASSETS

(a) Analysis and changes for the year

	Year ended December 31, 2006				
	Goodwill	**Customer relation-ships**	**Trade names**	**Software**	**Total**
Net book value, beginning of year as restated	121,406	98,076	11,663	9,042	240,187
Transfer from property, plant and equipment	-	-	-	2,270	2,270
Additions at cost	-	-	-	4,456	4,456
Amortisation and other charges	(1,965)	(6,092)	(4,238)	(4,198)	(16,493)
Effects of exchange rate changes	(1,145)	(3,328)	(353)	(178)	(5,004)
Net book value, end of year	118,296	88,656	7,072	11,392	225,416
Represented by:					
Cost	120,261	99,274	14,777	22,031	256,343
Accumulated amortisation and charges	(1,965)	(10,618)	(7,705)	(10,639)	(30,927)
	118,296	88,656	7,072	11,392	225,416

Year ended December 31, 2006 Amounts expressed in Barbados $000

10. INTANGIBLE ASSETS (continued)

	Year ended December 31, 2005 – Restated				
	Goodwill	**Customer relation-ships**	**Trade names**	**Software**	**Total**
Net book value, beginning of year	100,124	-	-	3,223	103,347
Additions at cost	-	-	-	6,117	6,117
Assumed on acquisitions	-	-	-	1,207	1,207
Identified on acquisitions:					
PCFS (note 38.1)	5,814	63,798	15,212	-	84,824
EBA (note 38.2)	16,385	33,803	-	106	50,294
First Life (note 38.3)	3,856	-	-	-	3,856
Laurel Life (note 38.4)	1,965	724	-	-	2,689
Cayman General (note 38.5)	3,688	8,088	656	659	13,091
Disposals	(8,099)	-	-	-	(8,099)
Amortisation charge	-	(4,763)	(3,803)	(2,050)	(10,616)
Effects of exchange rate changes	(2,327)	(3,574)	(402)	(220)	(6,523)
Net book value, end of year	121,406	98,076	11,663	9,042	240,187
Represented by:					
Cost	121,406	102,884	15,340	14,318	253,948
Accumulated amortisation	-	(4,808)	(3,677)	(5,276)	(13,761)
	121,406	98,076	11,663	9,042	240,187
Net book value, as previously stated	120,350	106,892	13,049	10,214	250,505
Adjustment for disposal of goodwill (note 38)	(8,099)	-	-	-	(8,099)
Adjustment for valuation of intangible assets (note 38)	9,155	(8,816)	(1,386)	(1,172)	(2,219)
Net book value, as restated	121,406	98,076	11,663	9,042	240,187

Year ended December 31, 2006 Amounts expressed in Barbados $000

10. INTANGIBLE ASSETS (continued)

(b) Geographical segment information

	Goodwill		Additions to intangible assets		Amortisation of intangible assets	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
Barbados	45,266	45,266	1,485	2,539	1,448	896
Jamaica	40,822	41,958	1,387	3,578	10,519	9,720
Trinidad & Tobago	9,831	9,840	-	-	5	-
USA	-	1,965	1,406	-	2,915	-
Other Caribbean	22,377	22,377	82	-	1,606	-
Not allocated to segments	-	-	96	-	-	-
	118,296	121,406	4,456	6,117	16,493	10,616

(c) Goodwill

Goodwill arising on past acquisitions is reviewed by cash generating unit (CGU). The recoverable amount of each CGU is determined either by its value in use or by its fair value less costs to sell.

A CGU's value in use is estimated using cash flow projections prepared by management. Detailed cash flow projections are prepared for three years and are extrapolated for subsequent years.

The fair value of a CGU is estimated by capitalising its expected earnings over time.

Cash flow discount factors, residual growth rates and earnings multiples utilised in the assessment of recoverable amounts were as follows:

	2006		
	Cash Flow discount factor	**Cash flow residual Growth rate**	**Earnings multiples**
Barbados	13.3%, 14.7%	4.5%	8.67
Jamaica	21.2%	7.0%	4.48, 5.30
Trinidad & Tobago	n/a	n/a	8.01
Other Caribbean	14.6%	3.5%	7.70, 8.54

Year ended December 31, 2006 Amounts expressed in Barbados $000

11. FINANCIAL INVESTMENTS

11.1 Analysis of financial investments

	December 31, 2006		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Held to maturity securities:				
Debt securities	6,503	6,451	4,062	3,984
Available for sale securities:				
Debt securities	2,461,493	2,461,493	2,308,667	2,308,667
Equity securities	326,667	326,667	397,174	397,174
	2,788,160	2,788,160	2,705,841	2,705,841
Securities at fair value through income:				
Debt securities	175,437	175,437	150,884	150,884
Equity securities	47,549	47,549	43,261	43,261
	222,986	222,986	194,145	194,145
Loans and receivables:				
Debt securities	658,288	661,479	677,084	712,053
Mortgage loans	492,018	490,533	420,600	419,406
Policy loans	251,782	251,782	254,993	254,993
Finance loans and finance leases	245,880	245,880	235,133	235,133
Securities purchased under agreements to resell	44,640	44,640	69,029	69,029
Deposits	339,387	339,387	171,960	171,960
	2,031,995	2,033,701	1,828,799	1,862,574
Total financial investments	5,049,644	5,051,298	4,732,847	4,766,544

Year ended December 31, 2006 Amounts expressed in Barbados $000

11. FINANCIAL INVESTMENTS (continued)

11.1 Analysis of financial investments (continued)

Debt securities comprise:

	2006	2005
Government debt securities	2,058,119	1,943,775
Corporate debt securities	657,180	612,692
Collateralised mortgage obligations	480,452	475,636
Other securities	105,970	108,594
	3,301,721	3,140,697

Debt securities include $46,900 (2005 - $49,452) and policy loans include $60,824 (2005 - $62,930) in assets held in trust for a reinsurer. The Group earns no income on these assets.

Debt securities include $14,893 (2005 - $12,733) that contain options to convert to common shares of the issuer.

Corporate debt securities include:

(i) convertible loans totalling $9,543 (2005 - $1,548) issued to the Group by an associated company. These loans can be converted into equity or bonds issued by the associated company.

(ii) $23,833 (2005 - $25,598) in bonds issued by an associated company.

Equity securities include $12,503 (2005 - $12,526) in mutual funds managed by the Group.

11.2 Pledged assets

Debt securities include $78,440 (2005 – $82,330) held in trust supporting reinsurance liabilities assumed. The Group manages these investments and bears the investment risk.

Debt and equity securities include $40,993 (2005 - $55,749) as collateral for loans payable.

The collateral for other funding instruments from the Federal Home Loan Bank (FHLB), consists of an equity holding in the FHLB with market value of $10,622 (2005 - $12,026), and mortgages and mortgage backed securities having a total market value of $247,792 (2005 - $255,554).

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, 2006, these pledged assets totalled $949,662 (2005 - $904,302). Of these assets pledged as security $378,151 (2005 – $394,706) represent collateral for securities sold under agreements to repurchase in instances when the transferee has the right by contract or by custom to sell or re-pledge the collateral.

Year ended December 31, 2006 Amounts expressed in Barbados $000

11. FINANCIAL INVESTMENTS (continued)

11.3 Significant concentrations

	2006	2005
Debt securities:		
Government of Jamaica	1,447,125	1,322,041
Federal government of USA and its agencies	585,506	576,354
Government of Barbados	164,796	208,154
Deposits:		
FirstCaribbean International Bank	164,049	9,211

11.4 Effective interest rates

	2006	2005
Debt securities	9.4%	11.6%
Mortgage loans	8.2%	7.7%
Policy loans	8.3%	9.7%
Finance loans and finance leases	11.6%	12.9%
Securities purchased under agreements to resell	11.4%	9.1%
Deposits	4.8%	5.2%

Year ended December 31, 2006 Amounts expressed in Barbados $000

11. FINANCIAL INVESTMENTS (continued)

11.5 Maturity profiles

	December 31, 2006			
	Repayable within one year	Repayable between one and five years	Repayable after five years	Total
Debt securities	379,848	966,468	1,955,405	3,301,721
Mortgage loans	11,632	38,478	441,908	492,018
Finance loans and finance leases	93,398	89,593	62,889	245,880
Securities purchased under agreements to resell	44,640	-	-	44,640
Deposits	310,798	25,418	3,171	339,387
	840,316	1,119,957	2,463,373	4,423,646

	December 31, 2005			
	Repayable within one year	Repayable between one and five years	Repayable after five years	Total
Debt securities	235,775	479,804	2,425,118	3,140,697
Mortgage loans	7,965	36,115	376,520	420,600
Finance loans and finance leases	81,163	94,870	59,100	235,133
Securities purchased under agreements to resell	69,029	-	-	69,029
Deposits	134,326	11,067	26,567	171,960
	528,258	621,856	2,887,305	4,037,419

Policy loans are repayable either at the discretion of the policyholder or on termination of the policy.

Year ended December 31, 2006 Amounts expressed in Barbados $000

11. FINANCIAL INVESTMENTS (continued)

11.6 Returns accruing to the benefit of contract-holders

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

	2006	2005
Debt securities	130,301	125,899
Equity securities	44,089	35,520
Mortgage loans	87,317	82,504
Securities purchased under agreements to resell	4,903	6,706
	266,610	250,629

11.7 Allowances for impairment losses

	2006	2005
Mortgage loans	5,728	5,222
Debt securities	14,608	14,826
Finance loans and finance leases	4,947	5,710
	25,283	25,758

Interest of $6,557 (2005 - $3,645) has been accrued on impaired financial investments.

