# SAGICOR FINANCIAL CORPORATION
# FINANCIAL STATEMENTS
# DECEMBER 31, 2010

# INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2010

Amounts expressed in US$000

| | Note | 2010 | 2009 (restated) |
|---|---|---|---|
| ASSETS | | | |
| Investment property | 5 | 119,169 | 116,845 |
| Property, plant and equipment | 6 | 131,407 | 128,883 |
| Investment in associated companies | 7 | 32,929 | 32,674 |
| Intangible assets | 8 | 123,379 | 129,428 |
| Financial investments | 9 | 3,636,832 | 3,274,442 |
| Reinsurance assets | 10 | 281,848 | 294,879 |
| Income tax assets | 11 | 27,764 | 31,790 |
| Miscellaneous assets and receivables | 12 | 295,288 | 255,011 |
| Cash resources | | 218,635 | 196,020 |
| Total assets | | 4,867,251 | 4,459,972 |

| | Note | 2010 | 2009 (restated) |
|---|---|---|---|
| LIABILITIES | | | |
| Actuarial liabilities | 13 | 1,753,712 | 1,612,531 |
| Other insurance liabilities | 14 | 664,881 | 501,769 |
| Investment contract liabilities | 15 | 294,338 | 304,397 |
| Total policy liabilities | | 2,712,931 | 2,418,697 |
| Notes and loans payable | 16 | 181,885 | 200,844 |
| Deposit and security liabilities | 17 | 983,551 | 907,487 |
| Provisions | 18 | 38,834 | 39,359 |
| Income tax liabilities | 19 | 23,800 | 16,490 |
| Accounts payable and accrued liabilities | 20 | 187,409 | 195,667 |
| Total liabilities | | 4,128,410 | 3,778,544 |
| EQUITY | | | |
| Share capital | 21 | 277,172 | 278,252 |
| Reserves | 22 | (14,406) | (42,609) |
| Retained earnings | | 302,786 | 302,431 |
| Total shareholders' equity | | 565,552 | 538,074 |
| Participating accounts | 23 | 4,347 | 5,851 |
| Minority interest in subsidiaries | | 168,942 | 137,503 |
| Total equity | | 738,841 | 681,428 |
| Total equity and liabilities | | 4,867,251 | 4,459,972 |

These financial statements have been approved for issue by the Board of Directors on March 31, 2011

Director

Director

# CONSOLIDATED STATEMENT OF INCOME

Year ended December 31, 2010

Amounts expressed in US$000

| | Note | 2010 | 2009 (restated) |
|---|---|---|---|
| REVENUE | | | |
| Premium revenue | 24 | 1,047,021 | 1,007,526 |
| Reinsurance premium expense | 24 | (146,071) | (164,584) |
| Net premium revenue | | 900,950 | 842,942 |
| Net investment income | 25 | 293,280 | 294,216 |
| Fees and other revenue | 26 | 61,867 | 68,176 |
| Total revenue | | 1,256,097 | 1,205,334 |
| BENEFITS | | | |
| Policy benefits and change in actuarial liabilities | 27 | 745,079 | 657,731 |
| Policy benefits and change in actuarial liabilities reinsured | 27 | (53,370) | (51,389) |
| Net policy benefits and change in actuarial liabilities | | 691,709 | 606,342 |
| Interest expense | 28 | 77,997 | 101,899 |
| Total benefits | | 769,706 | 708,241 |
| EXPENSES | | | |
| Administrative expenses | | 212,092 | 198,362 |
| Commissions and related compensation | | 174,116 | 149,685 |
| Premium taxes | | 8,600 | 8,123 |
| Finance costs | | 16,369 | 15,375 |
| Depreciation and amortisation | | 18,269 | 18,659 |
| Total expenses | | 429,446 | 390,204 |
| INCOME BEFORE TAXES | | 56,945 | 106,889 |
| Income taxes | 32 | (15,310) | (19,332) |
| NET INCOME FOR THE YEAR | | 41,635 | 87,557 |

| | Note | 2010 | 2009 (restated) |
|---|---|---|---|
| NET INCOME ATTRIBUTABLE TO: | | | |
| Shareholders | | 16,560 | 66,846 |
| Participating policyholders | | (1,265) | (4,351) |
| Minority interest | | 26,340 | 25,062 |
| | | 41,635 | 87,557 |
| Net income attributable to shareholders - EPS | | | |
| Basic earnings per common share | 34.1 | 5.7 cents | 24.0 cents |
| Fully diluted earnings per common share | 34.1 | 5.7 cents | 23.9 cents |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2010

Amounts expressed in US$000

| | Note | 2010 | 2009 (restated) |
|---|---|---|---|
| NET INCOME FOR THE YEAR | | 41,635 | 87,557 |
| OTHER COMPREHENSIVE INCOME | 35 | | |
| Changes in fair value reserves: | | | |
| Owner occupied property | | 770 | 1,331 |
| Available for sale financial assets | | 43,097 | 43,890 |
| Actuarial liabilities | | (10,576) | (17,106) |
| Cash flow hedges | | - | (1,701) |
| | | 33,291 | 26,414 |
| Retranslation of foreign currency operations | | 6,007 | (12,996) |
| Other items | | (309) | (129) |
| Other comprehensive income for the year, net of tax | | 38,989 | 13,289 |
| TOTAL COMPREHENSIVE INCOME, NET OF TAX | | 80,624 | 100,846 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| Shareholders | | 38,208 | 83,053 |
| Participating policyholders | | (1,247) | (4,533) |
| Minority interest | | 43,663 | 22,326 |
| | | 80,624 | 100,846 |
| Total comprehensive income attributable to shareholders: | | | |
| Total comprehensive income per common share | 34.1 | 13.2 cents | 29.8 cents |
| Total comprehensive income per common share on a fully diluted basis | 34.1 | 13.1 cents | 29.7 cents |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2010

Amounts expressed in US$000

| | Share Capital (note 21) | Reserves (note 22) | Retained Earnings | Total shareholders equity | Participating Accounts (note 23) | Minority Interest | Total equity |
|---|---|---|---|---|---|---|---|
| **Year ended December 31, 2010** | | | | | | | |
| Balance, beginning of year, as restated (note 38) | 278,252 | (42,609) | 302,431 | 538,074 | 5,851 | 137,503 | 681,428 |
| Total comprehensive income | - | 21,648 | 16,560 | 38,208 | (1,247) | 43,663 | 80,624 |
| Issue of shares | 659 | - | - | 659 | - | 264 | 923 |
| Dividends declared (note 34.2) | | | (11,591) | (11,591) | - | (8,988) | (20,579) |
| Disposal of interest in subsidiary | - | 64 | - | 64 | - | (3,722) | (3,658) |
| Other movements | (1,739) | 6,491 | (4,614) | 138 | (257) | 222 | 103 |
| Balance, end of year | 277,172 | (14,406) | 302,786 | 565,552 | 4,347 | 168,942 | 738,841 |
| **Year ended December 31, 2009 (restated)** | | | | | | | |
| Balance, beginning of year (note 38) | 258,153 | (72,577) | 264,030 | 449,606 | 10,644 | 121,397 | 581,647 |
| Total comprehensive income | - | 16,336 | 66,717 | 83,053 | (4,533) | 22,326 | 100,846 |
| Issue of shares | 20,981 | - | - | 20,981 | - | 630 | 21,611 |
| Dividends declared (note 34.2) | - | - | (11,117) | (11,117) | - | (11,333) | (22,450) |
| Changes in the ownership interest of subsidiaries (note 37.2) | - | 6,756 | (11,363) | (4,607) | - | 4,332 | (275) |
| Other movements | (882) | 6,876 | (5,836) | 158 | (260) | 151 | 49 |
| Balance, end of year | 278,252 | (42,609) | 302,431 | 538,074 | 5,851 | 137,503 | 681,428 |

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2010

Amounts expressed in US$000

| | Note | 2010 | 2009 (restated) |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Income before taxes | | 56,945 | 106,889 |
| Adjustments for non-cash items, interest and dividends | 36.1 | (13,736) | 38,576 |
| Interest and dividends received | | 244,164 | 246,714 |
| Interest paid | | (95,283) | (113,345) |
| Income taxes paid | | (17,506) | (16,436) |
| Changes in operating assets | 36.1 | (355,140) | (347,772) |
| Changes in operating liabilities | 36.1 | 168,348 | 164,081 |
| Net cash flows (used in) / from operating activities | | (12,208) | 78,707 |
| **INVESTING ACTIVITIES** | | | |
| Property, plant and equipment, net | 36.2 | (10,252) | (9,634) |
| Investment in associated companies, net | | 1,357 | (337) |
| Intangible assets, net | | (5,066) | (2,684) |
| Divestiture and acquisition of subsidiaries and insurance businesses, net of cash and cash equivalents | | 11,543 | (442) |
| Net cash flows used in investing activities | | (2,418) | (13,097) |

| | Note | 2010 | 2009 (restated) |
|---|---|---|---|
| **FINANCING ACTIVITIES** | | | |
| Common shares issued | | - | 19,562 |
| Net purchase of treasury shares | | (1,739) | (882) |
| Dividends paid to shareholders | | (11,441) | (10,606) |
| Shares issued to minority interest | | 114 | 762 |
| Dividends paid to minority interest | | (8,988) | (11,248) |
| Notes and loans payable, net | 36.3 | (14,452) | 36,833 |
| Net cash flows (used in) / from financing activities | | (36,506) | 34,421 |
| Effects of exchange rate changes | | 582 | 2,735 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | | (50,550) | 102,766 |
| Cash and cash equivalents, beginning of year | | 329,618 | 226,852 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | 36.4 | 279,068 | 329,618 |

## 1. INCORPORATION AND PRINCIPAL ACTIVITIES

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

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

The principal activities of the Sagicor Group are as follows:

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

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

## 2. ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

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

## 2. ACCOUNTING POLICIES (continued)

### 2.1 Basis of preparation (continued)

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

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

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

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

(a) <u>Amendments to IFRS</u>

There are no new or amended standards which are effective for the 2010 financial year which have a significant impact on the presentation, measurement or disclosure in the Group's financial statements.

Amended standards which are effective for the 2010 financial year that have no significant impact on the Group's financial statements are listed in the following table.

Amounts expressed in US$000

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

| IFRS | Subject of amendment |
|---|---|
| IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations | Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations |
| IFRS 8 – Operating Segments | Disclosure of information about segment assets |
| IAS 1 – Presentation of Financial Statements | Current/non-current classification of convertible instruments |
| IAS 7 – Statement of Cash Flows | Classification of expenditures on unrecognised assets |
| IAS 17 - Leases | Classification of leases of land and buildings |
| IAS 18 - Revenue | Determining whether an entity is acting as a principal or as an agent |
| IAS 36 – Impairment of Assets | Unit of accounting for goodwill impairment test |
| IAS 39 – Financial Instruments – Recognition and Measurement | Treating loan repayment penalties as closely related embedded derivatives |
| | Scope exemption for business combination contracts |
| | Cash flow and hedge accounting |

(b) Amendments to International Financial Reporting Interpretations

The International Financial Reporting Interpretations Committee (IFRIC) has issued new or amended interpretations which are effective from 2010. These interpretations, which do not impact significantly the presentation, measurement or in disclosure in these financial statements, are as follows:

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

| IFRIC | Subject / subject of amendment |
|---|---|
| IFRIC 17 | Distribution of non-cash Assets to Owners |
| IFRIC 18 | Transfers of Assets from Customers |
| IFRIC 9 | Reassessment of Embedded Derivatives |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation |

(c) New and amended standards and interpretations which are not yet effective

Certain new standards and amendments have been issued which were not effective at the date of the financial statements. The Group has adopted the amendments to IAS 12 Income Taxes – Deferred Tax: Recovery of Underlying Assets. The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets in respect of investment property. The adoption of this amended standard clarifies the treatment of deferred tax on the fair value appreciation of investment property and has had no impact on the financial statements.

The Group has not adopted any other amended standard or interpretation. The only change in standards and interpretations which may have a significant effect on future presentation, measurement or disclosure of the Group's financial statements is IFRS 9 – Financial Instruments. This standard has an effective date of January 1, 2013. Comments on the standard are as follows:

2. ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

| IFRS 9 - Comments |
|---|
| This standard deals with the classification and measurement of financial instruments, and replaces sections of IAS 39 – Financial Instruments: Recognition and Measurement.<br><br>IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. The determination is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets.<br><br>IFRS 9 has amended the treatment, applicable to financial liabilities designated at fair value, of changes in own credit risk. Such changes are to be recorded in other comprehensive income unless part of a hedging relationship.<br><br>This standard does not address changes contemplated by the International Accounting Standards Board with respect to the following related items:<br>• impairment methodology for financial assets<br>• hedge accounting |

(d) Changes in accounting policies

The Group has changed its accounting policies for insurance contracts as follows:

- Changes in actuarial liabilities arising from fair value movements in available for sale debt securities. This change is further described and disclosed in notes 2.13(a), 13.2, 22, 23, 32, 33, 34, 35 and 38.

- Change in the computation of property and casualty claim liabilities to include discounting by reserving class. This change is further described and disclosed in notes 2.12(b) (*i*) and 14.2(a).

2. ACCOUNTING POLICIES (continued)

2.2 Basis of consolidation

(a) Subsidiaries

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

All material intra-group balances, transactions and gains are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the accounting policies adopted by the Group. Minority interest balances represent the interest of minority shareholders in subsidiaries not wholly owned by the Group.

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

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

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

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

(c) Joint Ventures

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

(d) Divestitures

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

## 2. ACCOUNTING POLICIES (continued)

### 2.2 Basis of consolidation (continued)

(e) Pension and investment funds

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

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

(f) Employees share ownership plan (ESOP)

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

### 2.3 Foreign currency translation

(a) Functional and presentational currency

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

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

Amounts expressed in US$000

2. ACCOUNTING POLICIES (continued)

## 2.3 Foreign currency translation (continued)

(b) Reporting units

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

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

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

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

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

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

| | December 2010 closing rate | 2010 average rate | December 2009 closing rate | 2009 average rate |
|---|---|---|---|---|
| Barbados dollar | 2.0000 | 2.0000 | 2.0000 | 2.0000 |
| Jamaica dollar | 85.6606 | 87.4076 | 89.3088 | 87.8012 |
| Trinidad & Tobago dollar | 6.3766 | 6.3424 | 6.3574 | 6.2996 |
| Pound sterling | 0.6388 | 0.64716 | 0.6193 | 0.6457 |

2. ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation (continued)

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

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

(c) Transactions and balances

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

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

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

## 2.4 Segments

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

2. ACCOUNTING POLICIES (continued)

### 2.5 Investment property

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

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

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

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

Rental income is recognised on an accruals basis.

### 2.6 Property, plant and equipment

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

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

2. ACCOUNTING POLICIES (continued)

### 2.6 Property, plant and equipment (continued)

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

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

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

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

Lands are not depreciated.

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

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

2. 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 which are defined by the Group's operating segments. Goodwill arising in a reportable operating segment is allocated to that segment. Goodwill arising in a Group entity, which is not within a reportable operating segment, is allocated to that entity's own operations, or, if that entity is managed in conjunction with another Group entity, to their combined operations.

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

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

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

(b) Other intangible assets

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

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

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

2. ACCOUNTING POLICIES (continued)

2.7 Intangible assets (continued)

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

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

2.8 Financial assets

a) Classification

The Group classifies its financial assets into four categories:

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

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

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

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

2. ACCOUNTING POLICIES (continued)

2.8 Financial Assets (continued)

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

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

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

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

(b) Recognition and measurement

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

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

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

2. ACCOUNTING POLICIES (continued)

2.8 Financial Assets (continued)

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

(c) Fair value

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

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

(d) Impaired financial assets

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

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

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

2. ACCOUNTING POLICIES (continued)

2.8 Financial Assets (continued)

For an available for sale equity security, an impairment loss is recognised in income if there has been a significant or prolonged decline in its fair value below its cost. Determination of what is significant or prolonged requires judgement which includes consideration of the volatility of the fair value, and the financial condition and financial viability of the investee. In this context, management considers a 40% decline in fair value below cost to be significant. Any subsequent increase in fair value occurring after the recognition of an impairment loss is reported in other comprehensive income.

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

(e) Securities purchased under agreements to resell

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

(f) Finance leases

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

(g) Derivative financial instruments and hedging activities

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

2. ACCOUNTING POLICIES (continued)

2.8 Financial Assets (continued)

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

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

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

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

(h) Embedded derivatives

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

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

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

2. ACCOUNTING POLICIES (continued)

### 2.8 Financial Assets (continued)

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

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

### 2.9 Real estate developed or held for resale

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

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

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

### 2.10 Impairment of non-financial assets

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

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

2. ACCOUNTING POLICIES (continued)

### 2.11 Cash and cash equivalents

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

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

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

### 2.12 Policy contracts

(a) Classification

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

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

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

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

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

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

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

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

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

(b) Recognition and measurement

Policy contracts issued by the Group are summarised below.

*(i) Property and casualty insurance contracts*

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

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

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

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

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

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

Reserving involves uncertainty and the use of statistical techniques of estimation. These techniques generally involve projecting from past experience, the development of claims over time to form a view of the likely ultimate claims to be experienced, having regard to variations in business written and the underlying terms and conditions. The claim reserve is discounted for separate reserving classes of insurance where the expected average interval between the dates of incurral and settlement is at least 4 years (defined as long-tail claims). The claim reserve is not discounted for other classes of insurance.

The accounting policy for discounting claims has been refined during 2010 to define the criteria for discounting by reserving class. A reserving class constitutes a class or sub-class of insurance for which claims data is aggregated separately, to which is applied a particular statistical technique and common estimation factors. For example, direct motor is divided into sub-classes, injury and property damage. Appropriate statistical techniques are applied to each sub-class; injury claims are discounted because they satisfy the criteria of being long-tail claims, while property damage claims are not discounted because these are relatively short-tail. The change has been adopted in order to present a more consistent approach to reserving for long-tail claims. There was no material effect on the prior year claim liabilities in adopting this change.

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

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

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

*(ii)* *Health insurance contracts*

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

*(iii)* *Long-term traditional insurance contracts*

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

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

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

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

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

*(v)* *Reinsurance contracts assumed*

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

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

*(vi)* *Reinsurance contracts held*

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

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

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

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

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

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

*(vii)* *Deposit administration and other investment contracts*

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

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

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

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

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

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

(c) Embedded derivatives

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

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

2. ACCOUNTING POLICIES (continued)

2.12 Policy contracts (continued)

(d) Liability adequacy tests

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

2.13 Actuarial liabilities

(a) Life insurance and annuity contracts

The Canadian Asset Liability Method (CALM) is used for the determination of actuarial liabilities of long-term insurance contracts. These liabilities consist of 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.

2. ACCOUNTING POLICIES (continued)

2.13 Actuarial liabilities (continued)

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

Under CALM, assets of each insurer are selected to back the actuarial liabilities of each insurer. Changes in the carrying value of these assets may generate corresponding changes in the carrying amount of the associated actuarial liabilities. These assets include available for sale securities, whose changes in carrying value are recorded in other comprehensive income. The Group has changed its accounting policy for recording the changes in actuarial liabilities which result directly from the changes in the carrying value of backing assets which are recorded in other comprehensive income. The adopted policy is to reflect also in other comprehensive income the resulting changes in the carrying amount of the actuarial liabilities. In prior years, the Group recorded these changes to the actuarial liabilities in income. With the adoption of this change, the income and other comprehensive income results provide more consistent measures of performance. The change in accounting policy has been applied retroactively to January 1, 2009, and consequently the income and other comprehensive income for 2009 have been restated. In addition, a fair value reserve for actuarial liabilities has been established in the statement of equity for the accumulation of the amounts recorded in other comprehensive income. The impact of the change in accounting policy is summarised in note 38.

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

(b) Health insurance contracts

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

2. ACCOUNTING POLICIES (continued)

2.14 Financial liabilities

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

(a) Securities sold under agreements to repurchase

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

(b) Deposit liabilities

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

(c) Loan obligations

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

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

2. ACCOUNTING POLICIES (continued)

### 2.14 Financial liabilities (continued)

(d) Fair value

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

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

### 2.15 Provisions

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

### 2.16 Interest income and expenses

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

2. ACCOUNTING POLICIES (continued)

### 2.17 Fees and other revenue

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

### 2.18 Employee benefits

(a) Pension benefits

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

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

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

2. ACCOUNTING POLICIES (continued)

2.18 Employee benefits (continued)

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

(b) Other retirement benefits

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

(c) Profit sharing and bonus plans

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

(d) Equity compensation benefits

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

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

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

2. ACCOUNTING POLICIES (continued)

2.18 Employee benefits (continued)

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

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

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

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

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

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

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

Year ended December 31, 2010 Amounts expressed in US$000

2. ACCOUNTING POLICIES (continued)

2.18 Employee benefits (continued)

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

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

(e) Termination benefits

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

2. 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% - 6% | 4% | 4.0% - 4.75% |
| Jamaica | 3% | Nil | Nil |
| Trinidad and Tobago | Nil | Nil | 6% |
| United States of America | 0.75% - 3.5% | Nil | Nil |

(b) Income taxes

The Group is subject to taxes on income in the jurisdictions in which business operations are conducted. Rates of taxation in the principal jurisdictions for income year 2010 are as follows:

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

2. ACCOUNTING POLICIES (continued)

### 2.19 Taxes (continued)

*(i)* *Current income taxes*

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

*(ii)* *Deferred income taxes*

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

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

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

### 2.20 Participating accounts

(a) “Closed” participating account

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

2. ACCOUNTING POLICIES (continued)

### 2.20 Participating accounts (continued)

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

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

(b) “Open” participating account

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

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

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

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

## 2. ACCOUNTING POLICIES (continued)

### 2.20 Participating accounts (continued)

(c) Financial statement presentation

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

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

### 2.21 Share capital

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

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

### 2.22 Dividend distributions

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

2. ACCOUNTING POLICIES (continued)

### 2.23 Statutory reserves

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

### 2.24 Presentation of current and non-current assets and liabilities

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

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### 3.1 Impairment of financial assets

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

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

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 3.2 Recognition and measurement of intangible assets

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

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

### 3.3 Impairment of intangible assets

(a) Goodwill

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

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

(b) Other intangible assets

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

## 3. 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 in the financial statements, will be sufficient without being excessive to provide for the policy liabilities over their respective terms. The amounts set aside for future benefits are dependent on the timing of future asset and liability cash flows.

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

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 3.4 Actuarial liabilities (continued)

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

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

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

### 3.5 Property and casualty insurance contracts

(a) Policy benefits payable

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### 3.5 Property and casualty insurance contracts (continued)

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

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

(b) Premium income

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

## 4. SEGMENTS

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

Amounts expressed in US$000

4. SEGMENTS (continued)

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

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

(a) Sagicor Life Inc

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

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

4. SEGMENTS (continued)

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

(b) Sagicor Life Jamaica

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

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Amounts expressed in US$000

4. SEGMENTS (continued)

| Sagicor Life Jamaica Segment Companies | Principal Activities | Country of Incorporation | Effective Shareholders' Interest |
|---|---|---|---|
| Sagicor Life Jamaica Limited | Life and health insurance and annuities | Jamaica | 59% |
| Sagicor Life of the Cayman Islands Limited | Life insurance | The Cayman Islands | 59% |
| Sagicor Pooled Investment Funds Limited | Pension fund management | Jamaica | 59% |
| Employee Benefits Administrator Limited | Pension administration services | Jamaica | 59% |
| Sagicor Re Insurance Limited | Property and casualty insurance | The Cayman Islands | 59% |
| Sagicor General Insurance (Cayman) Limited | Property, casualty and health insurance | The Cayman Islands | - (1) (2) |
| Sagicor Insurance Brokers Limited | Insurance brokerage | Jamaica | 59% |
| Sagicor International Administrators Limited (4) | Insurance brokerage | Jamaica | 59% |
| Sagicor Insurance Managers Limited | Captive insurance management services | The Cayman Islands | 59% (2) |
| Pan Caribbean Financial Services Limited | Development banking and investment management | Jamaica | 51% (3) |
| PanCaribbeanBank Limited | Commercial and merchant banking | Jamaica | 51% (3) |
| Pan Caribbean Asset Management Limited | Investment management | Jamaica | 51% (3) |

4. SEGMENTS (continued)

| Sagicor Life Jamaica Segment Companies (continued) | Principal Activities | Country of Incorporation | Effective Shareholders' Interest |
|---|---|---|---|
| Manufacturers Investments Limited | Investment management | Jamaica | 51% (3) |
| Sagicor Property Services Limited | Property management | Jamaica | 59% |
| LOJ Holdings Limited | Insurance holding company | Jamaica | 100% |

(1) Divested effective January 1, 2010
(2) 45% prior to January 1, 2010
(3) 64% until November 2009
(4) Commenced operations in 2009

Year ended December 31, 2010 Amounts expressed in US$000

4. SEGMENTS (continued)

(c) Sagicor Europe

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

| Sagicor Europe Segment Companies | Principal Activities | Country of Incorporation | Effective Shareholders' Interest |
|---|---|---|---|
| Sagicor at Lloyd's Limited | Managing agent of Lloyd's of London insurance syndicates | UK | 100% (5) |
| Sagicor Corporate Capital Limited (6) | Property and casualty insurance | UK | 100% (5) |
| Sagicor Cayman Reinsurance Company Limited (4) | Property and casualty reinsurance | The Cayman Islands | 100% (5) |
| Sagicor Corporate Capital Two Limited (7) | Life insurance | UK | 100% (5) |
| Sagicor Syndicate Services Limited | Property and casualty insurance agency | UK | 100% (5) |
| Sagicor Underwriting Limited | Property and casualty insurance agency | UK | 100% (5) |
| Sagicor Syndicate Holdings Limited | Service company | UK | 100% (5) |
| Sagicor Claims Management Inc | Property and casualty insurance claims management | California, USA | 100% (5) |
| Sagicor Europe Limited | Insurance holding company | The Cayman Islands | 100% (5) |

(4) Commenced operations in 2009 (5) Effective voting interest is 86% (see note 30.4)

(6) Lloyd's of London corporate underwriting member participating in Syndicate 1206

(7) Lloyd's of London corporate underwriting member participating in Syndicate 44

4. SEGMENTS (continued)

(d) Sagicor Life USA

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

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

Amounts expressed in US$000

4. SEGMENTS (continued)

(e) Head office function and other operating companies

These comprise the following:

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

4. SEGMENTS (continued)

A statement of income by segment is set in the following table. Total comprehensive income by segment is also shown.