Year ended December 31, 2006 Amounts expressed in Barbados $000

12. REINSURANCE ASSETS

	2006	2005
Reinsurers' share of:		
Actuarial liabilities (note 16.1)	552,941	605,995
Policy benefits in the course of settlement (note 17.2)	42,003	43,483
Provision for unearned premiums (note 17.3)	35,886	24,662
Other items	12,548	12,508
	643,378	686,648

The reinsurers' share of actuarial liabilities represent balances which are long term in nature, and for which, most are expected to be settled after one year.

The reinsurers' share of actuarial liabilities and claim recoveries from reinsurers include the following significant balances:

	2006	2005
Scottish Re (U.S.) Inc - rated B (Fair) by A.M. Best	337,442	366,900
Washington National Insurance Company - rated B++ (Good) by A.M. Best	190,522	211,532

The reinsurers' share of liabilities held by Scottish Re is secured by assets held in trust by a third party totalling $296,745 and by the Group (see note 11.1).

13. INCOME TAX ASSETS

	2006	2005
Deferred income tax assets (note 34)	8,451	8,226
Income and withholding taxes recoverable	28,214	27,485
	36,665	35,711

Year ended December 31, 2006 Amounts expressed in Barbados $000

14. MISCELLANEOUS ASSETS AND RECEIVABLES

	2006	2005
Pension plan assets (note 32.2)	2,008	2,195
Real estate developed or held for resale	25,802	23,498
Premiums in the course of collection	55,852	52,517
Amounts due from managed funds	6,028	10,722
Other accounts receivable	110,512	113,956
	200,202	202,888

Real estate developed for resale includes $17,675 (2005 - $8,611) which is expected to be realised after one year.

Real estate developed for resale includes $6,323 (2005 - $4,628) which represents the Group's proportionate interest in the joint ventures set out below.

Description of property	Percentage owned by the Group
Barbados:	
Land at Fort George Heights, Upton, St Michael	**50%**
Rolling Hills Development, Byde Mill, St George	**81%**

15. CASH RESOURCES

Significant concentrations of cash resources at December 31 are as follows:

	2006	2005
FirstCaribbean International Bank	31,204	72,440

Year ended December 31, 2006 Amounts expressed in Barbados $000

16. ACTUARIAL LIABILITIES

16.1 Analysis of actuarial liabilities

		Gross liability		Reinsurers' share	
		2006	**2005**	**2006**	**2005**
(a)	Life insurance, annuities and health insurance - contracts issued to individuals:				
	Life - participating polices	559,078	537,231	6,554	6,302
	Life and annuity - non-participating policies	1,635,984	1,689,997	441,662	483,188
	Health	7,903	7,192	3,179	2,666
	Unit linked funds	178,980	169,151	-	-
	Reinsurance contracts held	12,114	18,910	-	-
		2,394,059	2,422,481	451,395	492,156
(b)	Life insurance, annuities and health insurance - contracts issued to groups:				
	Life	50,560	54,704	4,790	7,157
	Annuities	266,933	282,565	95,858	106,428
	Health	35,616	31,447	898	254
		353,109	368,716	101,546	113,839
	Total actuarial liabilities	2,747,168	2,791,197	552,941	605,995

The following notes are in respect of the above:

- Life insurance includes coverage for disability and critical illness.
- Actuarial liabilities include $305,419 (2005 - $368,271) in assumed reinsurance.
- Liabilities for reinsurance contracts held occur because the reinsurance premium costs exceed the mortality costs assumed in determining the gross liability of the policy.

Year ended December 31, 2006 Amounts expressed in Barbados $000

16. ACTUARIAL LIABILITIES (continued)

16.2 Movement in actuarial liabilities

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

	Gross amount		Reinsurers' share	
	2006	**2005**	**2006**	**2005**
Balance, beginning of year as restated (note 43)	2,791,197	1,485,042	605,995	2,889
Transfers	1,804	-	-	-
Amounts assumed on acquisitions	-	1,254,825	-	609,373
Change in actuarial liabilities (note 30)	(35,135)	66,379	(53,062)	(6,267)
Effect of exchange rate changes	(10,698)	(15,049)	8	-
Balance, end of year	2,747,168	2,791,197	552,941	605,995

The change in gross liability by geographical segment is as follows:

	2006	**2005**
Barbados	8,170	28,834
Jamaica	25,321	8,660
Trinidad & Tobago	7,207	31,374
USA	(91,794)	(1,624)
Other Caribbean	15,961	(865)
	(35,135)	66,379

16.3 Assumptions

(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.

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

16. ACTUARIAL LIABILITIES (continued)

16.3 Assumptions (continued)

(b) Assumptions for mortality and morbidity

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

For the 2006 valuation, certain insurers conducted studies of their own recent mortality experience. Studies were conducted by combining data in some geographic segments to create a credible mortality table. The combined experience was measured against an industry standard (Canadian Institute of Actuaries (CIA) 1986 – 1992 tables) and the combined experience resulted in a modification of the probabilities of death by policy duration. Appropriate modification factors were selected and applied to underwritten and non-underwritten business respectively in the actuarial valuation. Annuitant mortality was determined by reference to CIA tables or to other established scales.

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

(i) Change in assumption and prior year adjustment

For the 2006 valuation, the AA reviewed the approach for determining the mortality assumption for the former Life of Barbados Limited insurance policies which were transferred into the opening participating fund on February 1, 2005 (the date of amalgamation of Sagicor Life Inc and Life of Barbados Limited). It was concluded that the use of a specific mortality assumption for these insurance policies provides a closer representation of best estimate than the use of a combined mortality assumption derived from a wider grouping of insurance policies. This conclusion is supported by actuarial practice and is consistent with the terms of the open participating fund as described in the Scheme of Amalgamation of Sagicor Life Inc and Life of Barbados Limited. Accordingly, revised mortality assumptions were adopted for these open participating policies and for the other policies in the wider grouping of insurance policies referred to above. These changes have resulted in a restatement of the actuarial liabilities from February 1, 2005, and are reflected in the restated amounts for the year ended December 31, 2005 as summarised in note 43.

(c) Assumptions for lapse

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

Lapse studies were performed by certain insurers for the 2006 valuation, to determine the most recent experience of persistency. Appropriate rates of termination by policy duration were determined and applied in the actuarial valuation.

Year ended December 31, 2006 Amounts expressed in Barbados $000

16. ACTUARIAL LIABILITIES (continued)

16.3 Assumptions (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 (URR) is the assumed rate that will ultimately be earned on government bonds and is as follows:

	2006
Geographical segment	**URR**
Barbados	5.0%
Jamaica	7.0%
Trinidad & Tobago	5.0%
USA	4.0% - 4.75%
Other Caribbean	5.0%

(e) Assumptions for operating expenses and taxes

Policy acquisition and policy maintenance expense costs for long-term business of each insurer are measured and monitored using internal expense studies. Policy maintenance expense costs are reflected in the actuarial valuation after adjusting for expected inflation. Costs were updated for the 2006 valuation and were applied on a per policy basis.

(i) Change in assumption and prior year adjustment

For the 2006 valuation, the AA reviewed the approach for determining the inflation assumption for the former Life of Barbados Limited insurance policies which were transferred into the opening participating fund on February 1, 2005 (the date of the amalgamation of Sagicor Life Inc and Life of Barbados Limited). The rate of inflation and the methodology for applying the inflation assumption were changed for consistency to those applied to the policies in the closed participating funds. These changes in rate and methodology have resulted in a restatement of actuarial liabilities of the open participating insurance polices from February 1, 2005, and is reflected in the restated amounts for the year ended December 31, 2005 as summarised in note 43.

Year ended December 31, 2006 Amounts expressed in Barbados $000

16. ACTUARIAL LIABILITIES (continued)

16.3 Assumptions (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 a specific margin for equity securities and a combined margin for debt securities, mortgage loans and deposits.

(g) Margins for adverse deviations

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

Provisions for adverse deviations	**2006**	**2005 Restated**
Mortality and morbidity	46,479	50,337
Lapse	36,903	34,864
Investment yields and asset default	108,572	162,908
Operating expenses and taxes	20,976	25,627
	212,930	273,736

(h) Health insurance

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

Year ended December 31, 2006 Amounts expressed in Barbados $000

16. ACTUARIAL LIABILITIES (continued)

16.3 Assumptions (continued)

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

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

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

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

	2006	2005
Decrease in actuarial liabilities	(103,206)	(68,577)

Significant specific changes in assumptions and actuarial modelling which represent more than 5% of actuarial liabilities at the beginning of the year are set out below.

	2006	2005
Increase in actuarial liabilities arising from the introduction of margins on equity securities and real estate supporting policy liabilities	-	76,400

16.4 Sensitivity analysis

(a) Sensitivity arising from the valuation of actuarial liabilities

The valuation of actuarial liabilities is sensitive to:

- the economic scenario used in CALM,
- the investments allocated to back the liabilities,
- the underlying assumptions used, and
- the margins for adverse deviations.

Under the CALM methodology, the AA is required to test the actuarial liability under 7 economic scenarios. These tests have been done and the results of the valuation provide adequately for liabilities derived from the worst of these different scenarios.

The assumption for future investment yields has a significant impact on actuarial liabilities. The different scenarios tested under CALM reflect the impact of different yields.

16. ACTUARIAL LIABILITIES (continued)

16.4 Sensitivity analysis (continued)

The other assumptions which are most sensitive in determining the actuarial liabilities of the Group, are in descending order of impact:

- Operating expenses and taxes
- Lapse
- Mortality and morbidity

(b) Dynamic capital adequacy testing (DCAT)

DCAT is a technique used by the Group to assess the adequacy of the insurer's financial position and financial condition in the light of different future economic and policy experience scenarios. DCAT assesses the impact over the next 5 years on the insurer's financial position and financial condition under specific scenarios.

The financial position of an insurer is reflected by the amounts of assets, liabilities and equity in the balance sheet at a given date.