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Year ended December 31, 2010 Amounts expressed in US$000

4. SEGMENTS (continued)

4.1 Statement of income by segment

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

Amounts expressed in US$000

4. SEGMENTS (continued)

4.1 Statement of income by segment (continued)

| 2009 | Sagicor Life Inc | Sagicor Life Jamaica | Sagicor Europe | Sagicor USA | Head office and other | Adjustments | Total |
|---|---|---|---|---|---|---|---|
| | Summary statement of income by segment | | | | | | |
| Net premium revenue | 208,588 | 231,516 | 251,009 | 152,848 | 14,299 | (15,318) | 842,942 |
| Interest income | 65,788 | 149,534 | 2,230 | 29,859 | 10,853 | - | 258,264 |
| Other investment income | 11,625 | 17,354 | (401) | 4,765 | 2,732 | (123) | 35,952 |
| Fees and other revenues | 11,062 | 32,345 | 2,801 | 2,224 | 29,121 | (9,377) | 68,176 |
| Loss on disposal of interest in subsidiary | - | - | - | - | (9,493) | 9,493 | - |
| Inter-segment revenues | 3,344 | 714 | - | - | 28,708 | (32,766) | - |
| | 300,407 | 431,463 | 255,639 | 189,696 | 76,220 | (48,091) | 1,205,334 |
| Net policy benefits | 136,096 | 131,657 | 129,583 | 39,344 | 5,881 | - | 442,561 |
| Net change in actuarial liabilities | 20,718 | 46,901 | (2,895) | 99,257 | (200) | - | 163,781 |
| Interest expense | 16,224 | 73,375 | - | 6,309 | 5,991 | - | 101,899 |
| Administrative expenses | 48,539 | 68,705 | 26,665 | 20,312 | 31,640 | 2,501 | 198,362 |
| Commissions and premium taxes | 31,490 | 35,737 | 73,845 | 13,616 | 6,659 | (3,539) | 157,808 |
| Finance costs | - | 2,209 | 13 | - | 176 | 12,977 | 15,375 |
| Depreciation & amortisation | 5,477 | 6,087 | 1,386 | 1,632 | 4,077 | - | 18,659 |
| Inter-segment expenses | 364 | 2,022 | 638 | 824 | 4,630 | (8,478) | - |
| | 258,908 | 366,693 | 229,235 | 181,294 | 58,854 | 3,461 | 1,098,445 |
| Segment income / (loss) before taxes | 41,499 | 64,770 | 26,404 | 8,402 | 17,366 | (51,552) | 106,889 |
| Income taxes | (5,413) | (9,182) | (3,431) | (2,941) | (1,974) | 3,609 | (19,332) |
| Segment income before undernoted items | 36,086 | 55,588 | 22,973 | 5,461 | 15,392 | (47,943) | 87,557 |
| Foreign exchange unwinding (1) | - | - | (9,280) | - | - | 9,280 | - |
| Group finance costs (2) | - | - | - | - | (15,105) | 15,105 | - |
| Net income / (loss) for the year | 36,086 | 55,588 | 13,693 | 5,461 | 287 | (23,558) | 87,557 |
| Net income attributable to shareholders | 40,437 | 34,155 | 13,693 | 5,461 | (3,342) | (23,558) | 66,846 |
| Total comprehensive income / (loss) by segment attributable to shareholders | 43,812 | 31,172 | 17,840 | 10,085 | (1,595) | (18,261) | 83,053 |

Amounts expressed in US$000

4. SEGMENTS (continued)

4.1 Statement of income by segment (continued)

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

| | 2010 | 2009 |
|---|---|---|
| Net premium revenue | (2,942) | (13,085) |
| Commissions | 896 | 3,539 |
| Exchange gains / losses | 3,177 | (3,342) |
| Income tax | (306) | 3,608 |
| Foreign exchange unwinding | 825 | (9,280) |

(2) Group finance costs represent costs of borrowings and facilities initiated at Group level. These include costs relating to the Sagicor 2016 senior notes, a bank loan from the Royal Bank of Canada, the letter of credit facilities from the Bank of Nova Scotia and the reinsurance financing costs relating to Sagicor at Lloyd's. Where material, these costs have been removed from the individual segment which benefits from these borrowings and facilities. This change in presentation was made this year to conform to the format of information provided by the subsidiary company. Comparative figures have also been restated.

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

4. SEGMENTS (continued)

4.1 Statement of income by segment (continued)

*(i) <u>Investment gains</u>*

Fair value investment gains are recognised on:

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

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

*(ii) <u>Allowances for impairment of financial investments</u>*

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

*(iii) <u>Foreign exchange gains and losses</u>*

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

*(iv) <u>Gains arising on acquisitions</u>*

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

*(v) <u>Movements in actuarial liabilities arising from changes in assumptions</u>*

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

Amounts expressed in US$000

4. SEGMENTS (continued)

4.1 Statement of income by segments (continued)

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

| | Variations in income by segment | | | | | | |
|---|---|---|---|---|---|---|---|
| | Sagicor Life Inc | Sagicor Life Jamaica | Sagicor Europe | Sagicor USA | Head office and other | Adjustments | Total |
| 2010 | | | | | | | |
| Investment gains / (losses) | 7,512 | 27,229 | (320) | 5,843 | 1,908 | - | 42,172 |
| Allowances for impairment of financial investments | 139 | 1,561 | - | 1,248 | 238 | - | 3,186 |
| Foreign exchange gains / (losses) | 251 | (5,809) | 7,142 | - | (2,301) | 1,837 | 1,120 |
| Gains on acquisitions | - | - | - | - | - | - | - |
| Decrease in policy liabilities from actuarial assumptions | (3,337) | (7,515) | 557 | 3,157 | - | - | (7,138) |
| 2009 | | | | | | | |
| Investment gains / (losses) | 8,084 | 12,997 | (401) | 9,357 | 2,309 | - | 32,346 |
| Allowances for impairment of financial investments | 2,572 | 1,449 | - | 4,741 | 222 | - | 8,984 |
| Foreign exchange gains / (losses) | 629 | 6,289 | (3,396) | - | 7,106 | (6,105) | 4,523 |
| Gains on acquisitions | - | - | - | - | - | - | - |
| Decrease in policy liabilities from actuarial assumptions | (32,734) | (9,734) | - | 5,282 | - | - | (37,186) |

4.2 Other comprehensive income

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

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

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

*(iii)* *Foreign exchange gains and losses*
Movements in foreign exchange rates may generate significant exchange gains or losses on the re-translation of the financial statements of foreign currency reporting units.

Amounts expressed in US$000

4. SEGMENTS (continued)

4.2 Other comprehensive income (continued)

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

| | Variations in other comprehensive income by segment | | | | | | |
|---|---|---|---|---|---|---|---|
| | Sagicor Life Inc | Sagicor Life Jamaica | Sagicor Europe | Sagicor USA | Head office and other | Adjustments | Total |
| **2010** | | | | | | | |
| Unrealised investment gains / losses | 8,042 | 28,363 | (268) | 11,536 | (131) | - | 47,542 |
| Changes in actuarial liabilities | (2,282) | - | - | (8,294) | - | - | (10,576) |
| Retranslation of foreign currency operations | (369) | 9,672 | (1,660) | - | (20) | (1,616) | 6,007 |
| **2009** | | | | | | | |
| Unrealised investment gains / (losses) | 12,618 | 21,364 | (257) | 11,573 | 2,423 | - | 47,721 |
| Changes in actuarial liabilities | (3,832) | - | - | (13,274) | - | - | (17,106) |
| Retranslation of foreign currency operations | (1,150) | (21,580) | 4,404 | - | (87) | 5,417 | (12,996) |

Amounts expressed in US$000

4. SEGMENTS (continued)

4.3 Statement of financial position by segment

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

| | Summary statement of financial position by segment | | | | | | |
|---|---|---|---|---|---|---|---|
| | Sagicor Life Inc | Sagicor Life Jamaica | Sagicor Europe | Sagicor USA | Head office and other | Adjustments | Total |
| 2010 | | | | | | | |
| Financial investments | 1,010,885 | 1,444,391 | 235,360 | 796,043 | 150,153 | - | 3,636,832 |
| Other investments & assets | 293,750 | 199,239 | 374,208 | 207,372 | 155,850 | - | 1,230,419 |
| Inter-segment assets | 111,546 | 24,315 | - | 339 | 126,657 | (262,857) | - |
| Total assets | 1,416,181 | 1,667,945 | 609,568 | 1,003,754 | 432,660 | (262,857) | 4,867,251 |
| Policy liabilities | 1,023,969 | 494,767 | 490,882 | 654,675 | 48,638 | - | 2,712,931 |
| Other operating liabilities | 66,938 | 858,490 | 26,456 | 182,459 | 281,136 | - | 1,415,479 |
| Inter-segment liabilities | 8,766 | 5,127 | 72,939 | 23,613 | 152,412 | (262,857) | - |
| Total liabilities | 1,099,673 | 1,358,384 | 590,277 | 860,747 | 482,186 | (262,857) | 4,128,410 |
| Net assets | 316,508 | 309,561 | 19,291 | 143,007 | (49,526) | - | 738,841 |
| 2009 | | | | | | | |
| Financial investments | 979,805 | 1,248,706 | 192,596 | 685,454 | 167,881 | - | 3,274,442 |
| Other investments & assets | 286,949 | 240,015 | 269,785 | 225,696 | 163,085 | - | 1,185,530 |
| Inter-segment assets | 64,684 | 17,833 | - | 1,256 | 122,704 | (206,477) | - |
| Total assets | 1,331,438 | 1,506,554 | 462,381 | 912,406 | 453,670 | (206,477) | 4,459,972 |
| Policy liabilities | 971,288 | 488,264 | 323,200 | 594,882 | 41,063 | - | 2,418,697 |
| Other liabilities | 65,450 | 777,683 | 24,975 | 177,601 | 314,138 | - | 1,359,847 |
| Inter-segment liabilities | 8,443 | 4,830 | 69,855 | 22,669 | 100,680 | (206,477) | - |
| Total liabilities | 1,045,181 | 1,270,777 | 418,030 | 795,152 | 455,881 | (206,477) | 3,778,544 |
| Net assets | 286,257 | 235,777 | 44,351 | 117,254 | (2,211) | - | 681,428 |

Amounts expressed in US$000

4. SEGMENTS (continued)

### 4.4 Additions to non-current assets by segment

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

| | Additions to non-current assets by segment | | | | | |
|---|---|---|---|---|---|---|
| | Sagicor Life Inc | Sagicor Life Jamaica | Sagicor Europe | Sagicor USA | Head office and other | Total |
| 2010 | 7,103 | 16,131 | 1,444 | 1,125 | 3,802 | 29,605 |
| 2009 | 7,054 | 3,094 | 1,134 | 705 | 4,713 | 16,700 |

### 4.5 Products and services

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

| | 2010 | 2009 |
|---|---|---|
| Life, health and annuity insurance contracts issued to individuals | 535,724 | 537,684 |
| Life, health and annuity insurance and pension administration contracts issued to groups | 221,187 | 251,615 |
| Property and casualty insurance | 377,925 | 265,517 |
| Banking, investment management and other financial services | 98,040 | 128,047 |
| Farming and unallocated revenues | 23,221 | 22,471 |
| | 1,256,097 | 1,205,334 |

4. SEGMENTS (continued)

### 4.6 Geographical areas

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

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

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

| | External Revenue | | Non-current assets | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Barbados | 128,727 | 135,699 | 178,869 | 181,305 |
| Jamaica | 357,786 | 376,102 | 91,863 | 84,690 |
| Trinidad & Tobago | 112,283 | 109,940 | 60,562 | 60,797 |
| Other Caribbean | 141,686 | 163,020 | 39,926 | 43,805 |
| United Kingdom | 352,874 | 230,875 | 32,726 | 33,862 |
| USA | 162,741 | 189,698 | 2,938 | 3,371 |
| | 1,256,097 | 1,205,334 | 406,884 | 407,830 |

Amounts expressed in US$000

## 5. INVESTMENT PROPERTY

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

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

| | 2010 | 2009 |
|---|---|---|
| Balance, beginning of year | 116,845 | 107,390 |
| Additions at cost | 11,233 | 806 |
| Transfers to real estate developed for resale | - | (2,642) |
| Transfers from / (to) property, plant and equipment | (1,087) | 13,231 |
| Disposals and divestitures | (7,341) | (3,875) |
| (Depreciation) / Appreciation in fair values | (1,399) | 3,077 |
| Effects of exchange rate changes | 918 | (1,142) |
| Balance, end of year | 119,169 | 116,845 |

Investment property includes $16,527 (2009 - $17,273) which represents the Group's proportionate interest in joint ventures summarised in the following table.

| Country | Description of property | Percentage ownership |
|---|---|---|
| Barbados | Freehold lands | 50% |
| | Freehold office buildings | 10%, 33% |
| Trinidad & Tobago | Freehold office building | 60% |

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

Year ended December 31, 2010 Amounts expressed in US$000

6. PROPERTY, PLANT AND EQUIPMENT

| | 2010 | | | | | 2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Owner-occupied properties | | Office furnishings, equipment & vehicles | Operating lease vehicles & equipment | Total | Owner-occupied properties | | Office furnishings, equipment & vehicles | Operating lease vehicles & equipment | Total |
| | Land | Land & buildings | | | | Land | Land & buildings | | | |
| Net book value, beginning of year | 35,694 | 60,443 | 22,694 | 10,052 | 128,883 | 40,079 | 73,282 | 23,492 | 11,426 | 148,279 |
| Additions at cost | - | 529 | 10,394 | 2,383 | 13,306 | - | 91 | 9,001 | 2,512 | 11,604 |
| Transfers from / (to) investment property | - | 1,087 | - | - | 1,087 | (1,581) | (11,650) | - | - | (13,231) |
| Transfers to intangible assets | - | - | - | - | - | - | - | (1,914) | - | (1,914) |
| Transfers (to) / from real estate developed or held for sale | - | - | - | - | - | (2,676) | 109 | - | - | (2,567) |
| Other transfers | - | 169 | (169) | - | - | - | 270 | (270) | - | - |
| Disposals and divestitures | - | (16) | (2,356) | (1,160) | (3,532) | - | - | (384) | (1,364) | (1,748) |
| (Depreciation) / appreciation in fair values | - | 770 | - | - | 770 | (128) | 1,304 | - | - | 1,176 |
| Depreciation charge | - | (809) | (6,462) | (2,360) | (9,631) | - | (917) | (6,608) | (2,524) | (10,049) |
| Effects of exchange rate changes | - | 286 | 238 | - | 524 | - | (2,046) | (623) | 2 | (2,667) |
| Net book value, end of year | 35,694 | 62,459 | 24,339 | 8,915 | 131,407 | 35,694 | 60,443 | 22,694 | 10,052 | 128,883 |
| Represented by: | | | | | | | | | | |
| Cost or valuation | 35,694 | 64,252 | 81,360 | 15,151 | 196,457 | 35,694 | 62,069 | 76,060 | 15,903 | 189,726 |
| Accumulated depreciation | - | (1,793) | (57,021) | (6,236) | (65,050) | - | (1,626) | (53,366) | (5,851) | (60,843) |
| | 35,694 | 62,459 | 24,339 | 8,915 | 131,407 | 35,694 | 60,443 | 22,694 | 10,052 | 128,883 |

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

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

Land and buildings consist largely of properties containing occupied office buildings and includes $625 (2009 – $622) which represents the Group's proportionate interest in office buildings in Belize and Grenada.

Amounts expressed in US$000

## 7. INVESTMENT IN ASSOCIATED COMPANIES

| | 2010 | 2009 |
|---|---|---|
| Investment, beginning of year | 32,674 | 31,893 |
| Additions | - | 1,606 |
| Dividends received | (1,357) | (1,269) |
| Share of | | |
| Income before taxes | 2,478 | 2,125 |
| Amortisation of intangible assets identified on acquisition | (557) | (557) |
| Income taxes | (216) | (621) |
| Other comprehensive income / (loss) | (28) | (217) |
| Effects of exchange rate changes | (65) | (286) |
| Investment, end of year | 32,929 | 32,674 |

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

| | 2010 | 2009 |
|---|---|---|
| Total assets | 360,028 | 351,511 |
| Total liabilities | 234,592 | 230,444 |
| Total revenue | 122,296 | 115,128 |
| Net income for the year | 8,786 | 5,518 |

Amounts expressed in US$000

8. INTANGIBLE ASSETS

(a) Analysis and changes for the year

| | 2010 | | | | | 2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Goodwill | Customer & broker relationships | Syndicate capacity & licences | Software | Total | Goodwill | Customer & broker relationships | Syndicate capacity & licences | Software | Total |
| Net book value, beginning of year | 58,289 | 36,978 | 21,021 | 13,140 | 129,428 | 59,703 | 43,293 | 18,758 | 13,168 | 134,922 |
| Additions at cost | - | - | - | 5,066 | 5,066 | - | - | - | 2,684 | 2,684 |
| Identified on acquisitions | - | - | - | - | - | 7 | - | - | - | 7 |
| Transfer from property, plant and equipment (note 6) | - | - | - | - | - | - | - | - | 1,914 | 1,914 |
| Amortisation and impairment | - | (3,080) | (47) | (4,954) | (8,081) | - | (3,441) | (47) | (4,565) | (8,053) |
| Disposals and divestitures | (896) | (2,353) | - | (739) | (3,988) | - | - | - | - | - |
| Effects of exchange rate changes | 555 | 1,024 | (643) | 18 | 954 | (1,421) | (2,874) | 2,310 | (61) | (2,046) |
| Net book value, end of year | 57,948 | 32,569 | 20,331 | 12,531 | 123,379 | 58,289 | 36,978 | 21,021 | 13,140 | 129,428 |
| Represented by: | | | | | | | | | | |
| Cost or valuation | 59,761 | 46,962 | 20,484 | 31,997 | 159,204 | 60,102 | 49,439 | 21,129 | 28,325 | 158,995 |
| Accumulated depreciation | (1,813) | (14,393) | (153) | (19,466) | (35,825) | (1,813) | (12,461) | (108) | (15,185) | (29,567) |
| | 57,948 | 32,569 | 20,331 | 12,531 | 123,379 | 58,289 | 36,978 | 21,021 | 13,140 | 129,428 |

Amounts expressed in US$000

8. INTANGIBLE ASSETS (continued)

(b) Impairment of intangible assets

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

| | Goodwill | | Intangible assets with indefinite useful life | |
|---|---|---|---|---|
| Operating Segment | 2010 | 2009 | 2010 | 2009 |
| Sagicor Life Inc | 27,102 | 27,116 | - | - |
| Sagicor Life Jamaica | 21,688 | 21,880 | - | - |
| Sagicor Europe | 4,290 | 4,425 | 19,783 | 20,406 |
| Other operating companies | 4,868 | 4,868 | - | - |
| | 57,948 | 58,289 | 19,783 | 20,406 |

The recoverable amount of a CGU is determined as the higher of its value in use or its fair value less costs to sell. A CGU's value in use is estimated using cash flow projections prepared by management. Detailed cash flow projections are prepared for three years and are extrapolated for subsequent years. The fair value of a CGU is estimated by capitalising its expected earnings over time. Syndicate capacity, which has an indefinite useful life, is also tested for impairment by its value in use.

Cash flow discount factors, residual growth rates and earnings multiples utilised in the assessment of recoverable amounts as of December 31, 2010 were as follows:

| 2010 | Cash flow discount factors | Cash flow residual growth rates | Earnings multiples |
|---|---|---|---|
| Sagicor Life Inc | n/a | n/a | 9.9 |
| Sagicor Life Jamaica | n/a | n/a | 6.4 |
| Sagicor Europe | 11.5% | 1.5% | n/a |
| Other operating companies | 14.8% | 4.1% | n/a |

8. INTANGIBLE ASSETS (continued)

| 2009 | Cash flow discount factors | Cash flow residual growth rates | Earnings multiples |
|---|---|---|---|
| Sagicor Life Inc | n/a | n/a | 9.9 |
| Sagicor Life Jamaica | n/a | n/a | 5.7 |
| Sagicor Europe | 12.9%, 12.2% | 1.9%, 2.5% | n/a |
| Other operating companies | 14.8%, 12.8% | 4.6%, 4.2% | n/a |

*Sensitivity*

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

| | Sagicor Life Inc segment | | |
|---|---|---|---|
| Earnings multiples | 9.9 | 8.58 | 8.42 |
| Excess of recoverable amount over carrying amount / (impairment) | 49,525 | - | (6,112) |

| | Sagicor Life Jamaica segment | | |
|---|---|---|---|
| Earnings multiples | 6.4 | 4.55 | 4.35 |
| Excess of recoverable amount over carrying amount / (impairment) – representing Sagicor's 59% interest in the segment | 73,549 | - | (7,901) |

The assessment of the Sagicor Europe segment goodwill and intangible assets with indefinite useful life is most sensitive to future net claims ratios. Increasing claims ratios from underwriting year 2012 in the model would produce the following results:

| | Sagicor Europe segment | | |
|---|---|---|---|
| Net claims ratio | 55% | 57.46% | 58.00% |
| Excess of recoverable amount over carrying amount / (impairment) | 61,920 | - | (13,481) |

Amounts expressed in US$000

## 9. FINANCIAL INVESTMENTS

### 9.1 Analysis of financial investments

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| **Held to maturity securities:** | | | | |
| Debt securities | 19,691 | 20,396 | 19,547 | 16,682 |
| **Available for sale securities:** | | | | |
| Debt securities | 1,742,835 | 1,742,835 | 1,458,765 | 1,458,765 |
| Equity securities | 87,713 | 87,713 | 99,788 | 99,788 |
| | 1,830,548 | 1,830,548 | 1,558,553 | 1,558,553 |
| **Financial assets at fair value through income:** | | | | |
| Debt securities | 96,333 | 96,333 | 71,314 | 71,314 |
| Equity securities | 23,839 | 23,839 | 17,058 | 17,058 |
| Derivative financial instruments (note 41.6) | 12,070 | 12,070 | 4,105 | 4,105 |
| Mortgage loans | 46,876 | 46,876 | 48,180 | 48,180 |
| Securities purchased under agreements to resell | 2,982 | 2,982 | 10,020 | 10,020 |
| | 182,100 | 182,100 | 150,677 | 150,677 |
| **Loans and receivables:** | | | | |
| Debt securities | 749,693 | 798,626 | 674,663 | 696,966 |
| Mortgage loans | 250,206 | 251,461 | 265,096 | 262,726 |
| Policy loans | 123,250 | 130,092 | 124,017 | 129,676 |
| Finance loans and finance leases | 144,065 | 172,397 | 135,078 | 144,918 |
| Securities purchased under agreements to resell | 25,585 | 25,585 | 72,295 | 72,295 |
| Deposits | 311,694 | 311,694 | 274,516 | 274,516 |
| | 1,604,493 | 1,689,855 | 1,545,665 | 1,581,097 |
| **Total financial investments** | 3,636,832 | 3,722,899 | 3,274,442 | 3,307,009 |

## 9. FINANCIAL INVESTMENTS (continued)

### 9.1 Analysis of financial investments (continued)

| | 2010 | 2009 |
|---|---|---|
| **Non-derivative financial assets at fair value through income comprise:** | | |
| Assets designated at fair value upon initial recognition | 170,030 | 146,572 |
| **Debt securities comprise:** | | |
| Government and government-guaranteed debt securities | 1,497,082 | 1,350,052 |
| Collateralised mortgage obligations | 159,574 | 193,487 |
| Corporate debt securities | 898,452 | 632,867 |
| Other securities | 53,444 | 47,883 |
| | 2,608,552 | 2,224,289 |

Debt securities include $4,559 (2009 - $3,042) that contain options to convert to common shares of the issuer.