The financial 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 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 testing has not yet been completed for certain insurers. However, limited sensitivity tests have been completed in accordance with DCAT scenarios for the following insurers:

- Sagicor Life Inc;
- Life of Jamaica Limited;
- Sagicor Life of the Cayman Islands Limited;
- Sagicor Capital Life Insurance Company Limited;
- Capital Life Insurance Company Bahamas Limited;
- Nationwide Insurance Company Limited.

These insurers have net actuarial liabilities totalling $1,619,331 or 74% of the Group total.

16. ACTUARIAL LIABILITIES (continued)

16.4 Sensitivity analysis (continued)

The results are as follows.

(i) Worsening rate of lapse. The scenario was tested in either of the following ways:

- For business which produces higher valuation reserves with an increase in lapse rates, the scenario lapse rates were increased. For business which produces higher valuation reserves with a decrease in lapse rates, the scenario lapse rates were reduced.

- The business was tested by applying a factor of 1.1 and 0.9 to the existing lapse rates. The 0.9 factor produced the higher valuation reserve and was included in the results.

Overall, this scenario produces adverse results.

(ii) High interest rate. An assumed increase in portfolio rate of 1% per year for 5 years (LOJ - 0.5% per year for ten years) was tested in this scenario. Overall, this scenario produces favourable results.

(iii) Low interest rate. An assumed decrease in portfolio rate of 0.25% for 5 years (LOJ – 0.5% per year for 10 years) was tested in this scenario. Overall, this scenario produces adverse results.

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

(v) Higher expenses. Higher unit maintenance expenses were tested by setting the unit expense rate for each projection year 5% greater than the unit expense rate assumed in the base scenario. Overall, this scenario produces adverse results.

(vi) Level new business. New business planned for 2007 was maintained for the 5 year period. Overall, this scenario has no effect on the 2006 liabilities.

(vii) Double new business. New business planned for the 5 year period was projected to grow at twice the rate of growth anticipated in the base scenario. Overall, this scenario has no effect on the 2006 liabilities.

Year ended December 31, 2006 Amounts expressed in Barbados $000

16. ACTUARIAL LIABILITIES (continued)

16.4 Sensitivity analysis (continued)

The DCAT conducted has not tested any correlation that may exist between assumptions. The use of differing sensitivity rates by insurers reflects differences in the insurers' environment.

The following table represents the estimated sensitivity of each of the above scenarios to net actuarial liabilities totalling $1,619,331 at balance sheet date.

Scenario	2006 (Increase) / decrease in net actuarial liability
(i) Worsening rate of lapse	(58,378)
(ii) High interest rate	328,484
(iii) Low interest rate	(159,171)
(iv) Worsening mortality / morbidity	(53,560)
(v) Higher expenses	(75,094)
(vi) Level new business	-
(vii) Double new business	-

17. OTHER INSURANCE LIABILITIES

17.1 Analysis of other insurance liabilities

	2006	2005
Dividends on deposit and other policy balances	121,750	116,685
Policy benefits in the course of settlement	113,080	109,596
Provision for unearned premiums	70,572	56,967
	305,402	283,248

Year ended December 31, 2006 Amounts expressed in Barbados $000

17 OTHER INSURANCE LIABILITIES (continued)

17.2 Policy benefits in the course of settlement

(a) Analysis of policy benefits in the course of settlement

Policy benefits in the course of settlement comprise:

	Gross liability		Reinsurers' share	
	2006	**2005**	**2006**	**2005**
Life insurance and annuity benefits	70,536	64,826	21,700	20,377
Health claims	2,019	1,140	2,630	851
Property and casualty claims	40,525	43,630	17,673	22,255
	113,080	109,596	42,003	43,483

Health claims include $1,648 (2005 - $315) in provisions for claims incurred but not yet reported. Property and casualty claims include $8,209 (2005 – $8,744) in provisions for claims incurred but not yet reported.

(b) Movement in policy benefits in the course of settlement

The movement in policy benefits in the course of settlement for the year is as follows:

	Gross amount		Reinsurers' share	
	2006	**2005**	**2006**	**2005**
Balance, beginning of year, as restated (note 43)	109,596	150,908	43,483	90,883
Amounts assumed on acquisitions	-	33,022	-	10,263
Policy benefits incurred (note 30)	621,915	432,607	112,457	44,456
Policy benefits paid	(616,677)	(505,028)	(113,206)	(101,238)
Effect of exchange rate changes	(1,754)	(1,913)	(731)	(881)
Balance, end of year	113,080	109,596	42,003	43,483

(c) Change in methodology and prior year adjustment

The method for computing the provision for claims incurred but not reported for property and casualty business was changed in 2006. The change provides a more comprehensive assessment of the provision. It was applied retroactively and resulted in increases in the gross liability of $6,822 as of December 31, 2004 and of $7,049 as of December 31, 2005. The reinsurers' share of the liability decreased by $2,029 as of December 31, 2004 and by $913 as of December 31, 2005. These restatements are summarised in note 43.

Year ended December 31, 2006 Amounts expressed in Barbados $000

17. OTHER INSURANCE LIABILITIES (continued)

17.3 Provision for unearned premiums

(a) Analysis of provision for unearned premiums

The provision for unearned premiums arises from:

	Gross liability		Reinsurers' share	
	2006	**2005**	**2006**	**2005**
Property and casualty insurance	68,026	53,857	35,886	24,662
Health insurance	2,546	3,110	-	-
	70,572	56,967	35,886	24,662

(b) Movement in provision for unearned premiums

The movement in the provision for unearned premium for the year is as follows:

	Gross amount		Reinsurers' share	
	2006	**2005**	**2006**	**2005**
Balance, beginning of year, as restated (note 43)	56,967	35,636	24,662	6,950
Amounts assumed on acquisitions	-	21,131	-	15,003
Premiums written	190,533	99,869	107,841	38,207
Premium revenue	(176,914)	(97,931)	(96,636)	(35,325)
Effect of exchange rate changes	(14)	(1,738)	19	(173)
Balance, end of year	70,572	56,967	35,886	24,662

(c) Change in methodology and prior year adjustment

The method for computing the reinsurers' share of the provision for unearned premiums for property and casualty business was adjusted in 2006 to exclude the effects of calendar year reinsurance treaties. The adjustment was applied retroactively and resulted in decreases of $6,449 as of December 31, 2004 and of $8,627 as of December 31, 2005 in the reinsurers' share of the provision for unearned premiums. These restatements are summarised in note 43.

Year ended December 31, 2006 Amounts expressed in Barbados $000

18. INVESTMENT CONTRACT LIABILITIES

	2006	2005
Deposit administration liabilities	352,388	340,615
Other investment contracts	89,321	85,546
	441,709	426,161

18.1 Deposit administration liabilities

The effective interest rate of deposit administration liabilities is as follows:

	2006	2005
Effective interest rate	7.8%	7.8%

Deposit administration liabilities represent pension fund balances on deposit which are long term in nature and which are generally expected to be settled after one year.

18.2 Other investment contract liabilities

The effective interest rate and contractual maturity profile of other investment contract liabilities are as follows:

	2006	2005
Effective interest rate	7.9%	8.9%
Contractual maturity profile:		
Repayable on demand or within one year	48,698	52,828
Repayable between one and five years	10,917	15,459
Repayable after five years	29,706	17,259
	89,321	85,546

Year ended December 31, 2006 Amounts expressed in Barbados $000

19. SENIOR NOTES AND LOANS PAYABLE

	December 31, 2006		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair value
7.5% senior notes due 2016	293,030	305,955	-	-
Bank loans	28,035	28,035	160,728	160,728
	321,065	333,990	160,728	160,728

On May 12, 2006, Sagicor Finance Limited issued US$ 150 million senior notes which are guaranteed by the Company and another subsidiary. The notes are repayable 10 years after issue and the rate of interest is fixed for the duration. The notes are traded and are listed on the Luxembourg Euro MTF Market.

Bank loans are secured either by portfolios of investment securities or by the holdings in subsidiaries.

The effective interest rate and contractual maturity profile of senior notes and loans payable are as follows:

	2006	2005
Effective interest rate	7.4%	4.9%
Contractual maturity profile:		
Repayable within one year	19,292	132,168
Repayable between one and five years	11,788	28,560
Repayable after five years	289,985	-
	321,065	160,728

Year ended December 31, 2006 Amounts expressed in Barbados $000

20. DEPOSIT AND SECURITY LIABILITIES

	December 31, 2006		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair value
Other funding instruments:				
Loans for mortgage financing	247,585	254,547	252,704	250,792
Loans for development financing	31,003	31,003	31,042	31,042
Loans from commercial banks	11,081	11,121	12,496	12,451
Deposits:				
Customer deposits	246,315	246,315	227,504	227,504
Securities:				
Securities sold under agreements to repurchase	948,836	948,836	907,987	907,987
Bank overdrafts	5,963	5,963	8,712	8,712
Total deposit and security liabilities	1,490,783	1,497,785	1,440,445	1,438,488

The collateral for loans for mortgage financing and securities sold under agreements to resell is set out in note 11.2.

Un-disbursed facilities in respect of other funding instruments and bank overdrafts total approximately $3,558 (2005 – $6,054).