Corporate debt securities include:

(i) convertible loans totalling $nil (2009 - $5,199) issued to the Group by an associated company. These loans can be converted into equity or bonds issued by the associated company.

(ii) $21,745 (2009 - $14,741) in bonds issued by an associated company.

Equity securities include $6,559 (2009 - $6,333) in mutual funds managed by the Group.

Amounts expressed in US$000

9. FINANCIAL INVESTMENTS (continued)

### 9.2 Pledged assets

Debt securities include $20,894 (2009 - $21,268) and policy loans include $22,461 (2009 - $25,153) in assets held in trust for a reinsurer (note 20). The income from these assets accrues to the reinsurer.

Debt and equity securities include $162,100 (2009 - $229,450) as collateral for loans payable and other funding instruments.

Collateral for the obligation to the Federal Home Loan Bank of Dallas (FHLB) which is included in other funding instruments (note 17), consists of an equity holding in the FHLB with a market value of $5,294 (2009 - $5,442), and mortgages and mortgage backed securities having a total market value of $123,312 (2009 - $124,715).

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, 2010, these pledged assets totalled $581,911 (2009 - $526,273). Of these assets pledged as security, $94,761 (2009 – $204,027) represents collateral for securities sold under agreements to repurchase in instances when the transferee has the right by contract or by custom to sell or re-pledge the collateral.

Deposits include $47,029 (2009 – $48,352) pledged as collateral for a letter of credit facility obtained by the Group.

### 9.3 Returns accruing to the benefit of contract-holders

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

| | 2010 | 2009 |
|---|---|---|
| Debt securities | 95,156 | 70,690 |
| Equity securities | 19,517 | 12,208 |
| Mortgage loans | 46,876 | 48,180 |
| Securities purchased under agreements to resell | 2,982 | 10,020 |
| | 164,531 | 141,098 |

9. FINANCIAL INVESTMENTS (continued)

### 9.4 Reclassification of financial investments

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

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

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

The following disclosures are in respect of these reclassified assets.

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| Government debt securities maturing after September 2018 | 76,095 | 79,049 | 134,387 | 114,233 |
| Other debt securities | 15,089 | 15,968 | 27,059 | 25,234 |
| | 91,184 | 95,017 | 161,446 | 139,467 |

| | 2010 | 2009 |
|---|---|---|
| Cumulative net fair value loss, beginning of year | (41,805) | (71,210) |
| Net fair value gains subsequent to restatement | 23,835 | 25,623 |
| Disposals | 12,869 | 2,209 |
| Effect of exchange rate changes | 216 | 1,573 |
| Cumulative net fair value loss, end of year | (4,885) | (41,805) |

Year ended December 31, 2010 Amounts expressed in US$000

9. FINANCIAL INVESTMENTS (continued)

9.4 Reclassification of financial investments (continued)

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

10. REINSURANCE ASSETS

| | 2010 | 2009 |
|---|---|---|
| Reinsurers' share of: | | |
| Actuarial liabilities (note 13.1) | 178,078 | 207,696 |
| Policy benefits payable (note 14.2) | 57,907 | 35,900 |
| Provision for unearned premiums (note 14.3) | 40,909 | 45,766 |
| Other items | 4,954 | 5,517 |
| | 281,848 | 294,879 |

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

11. INCOME TAX ASSETS

| | 2010 | 2009 |
|---|---|---|
| Deferred income tax assets (note 33) | 9,209 | 15,272 |
| Income and withholding taxes recoverable | 18,555 | 16,518 |
| | 27,764 | 31,790 |

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

12. MISCELLANEOUS ASSETS AND RECEIVABLES

| | 2010 | 2009 |
|---|---|---|
| Pension plan assets (note 31) | 3,826 | 5,087 |
| Real estate developed or held for resale | 12,322 | 11,869 |
| Deferred policy acquisition costs | 60,486 | 46,525 |
| Premiums receivable | 145,175 | 128,794 |
| Other accounts receivable | 73,479 | 62,736 |
| | 295,288 | 255,011 |

Other accounts receivable include $ 3,097 (2009 – $2,814) due from managed funds.

(a) Real estate developed or held for resale

Real estate developed for resale includes $2,990 (2009 - $6,290) which is expected to be realised within one year of the financial statements date. These balances also include $231 (2009 - $417) which represents the Group's proportionate interest in joint ventures.

(b) Deferred policy acquisition costs

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

| Gross amount | 2010 | 2009 |
|---|---|---|
| Balance, beginning of year | 46,525 | 28,227 |
| Expensed | (102,150) | (81,322) |
| Additions | 118,381 | 97,007 |
| De-recognised on divestiture | (1,238) | - |
| Effect of exchange rate changes | (1,032) | 2,613 |
| Balance, end of year | 60,486 | 46,525 |

Amounts expressed in US$000

## 13. ACTUARIAL LIABILITIES

### 13.1 Analysis of actuarial liabilities

| | Gross liability | | Reinsurers' share | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| **Contracts issued to individuals:** | | | | |
| Life insurance - participating policies | 316,100 | 306,015 | 1,497 | 1,992 |
| Life insurance and annuity - non-participating policies | 995,371 | 911,860 | 143,545 | 169,442 |
| Health insurance | 1,981 | 1,456 | 739 | 696 |
| Unit linked funds | 110,386 | 88,492 | - | - |
| Reinsurance contracts held | 13,995 | 12,010 | - | - |
| | 1,437,833 | 1,319,833 | 145,781 | 172,130 |
| **Contracts issued to groups:** | | | | |
| Life insurance | 30,914 | 28,183 | 3,625 | 3,220 |
| Annuities | 248,111 | 228,763 | 28,549 | 31,754 |
| Health insurance | 36,854 | 35,752 | 123 | 592 |
| | 315,879 | 292,698 | 32,297 | 35,566 |
| **Total actuarial liabilities** | 1,753,712 | 1,612,531 | 178,078 | 207,696 |

The following notes are in respect of the foregoing table:

- Life insurance includes coverage for disability and critical illness.
- Actuarial liabilities include $117,341 (2009 - $121,163) in assumed reinsurance.
- Liabilities for reinsurance contracts held occur because the reinsurance premium costs exceed the mortality costs assumed in determining the gross liability of the policy.

## 13. ACTUARIAL LIABILITIES

### 13.2 Movement in actuarial liabilities

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

| | Gross liability | | Reinsurers' share | |
|---|---|---|---|---|
| | 2010 | 2009 (restated) | 2010 | 2009 |
| Balance, beginning of year | 1,612,531 | 1,450,219 | 207,696 | 215,240 |
| Assumed on acquisitions | 2,409 | 1,549 | 1,345 | - |
| Change in actuarial liabilities recorded in income (note 27) | 117,889 | 156,285 | (27,695) | (7,496) |
| Change in actuarial liabilities recorded in other comprehensive income (notes 35 and 38) | 15,041 | 24,254 | - | - |
| De-recognised on divestiture | (3,489) | - | (3,260) | - |
| Effect of exchange rate changes | 9,331 | (19,776) | (8) | (48) |
| Balance, end of year | 1,753,712 | 1,612,531 | 178,078 | 207,696 |

As set out in note 2.13 (a), the changes in actuarial liabilities which arise from asset fair value gains or losses in other comprehensive income (OCI) are now also recorded in OCI. In prior years, this change in actuarial liabilities was recorded in income. The effect of the change in accounting policy in 2009 is summarised in note 38.

Amounts expressed in US$000

13. ACTUARIAL LIABILITIES (continued)

13.2 Movement in actuarial liabilities (continued)

The changes in actuarial liabilities recorded in income and other comprehensive income are further analysed as follows:

| | Gross liability | | Reinsurers' share | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Normal changes in actuarial liabilities arising from increments and decrements of inforce policies and from the issuance of new policies | 144,559 | 214,746 | (27,927) | (7,496) |
| Effect of changes in actuarial assumptions for mortality, morbidity, lapse, investment yields, and operating expenses and taxes | (7,138) | (37,186) | 232 | - |
| Other changes: | | | | |
| Actuarial modelling, refinements, improvements and corrections | (8,288) | (2,406) | - | - |
| Changes in margins for adverse deviations | 368 | 63 | - | - |
| Other | 3,429 | 5,322 | - | - |
| | 132,930 | 180,539 | (27,695) | (7,496) |

13. ACTUARIAL LIABILITIES (continued)

13.3 Assumptions – life insurance and annuity contracts

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

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

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

(b) Assumptions for mortality and morbidity

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

For the 2010 valuation, insurers updated studies of recent mortality experience. The resulting experience was compared to external mortality studies including the Canadian Institute of Actuaries (CIA) 1986 - 1992 tables. Appropriate modification factors were selected and applied to underwritten and non-underwritten business respectively. Annuitant mortality was determined by reference to CIA tables or to other established scales.

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

(c) Assumptions for lapse

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

Lapse studies were updated by insurers for the 2010 valuation, to determine the most recent experience of persistency. Appropriate rates of termination by policy duration were determined and applied in the actuarial valuations.

Amounts expressed in US$000

13. ACTUARIAL LIABILITIES (continued)

13.3 Assumptions – life insurance and annuity contracts (continued)

(d) Assumptions for investment yields

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

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

| Ultimate rate of return: | 2010 | 2009 |
|---|---|---|
| Barbados | 5.0% | 5.0% |
| Jamaica | 7.0% | 7.0% |
| Trinidad & Tobago | 5.5% | 5.5% |
| Other Caribbean | 5.0 – 5.5% | 5.0 – 5.5% |
| USA | 4.0% | 4.0% |

13. ACTUARIAL LIABILITIES (continued)

13.3 Assumptions – life insurance and annuity contracts (continued)

(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 2010 valuations and were applied on a per policy basis.

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

(f) Asset defaults

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

(g) Margins for adverse deviations

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

| Provisions for adverse deviations: | 2010 | 2009 |
|---|---|---|
| Mortality and morbidity | 50,155 | 41,813 |
| Lapse | 39,209 | 32,203 |
| Investment yields and asset default | 67,620 | 67,023 |
| Operating expenses and taxes | 18,561 | 16,969 |
| | 175,545 | 158,008 |

Year ended December 31, 2010 Amounts expressed in US$000

13. ACTUARIAL LIABILITIES (continued)

### 13.4 Assumptions – health insurance contracts

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

## 14. OTHER INSURANCE LIABILITIES

### 14.1 Analysis of other insurance liabilities

| | 2010 | 2009 |
|---|---|---|
| Dividends on deposit and other policy balances | 70,101 | 67,784 |
| Policy benefits payable | 355,395 | 232,406 |
| Provision for unearned premiums | 239,385 | 201,579 |
| | 664,881 | 501,769 |

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

14. OTHER INSURANCE LIABILITIES (continued)

### 14.2 Policy benefits payable

(a) Analysis of policy benefits payable

| | Gross liability | | Reinsurers' share | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Life insurance and annuity benefits | 54,969 | 45,884 | 10,565 | 11,134 |
| Health claims | 2,647 | 3,636 | 2,643 | 2,633 |
| Property and casualty claims: | | | | |
| Notified outstanding claims | 174,640 | 92,216 | 31,035 | 12,303 |
| Provision for claims incurred but not reported | 123,139 | 90,670 | 13,664 | 9,830 |
| | 355,395 | 232,406 | 57,907 | 35,900 |

Property and casualty claims payable contain total discounted amounts of $14,440 in respect of the gross liability and $1,645 in respect of the reinsurers' share (2009 – $4,826 and $388 respectively). Included within the total discounted amounts are $5,537 (2009 – nil) in the gross liability and $383 (2009 – nil) in the reinsurers' share representing sub-classes of insurance. These amounts result from the discounting at rates which reflect the achievable yield over 10 years of the insurer's investment portfolio. The discount rates varied from 0.27% to 3.40% (2009 – 0.31% to 3.48%).

Amounts expressed in US$000

14. OTHER INSURANCE LIABILITIES (continued)

14.2 Policy benefits payable (continued)

(b) Movement in policy benefits payable

| | Gross amount | | Reinsurers' share | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Balance, beginning of year | 232,406 | 183,971 | 35,900 | 50,861 |
| Policy benefits incurred | 626,071 | 500,416 | 77,419 | 58,703 |
| Policy benefits paid | (496,884) | (458,092) | (49,607) | (71,964) |
| De-recognised on divestiture | (7,014) | - | (5,701) | - |
| Effect of exchange rate changes | 816 | 6,111 | (104) | (1,700) |
| Balance, end of year | 355,395 | 232,406 | 57,907 | 35,900 |

14.3 Provision for unearned premiums

(a) Analysis of provision for unearned premiums

| | Gross liability | | Reinsurers' share | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Property and casualty insurance | 239,385 | 201,571 | 40,909 | 45,766 |
| Health insurance | - | 8 | - | - |
| | 239,385 | 201,579 | 40,909 | 45,766 |

14. OTHER INSURANCE LIABILITIES (continued)

14.3 Provision for unearned premiums (continued)

(b) Movement in provision for unearned premiums

| | Gross amount | | Reinsurers' share | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Balance, beginning of year | 201,579 | 135,543 | 45,766 | 36,271 |
| Premiums written | 510,217 | 444,835 | 111,087 | 130,107 |
| Premium revenue | (454,202) | (389,078) | (103,984) | (121,773) |
| De-recognised on divestiture | (14,348) | - | (11,811) | - |
| Effect of exchange rate changes | (3,861) | 10,279 | (149) | 1,161 |
| Balance, end of year | 239,385 | 201,579 | 40,909 | 45,766 |

15. INVESTMENT CONTRACT LIABILITIES

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| At amortised cost: | | | | |
| Deposit administration liabilities | 109,739 | 109,739 | 95,581 | 95,581 |
| Other investment contracts | 100,752 | 101,537 | 132,229 | 132,416 |
| | 210,491 | 211,276 | 227,810 | 227,997 |
| At fair value through income: | | | | |
| Unit linked deposit administration liabilities | 83,847 | 83,847 | 76,587 | 76,587 |
| | 294,338 | 295,123 | 304,397 | 304,584 |

Year ended December 31, 2010 Amounts expressed in US$000

16. NOTES AND LOANS PAYABLE

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| 7.5% senior notes due 2016 | 144,028 | 154,696 | 144,520 | 149,771 |
| 12.5% cumulative redeemable preference shares due 2013 | 7,191 | 7,191 | 14,235 | 14,235 |
| Bank loans and other funding instruments | 30,666 | 30,666 | 42,089 | 42,089 |
| | 181,885 | 192,553 | 200,844 | 206,095 |

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

The 12.5% cumulative redeemable preference shares were issued by Pan Caribbean Financial Services Limited in February 2008. The shares are denominated in Jamaican dollars. 51.5% of the shares issued in 2008 were redeemed in 2010.

In December 2009, the Group received a bank loan of $25,000. Interest is variable at 5.25% above LIBOR at the date of the financial statements (2009 – 3.5% above LIBOR). The initial term of the loan was 6 months, but was extended to March 31, 2011. Other bank loans and funding instruments carry interest rates between 4.75% and 7.5% and are repayable by June 2011. The security for bank loans and other funding instruments are disclosed in note 9.2.

Financial covenants in respect of the above liabilities are summarised in note 45.3.

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17. DEPOSIT AND SECURITY LIABILITIES

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Carrying value | Fair value | Carrying value | Fair value |
| At amortised cost: | | | | |
| Other funding instruments | 229,617 | 240,875 | 233,443 | 240,379 |
| Customer deposits | 168,134 | 202,620 | 162,989 | 146,174 |
| Securities sold under agreements to repurchase | 575,716 | 644,094 | 501,128 | 456,825 |
| Bank overdrafts | 2,580 | 2,580 | 2,380 | 2,380 |
| | 976,047 | 1,090,169 | 899,940 | 845,758 |
| At fair value through income: | | | | |
| Structured products | 5,655 | 5,655 | 5,299 | 5,299 |
| Derivative financial instruments (note 41.6) | 1,849 | 1,849 | 2,248 | 2,248 |
| | 7,504 | 7,504 | 7,547 | 7,547 |
| | 983,551 | 1,097,673 | 907,487 | 853,305 |

Other funding instruments consist of loans from banks and other financial institutions and include balances of $120,402 (2009 - $122,990) due to the Federal Home Loan Bank of Dallas (FHLB). The Group participates in the FHLB program in which funds received from the Bank are invested in mortgages and mortgage backed securities.

Structured products are offered by a banking subsidiary. A structured product is a pre-packaged investment strategy created to meet specific needs that cannot be met from the standardised financial instruments available in the market. Structured products can be used as an alternative to a direct investment, as part of the asset allocation process to reduce risk exposure of a portfolio, or to capitalise on current market trends.

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

## 18. PROVISIONS

| | 2010 | 2009 |
|---|---|---|
| Pension plans and other retirement benefits (note 31) | 32,006 | 27,303 |
| Other | 6,828 | 12,056 |
| | 38,834 | 39,359 |

## 19. INCOME TAX LIABILITIES

| | 2010 | 2009 |
|---|---|---|
| Deferred income tax liabilities (note 33) | 16,089 | 7,933 |
| Income taxes payable | 7,711 | 8,557 |
| | 23,800 | 16,490 |

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

## 20. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2010 | 2009 |
|---|---|---|
| Amounts due to policyholders | 18,893 | 35,119 |
| Amounts due to reinsurers | 60,714 | 73,132 |
| Amounts due to managed funds | 3,046 | 4,346 |
| Other accounts payable and accrued liabilities | 104,756 | 83,070 |
| | 187,409 | 195,667 |

Amounts due to reinsurers include $43,355 (2009 – $46,421) due to a reinsurer in respect of assets held in trust by the Group (see note 9.2).

## 21. SHARE CAPITAL

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number of shares '000 | $000 | Number of shares '000 | $000 |
| Issued and fully paid common shares of no par value: | | | | |
| Balance, beginning of year | 290,903 | 281,142 | 278,355 | 260,161 |
| Allotments | 438 | 659 | 12,548 | 20,981 |
| Balance, end of year | 291,341 | 281,801 | 290,903 | 281,142 |
| Treasury shares: | | | | |
| Balance, beginning of year | (1,201) | (2,890) | (725) | (2,008) |
| Net shares acquired | (1,180) | (1,739) | (476) | (882) |
| Balance, end of year | (2,381) | (4,629) | (1,201) | (2,890) |
| Total share capital | 288,960 | 277,172 | 289,702 | 278,252 |

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

Year ended December 31, 2010 Amounts expressed in US$000

22. RESERVES

| | Owner occupied property | Available for sale assets | Actuarial liabilities | Cash flow hedges | Currency translation reserves | Other reserves | Total reserves |
|---|---|---|---|---|---|---|---|
| | <<<< Fair value reserves >>>> | | | | | | |
| **2010** | | | | | | | |
| Balance, beginning of year, as restated (note 38) | 20,444 | (5,255) | (5,424) | 594 | (73,762) | 20,794 | (42,609) |
| Other comprehensive income | 693 | 28,834 | (9,844) | - | 1,965 | - | 21,648 |
| Value of employee services rendered (net) | - | - | - | - | - | 2,321 | 2,321 |
| Disposal interest in subsidiaries | - | 64 | - | - | - | - | 64 |
| Other movements | - | 594 | - | (594) | - | 4,170 | 4,170 |
| Balance, end of year | 21,137 | 24,237 | (15,268) | - | (71,797) | 27,285 | (14,406) |
| **2009 (restated)** | | | | | | | |
| Balance, beginning of year (note 38) | 19,214 | (45,155) | 10,840 | 1,462 | (73,851) | 14,913 | (72,577) |
| Other comprehensive income | 1,230 | 37,935 | (16,264) | (1,011) | (5,554) | - | 16,336 |
| Value of employee services rendered (net) | - | - | - | - | - | 972 | 972 |
| Changes in the ownership interest of subsidiaries (note 37.2) | - | 2,022 | - | 143 | 5,643 | (1,052) | 6,756 |
| Other movements | - | (57) | - | - | - | 5,961 | 5,904 |
| Balance, end of year | 20,444 | (5,255) | (5,424) | 594 | (73,762) | 20,794 | (42,609) |

Other reserves comprise share based payment reserves of $7,984 (2009 - $5,663) and statutory reserves of $19,301 (2009 - $15,131).

Amounts expressed in US$000

## 23. PARTICIPATING ACCOUNTS

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

| | Closed participating account | | Open participating account | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 (restated) |
| Balance, beginning of year, as restated (note 38) | 9,158 | 10,311 | (3,307) | 333 |
| Total comprehensive income / (loss) | (2,573) | (1,153) | 1,326 | (3,380) |
| Return of transfer to support profit distribution to shareholders | - | - | (257) | (260) |
| Balance, end of year | 6,585 | 9,158 | (2,238) | (3,307) |

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

| | Closed participating account | | Open participating account | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Assets | 101,498 | 97,715 | 248,922 | 242,216 |
| Liabilities | 94,913 | 88,557 | 251,160 | 245,523 |
| Revenues | 10,602 | 10,202 | 33,472 | 35,223 |
| Benefits | 11,392 | 9,242 | 24,704 | 31,113 |
| Expenses | 1,623 | 1,656 | 6,536 | 6,350 |
| Income taxes | 211 | 352 | 873 | 1,063 |

## 24. PREMIUM REVENUE

| | Gross revenue | | Reinsurance expense | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Life insurance | 331,776 | 318,379 | 37,109 | 38,034 |
| Annuities | 128,295 | 172,763 | 622 | 326 |
| Health insurance | 132,748 | 146,513 | 4,356 | 5,849 |
| Property and casualty insurance | 454,202 | 369,871 | 103,984 | 120,375 |
| | 1,047,021 | 1,007,526 | 146,071 | 164,584 |

Gross revenue includes $92,844 (2009 - $84,504) in reinsurance assumed.

Year ended December 31, 2010 Amounts expressed in US$000

## 25. NET INVESTMENT INCOME

| | 2010 | 2009 |
|---|---|---|
| **Investment income:** | | |
| Interest income | 244,893 | 258,266 |
| Dividend income | 3,988 | 4,623 |
| Rental income from investment property | 4,934 | 5,618 |
| Net investment gains | 42,172 | 32,346 |
| Share of operating income of associated companies | 2,478 | 2,125 |
| Other investment income | 1,302 | 3,608 |
| | 299,767 | 306,586 |
| **Investment expenses:** | | |
| Allowances for impairment losses | 3,186 | 8,984 |
| Direct operating expenses of investment property | 1,662 | 1,623 |
| Other direct investment expenses | 1,639 | 1,763 |
| | 6,487 | 12,370 |
| **Net investment income** | 293,280 | 294,216 |

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

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

## 25. NET INVESTMENT INCOME (continued)

(a) Interest income

| | 2010 | 2009 |
|---|---|---|
| Debt securities | 187,055 | 189,702 |
| Mortgage loans | 24,214 | 25,954 |
| Policy loans | 8,268 | 8,068 |
| Finance loans and finance leases | 15,058 | 17,103 |
| Securities purchased under agreements to resell | 3,034 | 10,246 |
| Deposits | 7,115 | 6,753 |
| Other balances | 149 | 440 |
| | 244,893 | 258,266 |

Interest from debt securities includes $2,172 (2009 - $2,078) from an associated company.

(b) Net investment gains / (losses)

| | 2010 | 2009 |
|---|---|---|
| Debt securities | 27,744 | 22,083 |
| Equity securities | 11,168 | 7,722 |
| Investment property | (1,399) | 3,077 |
| Other financial instruments | 4,659 | (536) |
| | 42,172 | 32,346 |

Amounts expressed in US$000

## 26. FEES AND OTHER REVENUE

| | 2010 | 2009 |
|---|---|---|
| Fee income – assets under administration | 15,587 | 12,843 |
| Fee income – deposit administration and policy funds | 1,050 | 1,117 |
| Commission income on insurance and reinsurance contracts | 16,102 | 17,351 |
| Other fees and commission income | 11,559 | 13,624 |
| Foreign exchange gains / (losses) | 1,120 | 4,523 |
| Other operating and miscellaneous income | 16,449 | 18,718 |
| | 61,867 | 68,176 |

## 27. POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

| | Gross amount | | Reinsurers' share | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Policy benefits: | | | | |
| Life insurance benefits | 154,950 | 144,225 | 23,574 | 25,695 |
| Annuity benefits | 89,629 | 88,230 | 12,279 | 15,058 |
| Health insurance claims | 97,932 | 119,371 | 3,827 | 4,317 |
| Property & casualty insurance claims | 284,679 | 149,620 | 41,385 | 13,815 |
| Total policy benefits | 627,190 | 501,446 | 81,065 | 58,885 |
| Change in actuarial liabilities (note 13.2) | 117,889 | 156,285 | (27,695) | (7,496) |
| Total policy benefits and change in actuarial liabilities | 745,079 | 657,731 | 53,370 | 51,389 |

Gross policy benefits include $84,578 (2009 - $86,644) arising from reinsurance assumed.