(a) Significant concentrations

	2006	2005
Other funding instruments:		
Federal Home Loan Bank (FHLB)	241,310	252,704

Year ended December 31, 2006 Amounts expressed in Barbados $000

20. DEPOSIT AND SECURITY LIABILITIES (continued)

(b) Effective interest rates

	2006	2005
Other funding instruments	6.1%	5.6%
Deposits	7.1%	7.3%
Securities	9.3%	10.0%

(c) Contractual maturity profiles

	2006			
	Repayable within one year	Repayable between one and five years	Repayable after five years	Total
Other funding instruments	164,580	35,582	89,507	289,669
Deposits	156,550	70,100	19,665	246,315
Securities	943,689	703	4,444	948,836
Bank overdrafts	5,963	-	-	5,963
	1,270,782	106,385	113,616	1,490,783

	2005			
	Repayable within one year	Repayable between one and five years	Repayable after five years	Total
Other funding instruments	154,103	41,886	100,253	296,242
Deposits	163,665	47,952	15,887	227,504
Securities	907,880	107	-	907,987
Bank overdrafts	8,712	-	-	8,712
	1,234,360	89,945	116,140	1,440,445

Year ended December 31, 2006 Amounts expressed in Barbados $000

21. PROVISIONS

	2006	**2005**
Pension plans and other retirement benefits (note 32.2)	35,925	34,080
Other	5,205	3,366
	41,130	37,446

22. INCOME TAX LIABILITIES

	2006	**2005**
Deferred income tax liabilities (note 34)	14,868	10,938
Income taxes payable	22,487	20,020
	37,355	30,958

23. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2006	**2005**
Amounts due to policyholders	3,299	2,331
Amounts due to reinsurers	135,533	139,046
Amounts due to managed funds	7,217	11,956
Other accounts payable and accrued liabilities	111,282	120,557
	257,331	273,890

Amounts due to reinsurers include $107,724 (2005 – $112,382) due to a reinsurer in respect of assets held in trust by the Group (see note 11.1).

24. SHARE CAPITAL

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

	Year ended December 31, 2006		Year ended December 31, 2005	
	Number of shares '000	$000	Number of shares '000	$000
Issued and fully paid common shares:				
Balance, beginning of year	265,553	458,451	260,030	432,495
Allotments	1,432	5,652	5,523	25,956
Balance, end of year	266,985	464,103	265,553	458,451
Treasury shares:				
Shares acquired by ESOP trustees	(798)	(3,633)	-	-
Total share capital	266,187	460,470	265,553	458,451

The Company's shares are listed on the Barbados and Trinidad stock exchanges. On February 14, 2007, the Company's shares were listed on the London stock exchange.

Year ended December 31, 2006 Amounts expressed in Barbados $000

25. RESERVES

	Year ended December 31, 2006					
	Fair value reserves		Currency translation reserve	Share based payment reserves	Statutory reserves	Total
	Available for sale assets	Owner occupied property				
Balance, beginning of year, as restated (note 43)	112,013	17,771	(32,878)	-	9,620	106,526
Unrealised gains arising on revaluation, net of taxes	9,378	1,290	-	-	-	10,668
Gains transferred to income on disposal and impairment	(9,799)	-	-	-	-	(9,799)
Retranslation of foreign operations	-	-	(12,744)	-	-	(12,744)
Net gains / (losses) recognised directly in equity	(421)	1,290	(12,744)	-	-	(11,875)
Value of employee services rendered	-	-	-	2,944	-	2,944
Net change for the year	39	-	-	-	(1,422)	(1,383)
	(382)	1,290	(12,744)	2,944	(1,422)	(10,314)
Balance, end of year	111,631	19,061	(45,622)	2,944	8,198	96,212

Year ended December 31, 2006 Amounts expressed in Barbados $000

25. RESERVES (continued)

	Year ended December 31, 2005				
	Fair value reserves		Currency translation reserve	Statutory reserves	Total
	Available for sale assets	Owner occupied property			
Balance, beginning of year	172,920	12,971	(25,486)	7,289	167,694
Unrealised gains arising on revaluation, net of taxes	4,967	4,896	-	-	9,863
(Gains) / losses transferred to income on disposal and impairment	(65,874)	-	5,732[1]	-	(60,142)
Gains transferred to retained earnings on disposal	-	(96)	-	-	(96)
Retranslation of foreign operations	-	-	(13,124)	-	(13,124)
Net gains / (losses) recognised directly in equity	(60,907)	4,800	(7,392)	-	(63,499)
Net change for the year	-	-	-	2,331	2,331
	(60,907)	4,800	(7,392)	2,331	(61,168)
Balance, end of year	112,013	17,771	(32,878)	9,620	106,526

[1] Restated amount (see notes 38 and 43).

Year ended December 31, 2006 Amounts expressed in Barbados $000

26. PARTICIPATING ACCOUNTS

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

	Closed participating account		Open participating account	
	2006	**2005**	**2006**	**2005**
Balance, beginning of year:				
As previously stated	13,964	779	20,683	609
Prior year adjustments (see below)	(3,424)	(712)	(10,303)	-
As restated	10,540	67	10,380	609
Net unrealised gains arising on available for sale investment securities	2	235	-	-
Transfer from retained earnings to support the profit distribution to shareholders	-	-	-	13,994
Return of transfer to support profit distribution to shareholders	-	-	(511)	(498)
Return of seed capital to retained earnings	-	-	-	(5,500)
Net income / (loss) for the year	3,773	10,238	(4,379)	1,775
Balance, end of year	14,315	10,540	5,490	10,380

During 2006, management reviewed the mechanisms for valuing policies in the participating funds and for accounting for these funds.

In notes 16.3(b)(i) and 16.3(e)(i), valuation changes are described to insurance policies included in the participating funds. These changes have also given rise to a decrease of $2,298 in 2005 of income attributable to the closed participating account and a decrease of $8,865 in 2005 of income attributable to the open participating account.

The review also considered the method for allocating investment income derived from the assets backing the ancillary fund components of the two participating funds. In prior years this income was included in the income of the participating funds. Management has now determined that this income should be excluded from the income of the participating funds because it is the responsibility of the general operations of Sagicor Life Inc to support the ancillary funds in the two participating funds. This change is also consistent with the terms of the Demutualization Scheme, the Scheme of Amalgamation of Sagicor Life Inc and Life of Barbados Ltd, and with actuarial practice. Accordingly, the allocation of investment income for the ancillary funds has been restated from the establishment of the first ancillary fund. In 2005, the change gave rise to a decrease of $620 in income attributable to the closed participating account and a decrease of $3,134 in income attributable to the open participating account.

Other consequential changes have given rise to increases in 2005 income of $206 and $1,202 attributable to the closed and open participating accounts respectively. Prior year changes to the participating accounts are also summarised in note 43.

Year ended December 31, 2006 Amounts expressed in Barbados $000

26. PARTICIPATING ACCOUNTS (continued)

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

	Closed participating fund		Open participating fund	
	2006	2005	2006	2005
Assets	184,817	181,104	424,241	403,784
Liabilities	170,502	170,564	418,751	393,404
Revenues	21,857	20,589	70,299	68,045
Benefits	14,569	6,208	55,659	44,197
Expenses	3,137	3,573	17,337	20,615
Income taxes	378	570	1,682	1,458

27. PREMIUM REVENUE

	Gross revenue		Reinsurance expense	
	2006	2005	2006	2005
Life insurance	463,205	392,303	75,016	57,726
Annuities	112,183	85,302	730	122
Health insurance	227,095	197,039	11,324	8,452
Property and casualty insurance	134,923	74,063	95,092	45,389
	937,406	748,707	182,162	111,689

Gross revenue includes $38,377 (2005 - $24,640) in reinsurance assumed.

Year ended December 31, 2006 Amounts expressed in Barbados $000

28. NET INVESTMENT INCOME

	2006	2005
Income:		
Interest income:		
Debt securities	284,681	242,360
Mortgage loans	35,843	28,071
Policy loans	15,346	14,184
Finance loans and finance leases	26,423	25,431
Securities purchased under agreements to resell	8,056	10,735
Deposits	12,790	8,619
Other balances	271	509
	383,410	329,909
Dividend income	12,551	12,432
Net gains on financial investments	40,530	78,189
Rental income from investment property	10,690	11,179
Net fair value gains on investment property	18,628	1,710
Foreign exchange translation and trading	5,739	4,461
Other investment income	6,018	1,825
	477,566	439,705
Expenses		
Allowances for impairment losses	365	15,608
Direct operating expenses of investment property	2,610	2,430
Other direct investment expenses	3,559	6,252
	6,534	24,290
Net investment income	471,032	415,415

Interest from debt securities includes $2,648 (2005 - $2,881) from an associated company.

Year ended December 31, 2006 Amounts expressed in Barbados $000

29. FEES AND OTHER REVENUE

	2006	2005
Fee income – assets under administration	23,393	19,792
Fee income – deposit administration and policy funds	5,749	5,762
Commission income on insurance and reinsurance contracts	22,680	16,687
Other fees and commission income	15,411	17,038
Other operating and miscellaneous income	19,882	17,672
	87,115	76,951

30. POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

	Gross amount		Reinsurers' share	
	2006	2005	2006	2005
Policy benefits:				
Life insurance benefits	258,844	219,788	47,873	27,242
Annuity benefits	164,820	58,676	45,338	2,634
Health insurance claims	165,606	134,128	6,705	8,782
Property & casualty insurance claims	32,645	20,015	12,541	5,798
Total policy benefits	621,915	432,607	112,457	44,456
Change in actuarial liabilities (note 16.2)	(35,135)	66,379	(53,062)	(6,267)
Total policy benefits and change in actuarial liabilities	586,780	498,986	59,395	38,189

Gross policy benefits include $42,342 (2005 - $23,085) arising from reinsurance assumed.

Year ended December 31, 2006 Amounts expressed in Barbados $000

31. INTEREST EXPENSE

	2006	2005
Insurance contracts	5,319	6,107
Investment contracts	35,002	32,060
Other funding instruments	17,309	5,801
Deposits	16,163	14,598
Securities	82,793	87,418
Other Items	2,153	1,885
	158,739	147,869

32. EMPLOYEE BENEFITS

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

	2006	2005
Administrative staff salaries, directors' fees and other short-term benefits	111,539	91,272
Employer contributions to social security schemes	8,540	7,082
Equity compensation benefits	3,436	6,773
Employer contribution to defined contribution pension schemes	688	1,026
Costs – defined benefit pension schemes	4,978	4,672
Costs – other retirement benefits	1,756	1,403
	130,937	112,228

The total number of administrative staff at December 31 was 1,764 persons (2005 – 1,627 persons).