## 28. INTEREST EXPENSE

| | 2010 | 2009 |
|---|---|---|
| Insurance contracts | 2,980 | 3,010 |
| Investment contracts | 20,433 | 24,015 |
| Other funding instruments | 4,535 | 5,045 |
| Deposits | 8,617 | 10,397 |
| Securities | 38,286 | 56,750 |
| Other Items | 3,146 | 2,682 |
| | 77,997 | 101,899 |

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

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

Amounts expressed in US$000

29. EMPLOYEE COSTS

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

| | 2010 | 2009 |
|---|---|---|
| Administrative staff salaries, directors' fees and other short-term benefits | 86,293 | 91,627 |
| Employer contributions to social security schemes | 7,381 | 6,949 |
| Expense arising from equity-settled share plans (note 30.1 to 30.3) | 3,862 | 2,618 |
| (Credit) / expense arising from cash-settled share plans (note 30.4) | (1,799) | 672 |
| Employer contribution to defined contribution pension schemes | 1,522 | 1,128 |
| Costs – defined retirement benefits (note 31 (b)) | 8,506 | 4,721 |
| | 105,765 | 107,715 |

30. EMPLOYEE SHARE BASED COMPENSATION

30.1 The Company

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

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

30.1 The Company (continued)

(a) LTI plan – restricted share grants

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

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number of grants '000 | Weighted average price | Number of grants '000 | Weighted Average price |
| Balance, beginning of year | 353 | US$1.59 | 374 | US$2.35 |
| Grants issued | 1,023 | US$1.43 | 675 | US$1.57 |
| Grants vested | (624) | US$1.50 | (683) | US$1.97 |
| Grants forfeited | - | - | (13) | US$2.34 |
| Balance, end of year | 752 | US$1.45 | 353 | US$1.59 |

(b) LTI plan – share options

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

Year ended December 31, 2010 Amounts expressed in US$000

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

30.1 The Company (continued)

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number of options '000 | Weighted average exercise price | Number of options '000 | Weighted average exercise price |
| Balance, beginning of year | 5,807 | US $2.26 | 4,211 | US $2.17 |
| Options granted | 1,749 | US $1.60 | 1,596 | US $2.50 |
| Options lapsed/forfeited | (214) | US $2.09 | - | - |
| Balance, end of year | 7,342 | US $2.07 | 5,807 | US $2.26 |
| Exercisable at the end of the year | 2,966 | US $2.17 | 1,887 | US $2.09 |

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

| | 2010 | 2009 |
|---|---|---|
| Share price at grant date | US $1.60 – 2.50 | US $1.60 – 2.50 |
| Fair value of options at grant date | US $0.41 – 0.69 | US $0.41 – 0.69 |
| Expected volatility | 19.3% - 35.8% | 19.3% - 35.8% |
| Expected life | 7.0 years | 7.0 years |
| Expected dividend yield | 2.8% - 3.1% | 2.8% - 3.1% |
| Risk-free interest rate | 4.8% – 6.8% | 4.8% – 6.5% |

The expected volatility is based on statistical analysis of monthly share prices over the 7 years (2009 – 4 years) prior to grant date.

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

30.1 The Company (continued)

(c) ESOP

During each of the years 2006 to 2010, the Company approved awards under the ESOP in respect of permanent administrative employees and sales agents of the Company and certain subsidiaries. The ESOP is administered by Trustees under a discretionary trust. The amount awarded is used by the Trustees to acquire company shares. Administrative employees and sales agents are required to serve a qualifying period of five years from the award date in order to qualify as a beneficiary. Shares are distributed to beneficiaries upon their retirement or termination of employment.

During the year, 1,179,500 common shares were acquired by the Trustees (2009 – 476,000 common shares).

30.2 Sagicor Life Jamaica Limited (SLJ)

(a) Long-term incentive plan

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

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

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

Year ended December 31, 2010 Amounts expressed in US$000

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

30.2 Sagicor Life Jamaica Limited (SLJ) (continued)

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

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number of options '000 | Weighted average exercise price | Number of options '000 | Weighted average exercise price |
| Balance, beginning of year | 26,539 | J$8.04 | 16,194 | J$7.42 |
| Options granted | 20,564 | J$4.20 | 26,496 | J$7.92 |
| Options exercised | (1,044) | J$5.19 | (2,982) | J$3.90 |
| Options lapsed/forfeited | (5,142) | J$9.20 | (13,169) | J$7.98 |
| Balance, end of year | 40,917 | J$6.04 | 26,539 | J$8.04 |
| Exercisable at the end of the year | 20,040 | J$7.30 | 14,536 | J$8.94 |

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

30.2 Sagicor Life Jamaica Limited (SLJ) (continued)

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

| | 2010 | 2009 |
|---|---|---|
| Fair value of options outstanding | J$78,489,000 | J$37,274,000 |
| Share price at grant date | J$4.20 – 9.86 | J$6.80 – 11.30 |
| Exercise price | J$4.20 – 9.86 | J$7.92 – 11.30 |
| Standard deviation of expected share price returns | 39.0% | 34.0% |
| Remaining contractual term | 1 - 6 years | 1 - 5 years |
| Risk-free interest rate | 9.4% - 17.5% | 16.8% - 17.5% |

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

(b) Employee share purchase plan

SLJ has in place a share purchase plan which enables its administrative and sales staff to purchase shares at a discount. The proceeds from shares issued under this plan totalled $459 (2009 – 205).

30.3 Pan Caribbean Financial Services Limited (PCFS)

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

Year ended December 31, 2010 Amounts expressed in US$000

## 30. EMPLOYEE SHARE BASED COMPENSATION (continued)

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

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number of options '000 | Weighted average exercise price | Number of options '000 | Weighted average exercise price |
| Balance, beginning of year | 4,799 | J$18.53 | 5,457 | J$18.91 |
| Options granted | 8,886 | J$15.10 | - | - |
| Options exercised | (192) | J$12.20 | - | - |
| Options lapsed / forfeited | (2,100) | J$17.91 | (658) | J$21.82 |
| Balance, end of year | 11,393 | J$16.01 | 4,799 | J$18.53 |
| Exercisable at the end of the year | 4,410 | J$17.77 | 2,312 | J$18.66 |

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

| | 2010 | 2009 |
|---|---|---|
| Fair value of options outstanding | J$ 53,767,000 | J$ 52,604,000 |
| Share price at grant date | J$ 12.20 – 21.75 | J$ 16.84 |
| Exercise price | J$ 12.20 – 21.75 | J$ 18.00 – 21.75 |
| Standard deviation of expected share price returns | 10.0% - 21.7% | 10.0% |
| Weighted average remaining contractual term | 3 years | 3 years |
| Risk-free interest rate | 11.6% - 21.79% | 13.3% |

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

## 30. EMPLOYEE SHARE BASED COMPENSATION (continued)

### 30.4 Sagicor Europe Limited (SEL)

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

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number of Shares '000 | Fair value at Subscription (in £ 000) | Number of Shares '000 | Fair value at Subscription (in £ 000) |
| Balance, beginning of year | 337 | 2,489 | 344 | 2,488 |
| Shares subscribed | - | - | 2 | 63 |
| Shares redeemed | - | - | (9) | (62) |
| Balance, end of year | 337 | 2,489 | 337 | 2,489 |

The fair values of SEL shares at subscription dates were established by determining the value in use of Syndicate 1206 from 5 year internal cash flow projections.

Year ended December 31, 2010 Amounts expressed in US$000

30. EMPLOYEE SHARE BASED COMPENSATION (continued)

30.4 Sagicor Europe Limited (SEL) (continued)

The put options described above have been accounted for as cash settled share based payment arrangements. As such the valuation of the put options at December 31, 2010 of $4,448 (2009 – $6,467) is recognised in the financial statements. The valuation of the put options have been derived from:

- Valuation of SEL using a variety of methods;
- Discounting the expected cash outflows from the put options, assuming the options are exercised at the earliest possible dates. The discount rate used was 11.5% (2009 – 12.5%).

The shares issued meet the definition of a financial liability in accordance with IAS 32 Financial Instruments: Presentation. Consequently, SEL is consolidated as a 100% subsidiary, with the change in liability recorded as an expense (see note 29).

31. EMPLOYEE RETIREMENT BENEFITS

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

31. EMPLOYEE RETIREMENT BENEFITS (continued)

(a) Amounts recognised in the financial statements

| | 2010 | 2009 |
|---|---|---|
| Fair value of retirement plan assets | 94,059 | 81,062 |
| Present value of funded retirement obligations | (97,922) | (80,566) |
| | (3,863) | 496 |
| Present value of unfunded retirement obligations | (36,991) | (30,386) |
| Unrecognised actuarial losses | 12,674 | 7,674 |
| Amounts recognised in the financial statements | (28,180) | (22,216) |
| Represented by: | | |
| Liabilities held on deposit with the Group as deposit administration contracts | (25,371) | (22,432) |
| Other recognised liabilities | (6,635) | (4,871) |
| Total recognised liabilities (note 18) | (32,006) | (27,303) |
| Recognised assets (note 12) | 3,826 | 5,087 |
| | (28,180) | (22,216) |

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

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Present value of retirement obligations | (134,913) | (110,952) | (107,289) | (106,179) | (88,778) |
| Fair value of plan assets | 94,059 | 81,062 | 72,883 | 75,870 | 66,059 |
| Net obligation | (40,854) | (29,890) | (31,406) | (30,309) | (22,719) |
| Experience adjustment on: | | | | | |
| Plan liabilities | 2,362 | (2,299) | (9,565) | (1,649) | 7,525 |
| Plan assets | (759) | (811) | 9,952 | 849 | 1,006 |

Amounts expressed in US$000

31. EMPLOYEE RETIREMENT BENEFITS (continued)

(b) Amounts recognised in the income statement

| | 2010 | 2009 |
|---|---|---|
| Current service cost | 4,858 | 3,961 |
| Interest cost | 10,979 | 10,816 |
| Net actuarial (gains) / losses recognised during the year | 1,282 | (1,052) |
| Past service cost | 65 | 278 |
| Expected return on retirement plan assets | (8,678) | (9,282) |
| Total cost | 8,506 | 4,721 |

The actual return on retirement plan assets was $9,572 (2009 – $9,920).

(c) Retirement plan assets

| Movement in retirement plan assets | 2010 | 2009 |
|---|---|---|
| Plan assets, beginning of year | 81,062 | 75,880 |
| Expected return on plan assets | 8,678 | 9,282 |
| Actuarial gains and losses | (203) | 172 |
| Contributions made by the Group | 4,780 | 4,357 |
| Contributions made by plan participants | 2,337 | 2,021 |
| Benefits paid | (3,560) | (4,015) |
| Other | (1,482) | (1,331) |
| Effects of exchange rate changes | 2,447 | (5,304) |
| Plan assets, end of year | 94,059 | 81,062 |

For the next financial year, the total employer contributions are estimated at $4,904 (2009- $5,031).