32.1 Equity compensation benefits

(a) 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.

Year ended December 31, 2006 Amounts expressed in Barbados $000

32. EMPLOYEE BENEFITS (continued)

32.1 Equity compensation benefits (continued)

(i) LTI plan

Share options and restricted share grants have been granted to designated key management of the Group during the year.

Options are granted at the fair market price of the shares at the time that the option is granted. 25% of the options each vest on the first, second, third and fourth anniversaries of the grant date. Options are exercisable up to 10 years from the grant date.

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

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

	Share options		Restricted share grants	
	Number of options ‘000	**Weighted average exercise price**	**Number of grants ‘000**	**Weighted average fair value**
Balance, beginning of year	-	-	-	-
Granted during the year	932	B$ 3.95	305	B$ 3.95
Vested during the year	-	-	(91)	B$ 3.95
Balance, end of year	932	B$ 3.95	214	B$ 3.95
Exercisable at the end of the year	-	-	-	-

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

	Share options
Share price at grant date	B$ 3.95
Fair value of options at grant date	B$1.38
Expected volatility	35.8%
Expected life	7.0 years
Expected dividend yield	3.0%
Risk-free interest rate	6.0%

32. EMPLOYEE BENEFITS (continued)

32.1 Equity compensation benefits (continued)

Effective December 31, 2005 and during 2006, the Company authorised further compensation to designated key management which, at the option of the recipient, could be settled either in cash or in shares issued by the Company, or by a combination of cash and shares. During 2006, 1,342,000 common shares were issued to key management out of the compensation awarded. These shares were issued at the market price prevailing at the exercise dates for a total value of $5,294.

(ii) ESOP

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

During the year, 798,000 common shares have been acquired by the Trustees in order to satisfy current and future awards.

(iii) Expense

The expense recorded in the income statement in respect of the LTI plan and ESOP totalled $2,395.

(b) Life of Jamaica Limited (LOJ)

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

Share options in LOJ shares are granted to key management of LOJ who have completed the minimum eligibility period of one year. Options are granted at a 25% discount of the last sale price on the Jamaica Stock Exchange on the trading day prior to the grant date and are exercisable at that price. Options are exercisable beginning one year from the date of grant and have a contractual term of five years.

Year ended December 31, 2006 Amounts expressed in Barbados $000

32. EMPLOYEE BENEFITS (continued)

32.1 Equity compensation benefits (continued)

The movement in share options was as follows:

	2006		2005	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	19,045	J$ 6.14	14,959	J$ 5.13
Options granted	4,047	J$ 8.00	4,086	J$ 9.86
Balance, end of year	23,092	J$ 8.81	19,045	J$ 6.14
Exercisable at the end of the year	9,682	J$ 7.39	3,739	J$ 9.86

Further details of share options outstanding at December 31, 2006 are as follows:

	Share options
Fair value of options outstanding	J$15,463,000
Weighted average share price at grant date	J$ 2.70
Exercise price	J$ 2.30 – 5.67
Standard deviation of expected share price returns	34.0%
Weighted average remaining contractual term	3 years
Risk-free interest rate	13.7%

The total expense recorded in the income statement in respect of the share option plan totalled $179 (2005 – $292).

LOJ 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 $3,245 (2005 - $4,754).

Year ended December 31, 2006 Amounts expressed in Barbados $000

32. EMPLOYEE BENEFITS (continued)

32.1 Equity compensation benefits (continued)

(c) Pan Caribbean Financial Services Limited (PCFS)

PCFS offers share options to employees who have completed the minimum eligibility period of employment. Options are conditional on the employee completing a minimum service period of one year. Options are forfeited if the employee leaves PCFS before the options vest. PCFS share options were granted as follows:

(i) 450,000 share options on February 7, 2002. These expired on December 31, 2006. The shares in respect of these options have been issued by PCFS and are held in an Employee Share Option Trust. The exercise price for these options is J$4.55. The remaining 290,000 of these options were taken up during the year.

(ii) 17,220,000 share options on March 8, 2004. These options expire on December 31, 2007. The exercise price for these options is J$10. The options were vested December 31, 2006. 7,500,000 of these options were vested and exercised in prior years. A further 5,168,000 vested options were exercised in 2006.

(iii) 816,800 share options on March 8, 2004. The exercise price for the options is J$10 less a 20% discount. These options vested and were fully exercised in March 2005.

(iv) 1,200,000 share options on March 1, 2005. These options expire on February 28, 2009. The exercise price for the options is J$36.50. The options vest over four years – 25% on each anniversary date of the grant. 600,000 of these options were forfeited and contracts for 450,000 were cancelled. 150,000 of the share options vested on March 1, 2006.

(v) 1,200,000 share options on March 1, 2006. These options expire on February 28, 2010. The exercise price for the options is J$19.29. The options vest over four years – 25% on each anniversary date of the grant.

The movement in share options was as follows:

	2006		2005	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	11,210	J$ 12.70	-	-
Assumed on acquisition	-	-	11,887	J$ 9.80
Options granted	1,200	J$ 19.29	1,200	J$ 36.50
Options exercised	(5,458)	J$ 9.71	(1,817)	J$ 10.00
Options lapsed / forfeited	(1,050)	J$ 36.50	(60)	J$ 4.55
Balance, end of year	5,902	J$ 12.56	11,210	J$ 12.70
Exercisable at the end of the year	4,702	J$ 10.85	7,510	J$ 10.20

Year ended December 31, 2006 Amounts expressed in Barbados $000

32. EMPLOYEE BENEFITS (continued)

32.1 Equity compensation benefits (continued)

The weighted average share price at the date of exercise for options exercised during the year was J$18.95.

Further details of share options outstanding at December 31, 2006 are as follows:

	Share options
Fair value of options outstanding	J$ 32,400,000
Weighted average share price at grant date	J$ 13.18
Exercise price	J$ 10.00 - 36.50
Standard deviation of expected share price returns	30.0%
Weighted average remaining contractual term	2 years
Risk-free interest rate	13.7%

The total expense recorded in the income statement in respect of the share option plan totalled $ 364 (2005 – $ 656).

Year ended December 31, 2006 Amounts expressed in Barbados $000

32. EMPLOYEE BENEFITS (continued)

32.2 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.

The amounts recognised in the balance sheet are determined as follows:

	Pension benefits		Other retirement benefits	
	2006	**2005**	**2006**	**2005**
Fair value of retirement plan assets	130,680	116,780	1,939	-
Present value of retirement obligations	(163,592)	(138,051)	(14,421)	(9,117)
	(32,912)	(21,271)	(12,482)	(9,117)
Unrecognised actuarial (gains) / losses	6,606	(4,326)	4,871	2,829
Amounts recognised in the balance sheet	(26,306)	(25,597)	(7,611)	(6,288)
Represented by:				
Asset balances	2,008	2,195	-	-
Liability balances	(28,314)	(27,792)	(7,611)	(6,288)
	(26,306)	(25,597)	(7,611)	(6,288)

Included in liability balances are interest bearing deposit administration fund balances totalling $33,690 (2005 - $31,422) representing employee pension plan funds on deposit with the Group.

The amounts recognised in the income statement are determined as follows:

	Pension benefits		Other retirement benefits	
	2006	**2005**	**2006**	**2005**
Current service cost	5,608	5,322	872	734
Interest cost	12,697	10,519	1,109	670
Net actuarial (gains) / losses recognised during the year	2,096	123	(6)	(1)
Past service cost	348	696	-	-
Expected return on retirement plan assets	(15,771)	(11,988)	(219)	-
Total cost	4,978	4,672	1,756	1,403

Year ended December 31, 2006 Amounts expressed in Barbados $000

32. EMPLOYEE BENEFITS (continued)

32.2 Employee retirement benefits (continued)

The actual return on retirement plan assets was $14,488 (2005 – $10,573).

The movement in the amounts recognised in the balance sheet is as follows:

	Pension benefits		Other retirement benefits	
	2006	**2005**	**2006**	**2005**
Amounts recognised, beginning of year	(25,597)	(24,531)	(6,288)	(5,149)
Amounts recognised on subsidiaries acquired	-	452	-	(110)
Total cost	(4,978)	(4,672)	(1,756)	(1,403)
Contributions made	4,210	3,043	160	154
Effects of exchange rate changes	59	111	273	220
Amounts recognised, end of year	(26,306)	(25,597)	(7,611)	(6,288)

The principal actuarial assumptions used were as follows:

	-------------- Pension benefits --------------			Other retirement benefits
	Jamaica	**Trinidad & Tobago**	**Barbados & other countries**	**Jamaica**
Discount rate	12.0%	8.0%	6.0% - 8.0%	12.0%
Expected return on plan assets	14.0%	8.0%	6.0% - 8.0%	14.0%
Future salary increases	9.5%	6.5%	2.30% - 6.50%	9.5%
Future pension increases	3.5%	1.5%	2.0% - 2.5%	n/a
Portion of employees opting for early retirement	0.0%	0.0%	0.0%	n/a
Future changes in National Insurance Scheme Ceilings	0.0%	2.5%	2.5% - 3.5%	n/a
Long term increase in health costs	n/a	n/a	n/a	11.0%

Year ended December 31, 2006 Amounts expressed in Barbados $000

33. INCOME TAXES

The income tax expense is comprised of:

	2006	2005
Current tax	27,566	17,514
Deferred tax	236	6,516
Share of tax of associated companies	16	16
	27,818	24,046

In summary, income tax is levied on the following sources of income:

	2006	2005
Investment income subject to direct taxation	124,852	66,083
Income from ordinary activities subject to direct taxation	29,428	13,034
Total income subject to taxation	154,280	79,117

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

	2006	2005
Income subject to tax	154,280	79,117
Tax calculated at the applicable rates on income subject to tax	28,797	13,091
Adjustments to current tax for items not subject to tax or not allowed for tax	(8,597)	(3,813)
Other current tax adjustments	10	(1,353)
Adjustments for current tax of prior periods	1,963	(131)
Movement in unrecognised deferred tax asset	(203)	10,549
Deferred tax expense relating to the origination of temporary differences	1,325	(315)
Deferred tax (income) expense relating to changes in tax rates and the imposition of new taxes	(97)	695
Deferred tax income that arises from the reversal of a write down of a deferred tax asset	(1,958)	552
Tax on distribution of profits from policyholder funds	3,002	3,526
Other taxes	3,576	1,245
	27,818	24,046

Year ended December 31, 2006 Amounts expressed in Barbados $000

34. DEFERRED INCOME TAXES

Deferred income tax assets and liabilities are attributable to the following items:

	2006	2005
Deferred income tax assets:		
Pensions and other retirement benefits	1,411	1,332
Unused tax losses	7,436	7,693
Other items	(396)	(799)
Total (Note 13)	8,451	8,226

	2006	2005
Deferred income tax liabilities:		
Accelerated tax depreciation	3,344	2,192
Policy reserves taxable in the future	372	372
Pensions and other retirement benefits	134	75
Accrued interest	1,373	397
Unrealised gains on available for sale investments	6,999	5,884
Other items	2,646	2,018
Total (Note 22)	14,868	10,938

These balances include the following

	2006	2005
Deferred income tax assets to be settled after one year	7,537	8,606
Deferred income tax liabilities to be settled after one year	11,836	7,516

The Group has not recognised potential deferred income tax assets of $44,847 (2005 – $36,950) arising from unrecognised tax losses of $148,389 (2005 - $118,207).

Deferred income taxes have not been provided for income taxes that would be payable on the distribution of retained earnings of certain subsidiaries because there is no intention to distribute those earnings. Due to a recently announced change in income tax rules to eliminate tax on overseas dividends, no tax liability is expected to arise in the future.

35. EARNINGS AND DIVIDENDS PER COMMON SHARE

35.1 Earnings per common share

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

The computation of diluted earnings per common share recognises the dilutive impact of LTI share grants and share options and of ESOP shares grants.

	2006	2005 Restated	2005 Previously stated
Net income for the year attributable to shareholders	135,325	121,455	136,562
Weighted average number of shares in issue in thousands	266,514	263,937	263,937
LTI restricted share grants	70	-	-
ESOP shares	6	-	-
Adjusted weighted average number of shares in issue	266,590	263,937	263,937
Basic earnings per common share	50.8 cents	46.0 cents	51.7 cents
Fully diluted earnings per common share	50.8 cents	46.0 cents	51.7 cents

35.2 Dividends per common share

In respect of the financial year 2005, the Company declared dividends totalling 12 cents per common share. The interim dividend was 6 cents which was declared and paid in 2005. The final dividend was 6 cents which was declared and paid in 2006.

In respect of the financial year 2006, the Company declared dividends totalling 13 cents per common share. The interim dividend was 6 cents which was declared and paid in 2006. The final dividend was 7 cents which was declared on April 4, 2007.

Year ended December 31, 2006 Amounts expressed in Barbados $000

36. CASH FLOWS

The components of certain items in the cash flow statement are as follows:

OPERATING ACTIVITIES	2006	2005
Adjustments for non-cash items, interest and dividends		
Interest and dividend income	(395,961)	(342,341)
Net gains on financial investments and investment property	(59,158)	(79,899)
Gain on business combinations and acquisitions	-	(25,115)
Net increase in actuarial liabilities	17,927	72,646
Interest expense	177,578	153,140
Depreciation and amortisation	34,700	25,636
Other items	13,713	18,691
	(211,201)	(177,242)

Changes in operating assets	2006	2005
Investment property	5,999	(2,688)
Debt securities	(86,200)	(144,400)
Equity securities	56,168	78,181
Mortgage loans	(72,375)	(38,153)
Policy loans	(1,172)	(303)
Finance loans and finance leases	(16,908)	(53,623)
Securities purchased under agreements to resell	22,171	272,529
Deposits	(30,210)	42,623
Other assets and receivables	1,485	60,218
	(121,042)	214,384

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

	Investment property		Debt securities		Equity securities	
	2006	2005	2006	2005	2006	2005
Disbursements	(3,043)	(8,873)	(1,538,210)	(675,475)	(58,953)	(171,860)
Disposal proceeds	9,042	6,185	1,452,010	531,075	115,121	250,041
	5,999	(2,688)	(86,200)	(144,400)	56,168	78,181

Year ended December 31, 2006 Amounts expressed in Barbados $000

36. CASH FLOWS (continued)

Changes in operating liabilities	**2006**	**2005**
Insurance liabilities	10,897	(14,578)
Investment contract liabilities	19,866	18,438
Other funding instruments	(4,798)	(4,977)
Customer deposits	25,397	48,674
Securities sold under agreements to repurchase	77,158	6,740
Other liabilities and payables	(3,383)	(87,507)
	125,137	(33,210)

INVESTING ACTIVITIES	**2006**	**2005**
Property, plant and equipment		
Purchases	(26,605)	(23,865)
Disposal proceeds	3,915	5,570
	(22,690)	(18,295)

FINANCING ACTIVITIES	**2006**	**2005**
Senior notes and loans payable		
Proceeds	319,969	162,905
Repayments	(161,670)	(18,911)
	158,299	143,994

CASH AND CASH EQUIVALENTS	**2006**	**2005**
For the purposes of the cash flow statement, cash and cash equivalents comprise:		
Cash resources	163,078	117,105
Financial investments with an initial term to maturity of 90 days or less	357,597	165,949
Bank overdrafts	(5,963)	(8,712)
	514,712	274,342

Year ended December 31, 2006 Amounts expressed in Barbados $000

37. ASSETS AND LIABILITIES BY CURRENCY

	Balances denominated in					2006
	Barbados $	Jamaica $	Trinidad $	US $	Other currencies	Total
ASSETS						
Investment property	101,078	39,454	40,548	-	76	181,156
Property, plant and equipment	82,753	17,118	24,937	9,424	26,823	161,055
Investment in associated companies	249	81	28,128	-	25,213	53,671
Intangible assets	48,593	133,413	9,829	3,450	30,131	225,416
Financial investments	679,801	1,094,055	479,699	2,407,730	388,359	5,049,644
Reinsurance assets	12,474	2,115	14,130	570,428	44,231	643,378
Income tax assets	5,275	22,066	576	4,636	4,112	36,665
Miscellaneous assets and receivables	55,386	52,641	12,918	63,674	15,583	200,202
Cash resources	29,104	23,453	18,204	47,866	56,740	175,367
Total assets	1,014,713	1,384,396	628,969	3,107,208	591,268	6,726,554
LIABILITIES						
Policy liabilities						
Actuarial liabilities	686,837	273,032	369,292	1,198,142	219,865	2,747,168
Other insurance liabilities	121,845	64,338	29,701	41,201	48,317	305,402
Investment contract liabilities	110,159	104,720	131,599	43,452	51,779	441,709
	918,841	442,090	530,592	1,282,795	319,961	3,494,279
Other liabilities						
Senior notes and loans payable	-	-	88	320,977	-	321,065
Deposit and security liabilities	99,431	532,426	-	829,260	29,666	1,490,783
Provisions	12,892	11,248	7,393	609	8,988	41,130
Income tax liabilities	7,180	20,772	7,327	(12)	2,088	37,355
Accounts payable and accrued liabilities	28,888	45,248	15,158	131,281	36,756	257,331
Total liabilities	1,067,232	1,051,784	560,558	2,564,910	397,459	5,641,943
Net position	(52,519)	332,612	68,411	542,298	193,809	1,084,611

Year ended December 31, 2006 Amounts expressed in Barbados $000

37. ASSETS AND LIABILITIES BY CURRENCY (continued)

	Balances denominated in					2005
	Barbados $	Jamaica $	Trinidad $	US $	Other currencies	Total
ASSETS						
Investment property	98,699	33,678	38,641	7,191	3,377	181,586
Property, plant and equipment	78,663	18,782	20,790	5,369	24,644	148,248
Investment in associated companies	253	85	24,775	-	24,716	49,829
Intangible assets	48,507	156,009	9,847	3,447	22,377	240,187
Financial investments	700,281	1,003,742	484,632	2,164,149	380,043	4,732,847
Reinsurance assets	6,501	4,247	10,004	623,564	42,332	686,648
Income tax assets	5,907	22,083	300	5,690	1,731	35,711
Miscellaneous assets and receivables	37,169	64,534	14,363	45,800	41,022	202,888
Cash resources	29,920	12,389	6,120	44,666	25,768	118,863
Total assets	1,005,900	1,315,549	609,472	2,899,876	566,010	6,396,807
LIABILITIES						
Policy liabilities						
Actuarial liabilities	671,532	263,537	355,924	1,304,632	195,572	2,791,197
Other insurance liabilities	105,132	19,102	28,801	58,912	71,301	283,248
Investment contract liabilities	106,349	127,471	121,318	22,392	48,631	426,161
	883,013	410,110	506,043	1,385,936	315,504	3,500,606
Other liabilities						
Senior notes and loans payable	-	-	-	160,728	-	160,728
Deposit and security liabilities	85,571	513,912	861	817,406	22,695	1,440,445
Provisions	12,851	8,938	5,851	1,226	8,580	37,446
Income tax liabilities	3,098	18,080	4,579	2,516	2,685	30,958
Accounts payable and accrued liabilities	25,549	52,076	7,916	191,898	(3,549)	273,890
Total liabilities	1,010,082	1,003,116	525,250	2,559,710	345,915	5,444,073
Net position	(4,182)	312,433	84,222	340,166	220,095	952,734

38. ACQUISITIONS

During 2005, the Group acquired control of:

- The Pan Caribbean Financial Services Limited Group (PCFS);
- The employee benefits insurance business of First Life Insurance Company Limited, hereinafter referred to as the EBA joint venture;
- The individual life insurance business of First Life Insurance Company Limited;
- Laurel Life Insurance Company (Laurel Life);
- Cayman General Insurance Company Limited (Cayman General) and now renamed Sagicor General (Cayman) Limited.

In the acquisition of PCFS and EBA, the Company issued 5,523,000 new shares which were recorded at the prevailing listed price on the Barbados Stock Exchange. In the same transaction, LOJ issued 919,227,731 shares to the vendor, which were independently valued at J$3,493,065 for the purpose of the transaction. The prevailing listed price of J$12.50 for LOJ shares on the Jamaica Stock Exchange was not utilised since, because of the thinness of the market, this price was not an indicative fair value for a transaction of the size of shares involved. The independent valuation was conducted using the maintainable earnings approach and verified by comparable company and comparable transactions data.

As a consequence of part of the consideration for the PCFS and EBA acquisitions being shares issued by LOJ, the Group reduced its interest in LOJ from 78% to 60% and recorded a gain of $12,938. The gain reflects differences in the values of shares issued to the minority interest shareholders and in their share of the net assets after the transaction. The goodwill and currency translation attributable to the 18% interest have also been charged against the gain and are reflected in these financial statements as a prior year adjustment of $13,831 to revenue, $8,099 to goodwill and $5,732 to currency translation (see notes 10, 25 and 43).

The Group also acquired an interest in an associated company, FamGuard Corporation Limited (Family Guardian).

In 2005, the Group accounted for the above acquisitions provisionally. Adjustments have now been incorporated in these financial statements, resulting in a decrease of $2,219 in the carrying amounts of goodwill and other intangible assets (see note 10). Finalised details of the above acquisitions are set out below.

38.1 PCFS

(a) Details of acquisition

On January 7, 2005, Life of Jamaica Limited (LOJ) acquired a 43% interest in PCFS. Combined with its previous 6% effective interest, LOJ increased its interest to 49%. Because of certain related party shareholdings in PCFS on January 7 and a definitive agreement to purchase a further 37% interest in the company, the Group recognised it effectively had a controlling interest from this date.

Effective May 6, 2005, the Company and LOJ acquired a further 37% interest in PCFS. Between July 1 and September 1, 2005, LOJ acquired further shareholdings totalling 1%.

Year ended December 31, 2006 Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

PCFS is a listed company on the Jamaica Stock Exchange and is engaged in Jamaica in securities dealing, merchant banking, foreign exchange dealing, corporate trust services and mutual fund management.

The fair values of the net assets acquired, the purchase consideration and the goodwill arising on the January 7 acquisition are set out below.

	Total fair value January 2005	Acquiree's carrying value January 2005
Net assets acquired:		
Property, plant and equipment	2,920	2,920
Intangible assets (note 10)	79,844	25,227
Financial investments	1,237,064	1,237,064
Income tax assets	5,069	5,069
Miscellaneous assets and receivables	17,086	17,086
Cash resources	24,898	24,898
Deposit and security liabilities	(1,091,279)	(1,091,279)
Income tax liabilities	(16,838)	(16,838)
Accounts payable and accrued liabilities	(21,425)	(21,425)
Total net assets	237,339	182,722
Share of net assets acquired by the Group	116,249	
Purchase consideration and related costs		
Cash	118,160	
Goodwill arising on acquisition	1,911	

Year ended December 31, 2006 Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

The book values of the net assets acquired and the purchase consideration and gain arising on the May 6 acquisition are set out below.

Share of net assets acquired by the Group	90,976
Purchase consideration and related costs	
Cash	643
Shares issued by the Company	14,537
Shares to be issued by the Company	939
Shares issued by LOJ	62,856
Total purchase consideration	78,975
Gain arising on the acquisition of minority interest	12,001

The gain arising on acquisition of minority interest has been included in revenue and arose when the PCFS interest was acquired in exchange for the issue of shares. The agreement to purchase these shares was negotiated in 2003 and the gain arising on the acquisition of the minority interest is partly as a result of a change in the relative values of the shares of the issuers and those of PCFS.

Other shareholdings in PCFS were acquired for cash consideration of $8,324 and generated additional goodwill of $3,903.

The total goodwill arising on the PCFS acquisition is as follows:

Arising on acquisition of 49% interest	1,911
Arising on acquisition of 1% interest	3,903
Total goodwill arising (note 10)	5,814

In Jamaica, it is common for shares of listed financial services entities to trade above their related book values. The intangible assets recognised in these transactions and the resulting goodwill are reflections of the profitability of PCFS and the synergies and opportunities it brings to the Group.

b) Details of net income

	2005
Net income for the year per acquiree's financial statements	33,158
Amortisation of identified intangible assets	(7,028)
Adjusted net income consolidated by the Group	26,130

Year ended December 31, 2006 Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

38.2 EBA joint venture

(a) Details of acquisition

Effective April 1, 2005, LOJ acquired the remaining 50% interest in the EBA joint venture. The Group previously held the other 50% interest in the EBA joint venture.

	Total fair value (restated)	Acquiree's carrying value
Net assets acquired:		
Property, plant and equipment	167	167
Intangible assets (note 10)	33,908	-
Financial investments	63,065	63,065
Reinsurance assets	338	338
Miscellaneous assets and receivables	9,297	9,297
Cash resources	4,713	4,713
Actuarial liabilities	(24,662)	(24,662)
Deposit administration liabilities	(25,458)	(25,458)
Other policy liabilities	(10,129)	(10,129)
Loans payable	(1,767)	(1,767)
Income tax liabilities	(234)	(234)
Accounts payable and accrued liabilities	(4,082)	(3,898)
Total net assets acquired	45,156	11,432
Purchase consideration and related costs		
Shares issued by the Company	11,419	
Shares to be issued by the Company	739	
Shares issued by LOJ	49,383	
Total purchase consideration	61,541	
Goodwill arising on acquisition (note 10)	16,385	

In Jamaica, it is common for shares of listed financial services entities to trade above their related book values. The employee benefits business was acquired from a listed Jamaica company. The intangible assets recognised in these transactions and the resulting goodwill are therefore reflections of market conditions and the further synergies which the acquisition brings to the Group.

Year ended December 31, 2006 Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

38.2 EBA joint venture (continued)

(b) Details of acquiree's' net income

	2005
Net income for the year per acquiree's financial statements	12,708
Amortisation of identified intangible assets	(1,341)
Adjusted net income consolidated by the Group	11,367

38.3 First Life individual life insurance business

(a) Details of acquisition

Effective April 1, 2005, LOJ acquired the individual life insurance business of First Life Insurance Company Limited.

	Total fair value (restated)	**Acquiree's carrying value**
Net assets acquired:		
Financial investments	11,813	11,813
Reinsurance assets	40	40
Income tax assets	47	47
Miscellaneous assets and receivables	1,355	1,355
Cash resources	508	508
Actuarial liabilities	(9,045)	(9,045)
Other policy liabilities	(4,101)	(4,101)
Accounts payable and accrued liabilities	(617)	(617)
Total net assets acquired	-	-
Purchase consideration and related costs		
Cash	3,856	
Goodwill arising on acquisition (note 10)	3,856	

In Jamaica, it is common for shares of listed financial services entities to trade above their related book values. The individual life insurance business was acquired from a listed Jamaica company. The goodwill recognised in this transaction is therefore a reflection of market conditions and the further synergies which the acquisition brings to the Group.

Year ended December 31, 2006 Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

38.3 First Life individual life insurance business (continued)

(b) Details of acquiree's net income

The acquired individual life insurance business has been integrated into the Group's operations, and it is not possible to determine the net income arising from the acquired business.

38.4 Laurel Life

(a) Details of acquisition

On September 30, 2005, Sagicor USA Inc acquired a 100% interest in Laurel Life. American Founders Life Insurance Company (now renamed Sagicor Life Insurance Company) is the operating subsidiary of Laurel Life and provides life insurance and annuity products in the USA.

The fair values of the net assets acquired and the purchase consideration are set out below.

	Total fair value	**Acquiree's carrying value**
Net assets acquired:		
Property, plant and equipment	3,908	1,734
Intangible assets (note 10)	724	62,192
Financial investments	1,118,800	1,120,394
Reinsurance assets	625,064	647,894
Income tax assets	-	2,854
Miscellaneous assets and receivables	14,704	11,178
Cash resources	2,632	2,632
Actuarial liabilities	(1,221,118)	(1,367,380)
Other policy liabilities	(45,978)	-
Deposit and security liabilities	(248,362)	(242,916)
Income tax liabilities	(2,902)	-
Accounts payable and accrued liabilities	(131,880)	(223,706)
Total net assets acquired	115,592	14,876
Purchase consideration and related costs		
Cash	117,557	
Goodwill arising on acquisition (note 10)	1,965	

Year ended December 31, 2006 Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

38.4 Laurel Life (continued)

The acquiree's carrying value is stated in accordance with generally accepted accounting practice in the United States of America, since IFRS values were computed only in conjunction with the fair value restatement.

(b) Details of acquiree's net income

Laurel Life's net income from acquisition date to December 31, 2005 amounted to $2,734 which has been consolidated by the Group. Prior to acquisition, Laurel Life did not prepare financial statements conforming to IFRS and as a result its net income for 2005 is not available.

38.5 Cayman General

(a) Details of acquisition

On November 30, 2005, LOJ acquired a 51% interest in Cayman General. Cayman General is engaged in property, casualty, group health and group life insurance in the Cayman Islands. The fair values of the net assets acquired, the purchase consideration and the goodwill arising are set out below.

	Total fair value (restated)	Acquiree's carrying value
Net assets acquired:		
Property, plant and equipment	2,250	2,250
Intangible assets (note 10)	9,776	372
Financial investments	103	103
Reinsurance assets	33,489	33,489
Miscellaneous assets and receivables	16,254	16,254
Cash resources	23,291	23,291
Other policy liabilities	(28,266)	(28,266)
Accounts payable and accrued liabilities	(24,828)	(24,830)
Total net assets	32,069	22,663
Share of net assets acquired by the Group	16,355	
Purchase consideration and related costs		
Cash	20,043	
Goodwill arising on acquisition (note 10)	3,688	

Year ended December 31, 2006 Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

38.5 Cayman General (continued)

(b) Details of acquiree's net income

Net income after acquisition and consolidated by the Group amounted to $692. In the opinion of management, it is impractical to derive the acquiree's net income for the year ended December 31, 2005, as the acquiree's year end was not coterminous with the Group and the information is not readily available.

38.6 Family Guardian

(a) Details of acquisition

On December 28, 2005, Sagicor Life Inc acquired a 20% shareholding in Family Guardian. Family Guardian is a listed company on the Bahamas International Securities Exchange and is engaged in life and health insurance and annuities.

	2005 (restated)
Group's share of net assets acquired	20,916
Cash consideration	24,838
Goodwill arising on acquisition	3,922

The market value, as determined by the listed price of Family Guardian's shares, of the Group's shareholding amounted to $24,200 as of December 31, 2005. At acquisition date, a strategic alliance with Family Guardian was formalised through which the Group anticipates benefits from future operational synergies.

(b) Details of net income and fair value

The Group has not recognised any net income or loss between the acquisition date and December 31, 2005.

39. COMMITMENTS

Effective December 1, 2006, Sagicor Capital Life Insurance Company Limited entered into a transfer and assumption agreement to acquire an insurance portfolio in the Netherlands Antilles and Aruba. The agreement is subject to regulatory approvals. The liabilities to be assumed are estimated at $78,225 and the effective purchase price is estimated at $5,336.

Year ended December 31, 2006 Amounts expressed in Barbados $000

39. COMMITMENTS (continued)

In the normal course of business, the Group has entered into commitments at balance sheet date for which no provision has been made in these financial statements. Such commitments include the following:

	2006	2005
Loan advances	94,745	44,824
Expenditure on real estate	5,980	19,229
Operating lease agreements and rental payments	11,778	8,543
Customer guarantees and letters of credit	9,182	6,751

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.

40. CONTINGENT LIABILITIES

(a) Legal proceedings

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

(b) Tax assessments

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

(c) Insurance contracts

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

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

Year ended December 31, 2006 Amounts expressed in Barbados $000

40. CONTINGENT LIABILITIES (continued)

A review of the Universal Life policies portfolio in Jamaica 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 problem was recognised, the company 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. More than 90% of these policyholders have already agreed to adjustments to their policies.

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

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

41. ASSETS UNDER ADMINISTRATION

In the ordinary course of business, the Group manages assets of pension funds, mutual funds, unit trusts and other assets which are not included in the group's balance sheets. The invested and cash assets under administration by geographical segment are as follows:

	2006	2005
Barbados	724,245	733,565
Jamaica	1,471,107	1,333,611
Trinidad & Tobago	20,104	17,600
Other Caribbean	75,023	69,878
	2,290,479	2,154,654

Year ended December 31, 2006 Amounts expressed in Barbados $000

42. RELATED PARTY TRANSACTIONS

(a) Key management

Key management comprises directors and senior management of the Company and of Group subsidiaries. Key management includes those persons at or above the level of Vice President or its equivalent. Compensation of and loans to these individuals were as follows:

Compensation	**2006**	**2005**
Salaries, directors' fees and other short-term benefits	24,344	17,196
Equity compensation benefits	2,724	6,773
Pension and other retirement benefits	1,110	401
	28,178	24,370

Loans	**Mortgage loans**	**Other loans**	**Total loans**
Balance, beginning of year	5,708	791	6,499
Advances	2,192	117	2,309
Repayments	(550)	(445)	(995)
Effects of exchange rate changes	-	(14)	(14)
Balance, end of year	7,350	449	7,799

The Company has not advanced any loans to key management. All loans have been advanced by Group subsidiaries. Mortgage loans bear interest at rates from 4% to 8%. Other loans bear interest at rates from 5% to 11%.

(b) Employee pension plans

Certain Group subsidiaries have employee pension plans which are administered by the Group as segregated pension plans. The assets of the segregated pension plans at December 31, 2006 amounted to $132,997 (2005 - $116,806) and are included in the assets under administration referred to in note 41.

Year ended December 31, 2006 Amounts expressed in Barbados $000

42. RELATED PARTY TRANSACTIONS (continued)

(c) First Jamaica Investment Limited (First Jamaica)

In 2005, The Group acquired a 37% shareholding in PCFS and the remaining 50% interest EBA (see note 38), from First Jamaica (formerly First Life Insurance Company Limited). As a result of these transactions which are set out in note 38, First Jamaica holds a 25% interest in LOJ and is a significant minority interest. Because of the size of this shareholding, First Jamaica is considered to be a related party. As of December 31, the Group has the following balances with First Jamaica:

	2006	2005
Financial investments	8,890	4,970
Accounts receivable	3,000	7,856
Accounts payable	6,362	6,138

Year ended December 31, 2006 Amounts expressed in Barbados $000

43. RESTATEMENT AND RECLASSIFICATION

Adjustments to intangible assets, policy liabilities, participating accounts and gains arising on business combinations, have been applied retroactively as indicated in notes 10, 16.3, 17.2, 17.3, 26 and 38 respectively.

Reclassification has also been made to some prior year numbers to conform to the current year reporting.

The effect of these changes to the 2005 balance sheet, 2005 income statement and 2004 balance sheet is summarised in the following tables.

	December 31, 2005					
	Previously stated	Effect of changes to		Restatement & reclassification		Total
		Business combina-tions	Policy liabilities	Ancillary fund interest	Other	
Balance sheet						
Intangible assets	250,505	(10,318)	-	-	-	240,187
Reinsurance assets	696,188	-	(9,540)	-	-	686,648
Other items	5,470,500	-	-	-	(528)	5,469,972
Total assets	6,417,193	(10,318)	(9,540)	-	(528)	6,396,807
Actuarial liabilities	2,777,231	-	13,966	-	-	2,791,197
Other insurance liabilities	276,199	-	7,049	-	-	283,248
Other items	2,370,156	-	-	-	(528)	2,369,628
Total liabilities	5,423,586	-	21,015	-	(528)	5,444,073
Share capital	458,451	-	-	-	-	458,451
Reserves	100,794	5,732	-	-	-	106,526
Retained earnings	188,304	(13,969)	(12,978)	4,466	(494)	165,329
Total shareholders' equity	747,549	(8,237)	(12,978)	4,466	(494)	730,306
Participating accounts	34,647	-	(9,755)	(4,466)	494	20,920
Minority interest	211,411	(2,081)	(7,822)	-	-	201,508
Total equity	993,607	(10,318)	(30,555)	-	-	952,734

Year ended December 31, 2006 Amounts expressed in Barbados $000

43. RESTATEMENT AND RECLASSIFICATION (continued)

	Year ended December 31, 2005				
	Previously stated	Effect of changes to: Business combina-tions	Effect of changes to: Policy liabilities	Restatement of ancillary fund interest	Total
Income statement					
Gains arising on business combinations and acquisitions	38,946	(13,831)	-	-	25,115
Other items	1,135,035	-	(2,178)	-	1,132,857
Total revenue	1,173,981	(13,831)	(2,178)	-	1,157,972
Net policy benefits and change in actuarial liabilities	447,720	-	13,077	-	460,797
Other items	502,606	138	-	-	502,744
Total benefits and expenses	950,326	138	13,077	-	963,541
Income from ordinary activities	223,655	(13,969)	(15,255)	-	194,431
Income taxes	(24,046)	-	-	-	(24,046)
Net income for the year	199,609	(13,969)	(15,255)	-	170,385
Net income attributable to:					
Shareholders	136,562	(13,969)	(4,892)	3,754	121,455
Participating policyholders	25,522	-	(9,755)	(3,754)	12,013
Minority interest	37,525	-	(608)	-	36,917
	199,609	(13,969)	(15,255)	-	170,385

Year ended December 31, 2006 Amounts expressed in Barbados $000

43. RESTATEMENT AND RECLASSIFICATION (continued)

	December 31, 2004			
	Previously stated	**Effect of changes to policy liabilities**	**Restatement of ancillary fund interest**	**Total**
Balance sheet				
Reinsurance assets	109,200	(8,478)	-	100,722
Other items	3,028,687	-	-	3,028,687
Total assets	3,137,887	(8,478)	-	3,129,409
Other insurance liabilities	272,240	6,822	-	279,062
Other items	2,105,859	-	-	2,105,859
Total liabilities	2,378,099	6,822	-	2,384,921
Share capital & reserves	600,189	-	-	600,189
Retained earnings	93,079	(8,086)	712	85,705
Total shareholders' equity	693,268	(8,086)	712	685,894
Participating accounts	1,388	-	(712)	676
Minority interest	65,132	(7,214)	-	57,918
Total equity	759,788	(15,300)	-	744,488