31. EMPLOYEE RETIREMENT BENEFITS (continued)

| Distribution of the plan assets | 2010 | 2009 |
|---|---|---|
| Equity unit linked pension funds under management | 91,887 | 78,354 |
| Other assets | 2,172 | 2,708 |
| Total plan assets | 94,059 | 81,062 |

(d) Movement in retirement obligations

| | 2010 | 2009 |
|---|---|---|
| Retirement obligations, beginning of year | 110,952 | 107,161 |
| Current service cost | 6,149 | 5,566 |
| Interest cost | 10,979 | 10,816 |
| Contributions made by employees | 2,563 | 2,587 |
| Actuarial gains and losses | 5,987 | (4,070) |
| Benefits paid | (4,302) | (5,373) |
| Past service cost | 65 | 278 |
| Other | (158) | (87) |
| Effects of exchange rate changes | 2,678 | (5,926) |
| Retirement obligations, end of year | 134,913 | 110,952 |

Amounts expressed in US$000

31. EMPLOYEE RETIREMENT BENEFITS (continued)

(e) Principal assumptions

The principal actuarial assumptions by geographic area used for 2010 were as follows:

| Pension benefits | Barbados | Jamaica | Trinidad | Other Caribbean |
|---|---|---|---|---|
| Discount rate | 7.0%-7.8% | 11.0% | 7.0% | 7.8% |
| Expected return on plan assets | 7.8%-8.0% | 10.0% | 6.5% | 7.8% |
| Future salary increases | 3.0%-6.5% | 8.5% | 2.5%-5.5% | 2.0%-3.0% |
| Future pension increases | 2.0%-2.5% | 2.0% | 1.0% | 2.5% |
| Portion of employees opting for early retirement | 15.0% | - | - | - |
| Future changes in National Insurance Scheme Ceilings | 3.5% | - | 2.0% | 3.5% |

| Other retirement benefits | Barbados | Jamaica |
|---|---|---|
| Discount rate | 7.0% | 11.0% |
| Expected return on plan assets | - | 10.0% |
| Future salary increases | - | 8.5% |
| Long term increase in health costs | 4.5% | 10.5% |

The effect of a change of 1% in the assumption for long-term increase in health costs as of December 31, 2010 is estimated as follows:

| | Effect of 1% decrease | Effect of 1% increase |
|---|---|---|
| Revised service cost | 430 | 667 |
| Revised interest cost | 1,037 | 1,418 |
| Revised accumulated retirement benefit | 9,562 | 13,437 |

32. INCOME TAXES

32.1 Income tax expense

| | 2010 | 2009 (restated) |
|---|---|---|
| Current tax | 14,816 | 15,652 |
| Deferred tax | 278 | 3,059 |
| Share of tax of associated companies | 216 | 621 |
| | 15,310 | 19,332 |

32.2 Derivation of income tax expense

Income tax arises from the following sources of income:

| | 2010 | 2009 (restated) |
|---|---|---|
| Investment income subject to direct taxation | 96,997 | 89,491 |
| Net income subject to direct taxation | 30,938 | 43,937 |
| Total income subject to taxation | 127,935 | 133,428 |

Amounts expressed in US$000

32. INCOME TAXES (continued)

32.2 Derivation of income tax expense (continued)

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

| | 2010 | 2009 (restated) |
|---|---|---|
| Income subject to tax | 127,935 | 133,428 |
| Tax calculated at the applicable rates on income subject to tax | 27,527 | 28,271 |
| Adjustments to current tax for items not subject to tax or not allowed for tax | (22,470) | (16,517) |
| Other current tax adjustments | (26) | (178) |
| Adjustments for current tax of prior periods | (117) | 17 |
| Movement in unrecognised deferred tax asset | 6,706 | 5,333 |
| Deferred tax (income) / expense relating to the origination of temporary differences | 1,349 | (62) |
| Deferred tax (income) / expense relating to changes in tax rates and the imposition of new taxes | 97 | 8 |
| Deferred tax expense that arises from the write down / (income from the reversal of a write down) of a deferred tax asset | 465 | (707) |
| Tax on distribution of profits from policyholder funds | - | 796 |
| Other taxes | 1,779 | 2,371 |
| | 15,310 | 19,332 |

33. DEFERRED INCOME TAXES

| | 2010 | 2009 (restated) |
|---|---|---|
| **Analysis of deferred income tax assets:** | | |
| Pensions and other retirement benefits | 694 | 1,132 |
| Unrealised losses on financial investments | 261 | 8,610 |
| Unused tax losses | 7,579 | 4,487 |
| Off-settable deferred income tax liabilities in respect of policy liabilities timing differences and other items | - | (619) |
| Other items | 675 | 1,662 |
| Total (note 11) | 9,209 | 15,272 |
| **Analysis of deferred income tax liabilities:** | | |
| Accelerated tax depreciation | 2,184 | 2,242 |
| Policy liabilities taxable in the future | 29,245 | 25,564 |
| Pensions and other retirement benefits | 11 | 645 |
| Accrued interest | 2,554 | 1,032 |
| Unrealised gains on financial investments | 13,812 | 2,771 |
| Off-settable deferred income tax assets in respect of unused tax losses and other items | (34,136) | (25,779) |
| Other items | 2,419 | 1,458 |
| Total (note 19) | 16,089 | 7,933 |
| **Deferred income tax balances include the following:** | | |
| Assets to be recovered within one year | 2,438 | 8,890 |
| Liabilities to be settled within one year | 9,222 | 6,124 |
| **Unrecognised balances:** | | |
| Tax losses | 127,212 | 110,968 |
| Potential deferred income tax assets | 32,673 | 28,588 |

## 34. EARNINGS AND DIVIDENDS PER COMMON SHARE

### 34.1 Earnings per common share

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

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

By substituting net income with total comprehensive income, the computations of total comprehensive income (TCI) per share are done similarly to earnings per share.

| | 2010 | 2009 (restated) | 2009 (previously stated) |
|---|---|---|---|
| Weighted average number of shares in issue in thousands | 290,037 | 278,386 | 278,386 |
| LTI restricted share grants | 605 | 412 | 412 |
| ESOP shares | 815 | 467 | 467 |
| Adjusted weighted average number of shares in issue | 291,457 | 279,265 | 279,265 |
| Net income attributable to shareholders | 16,560 | 66,846 | 50,502 |
| Basic earnings per common share | 5.7 cents | 24.0 cents | 18.1 cents |
| Fully diluted earnings per common share | 5.7 cents | 23.9 cents | 18.1 cents |
| TCI attributable to shareholders | 38,208 | 83,053 | 83,775 |
| TCI per common share | 13.2 cents | 29.8 cents | 30.1 cents |
| TCI per common share on a fully diluted basis | 13.1 cents | 29.7 cents | 30.0 cents |

## 34. EARNINGS AND DIVIDENDS PER COMMON SHARE (continued)

### 34.1 Earnings per common share (continued)

The effect of the changes in accounting policies described in note 2.1 (d) is to increase basic earnings per common share in 2010 by 5.2 cents (5.1 cents on a fully diluted basis).

### 34.2 Dividends per common share

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | US cents per share | $000 | US cents per share | $000 |
| **Dividends declared and paid:** | | | | |
| Final dividend in respect of the prior year | 2.0 | 5,794 | 2.0 | 5,553 |
| Interim dividend in respect of the current year | 2.0 | 5,797 | 2.0 | 5,564 |
| | 4.0 | 11,591 | 4.0 | 11,117 |
| **Dividends declared after the date of the financial statements:** | | | | |
| Final dividend in respect of the current year | 2.0 | 5,779 | 2.0 | 5,794 |

Year ended December 31, 2010 Amounts expressed in US$000

35. OTHER COMPREHENSIVE INCOME

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

| | 2010 | | | | 2009 (restated) | | | |
|---|---|---|---|---|---|---|---|---|
| | Group OCI before tax | Tax | Group OCI after tax | OCI after tax Attributable to shareholders | Group OCI before tax | Tax | Group OCI after tax | OCI after tax Attributable to shareholders |
| Fair value reserves – owner occupied property: | | | | | | | | |
| Unrealised gains / (losses) arising on revaluation | 770 | - | 770 | 693 | 1,176 | - | 1,176 | 1,176 |
| (Gains) / losses transferred to income on disposal | - | - | - | - | 155 | - | 155 | 54 |
| | 770 | - | 770 | 693 | 1,331 | - | 1,331 | 1,230 |
| Fair value reserves – available for sale assets: | | | | | | | | |
| Unrealised gains / (losses) arising on revaluation | 65,122 | (17,580) | 47,542 | 33,514 | 53,409 | (5,688) | 47,721 | 38,788 |
| (Gains) / losses transferred to income on disposal | (4,057) | (388) | (4,445) | (4,680) | (634) | (3,197) | (3,831) | (853) |
| | 61,065 | (17,968) | 43,097 | 28,834 | 52,775 | (8,885) | 43,890 | 37,935 |
| Fair value reserves – actuarial liabilities: | | | | | | | | |
| Net change in actuarial liabilities | (15,041) | 4,465 | (10,576) | (9,844) | (24,254) | 7,148 | (17,106) | (16,264) |
| Fair value reserves – cash flow hedges: | | | | | | | | |
| Unrealised gains / (losses) arising on revaluation | - | - | - | - | (2,551) | 850 | (1,701) | (1,011) |
| Retranslation of foreign currency operations | 6,007 | - | 6,007 | 1,965 | (12,996) | - | (12,996) | (5,554) |
| Other items | (309) | - | (309) | - | (129) | - | (129) | (129) |
| OCI for the year | 52,492 | (13,503) | 38,989 | 21,648 | 14,176 | (887) | 13,289 | 16,207 |

Amounts expressed in US$000

## 36. CASH FLOWS

### 36.1 Operating activities

| | 2010 | 2009 |
|---|---|---|
| **Adjustments for non-cash items, interest and dividends:** | | |
| Interest and dividend income | (248,881) | (262,889) |
| Net investment gains | (42,172) | (32,346) |
| Net increase in actuarial liabilities | 145,584 | 163,781 |
| Interest expense and finance costs | 94,366 | 117,710 |
| Depreciation and amortisation | 18,269 | 18,659 |
| Increase in provision for unearned premiums | 46,377 | 44,351 |
| Other items | (27,279) | (10,690) |
| | (13,736) | 38,576 |
| **Changes in operating assets:** | | |
| Investment property | (3,857) | 3,058 |
| Debt securities | (260,006) | (307,352) |
| Equity securities | (3,520) | 18,079 |
| Mortgage loans | 16,512 | (697) |
| Policy loans | 795 | (1,785) |
| Finance loans and finance leases | (16,650) | 7,158 |
| Securities purchased under agreement to resell | (1,563) | 1,963 |
| Deposits | (56,512) | (70,528) |
| Other assets and receivables | (30,339) | 2,332 |
| | (355,140) | (347,772) |

## 36. CASH FLOWS (continued

### 36.1 Operating activities (continued)

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

| | 2010 | 2009 |
|---|---|---|
| **Investment property:** | | |
| Disbursements | (11,233) | (806) |
| Disposal proceeds | 7,376 | 3,864 |
| | (3,857) | 3,058 |
| **Debt securities:** | | |
| Disbursements | (1,730,447) | (1,745,626) |
| Disposal proceeds | 1,470,441 | 1,438,274 |
| | (260,006) | (307,352) |
| **Equity securities:** | | |
| Disbursements | (62,079) | (42,943) |
| Disposal proceeds | 58,559 | 61,022 |
| | (3,520) | 18,079 |

## 36. CASH FLOWS (continued)

### 36.1 Operating activities (continued)

| | 2010 | 2009 |
|---|---|---|
| **Changes in operating liabilities:** | | |
| Insurance liabilities | 109,600 | 41,425 |
| Investment contract liabilities | (14,536) | 50,503 |
| Other funding instruments | (14,154) | 41,501 |
| Deposits | 11,925 | (314) |
| Securities | 85,005 | (12,881) |
| Other liabilities and payables | (9,492) | 43,847 |
| | 168,348 | 164,081 |

### 36.2 Investing activities

| | 2010 | 2009 |
|---|---|---|
| **Property, plant and equipment:** | | |
| Purchases | (13,306) | (11,604) |
| Disposal proceeds | 3,054 | 1,970 |
| | (10,252) | (9,634) |

### 36.3 Financing activities

| | 2010 | 2009 |
|---|---|---|
| **Notes and loans payable:** | | |
| Proceeds | - | 36,833 |
| Repayments | (14,452) | - |
| | (14,452) | 36,833 |

### 36.4 Cash and cash equivalents

| | 2010 | 2009 |
|---|---|---|
| Cash resources | 218,635 | 196,020 |
| Call deposits and other liquid balances | 80,085 | 141,412 |
| Bank overdrafts | (2,580) | (2,380) |
| Other short-term borrowings | (17,072) | (5,434) |
| | 279,068 | 329,618 |

## 37. DIVESTITURE, ACQUISITIONS AND OWNERSHIP CHANGES

### 37.1 Divestiture of interest in Sagicor General Insurance (Cayman) Limited (SGC)

Effective January 1, 2010, Sagicor Life of the Cayman Islands Limited (SLC) disposed of its 75% shareholding in SGC. The divestiture has been accounted for as follows:

| | $000 |
|---|---|
| Goodwill attributable to SGC | 933 |
| 75% share of net assets of SGC | 9,726 |
| | 10,659 |
| Proceeds on divestiture | 11,597 |
| Gain on divestiture | 938 |
| The gain on divestiture is attributable to: | |
| Shareholders | 555 |
| Minority interests | 383 |

At the time of divestiture, SLC purchased the 100% interest in Sagicor Insurance Managers Limited from SGC. This transaction has been accounted for as follows:

| | $000 |
|---|---|
| Net assets of Sagicor Insurance Managers | 270 |
| Purchase consideration - cash | 307 |
| Balance on acquisition | 37 |
| The balance on acquisition is attributable to: | |
| Shareholders | 22 |
| Minority interests | 15 |

The balance on acquisition has been net off the goodwill attributable to SGC.

Amounts expressed in US$000

## 37. DIVESTITURE, ACQUISITIONS AND OWNERSHIP CHANGES

### 37.2 Ownership changes – Pan Caribbean Financial Services (PCFS)

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

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

## 38. RESTATEMENTS

As set out in notes 2.13(a) and 13.2, the Group has changed its accounting policy for the recording of changes in actuarial liabilities arising from fair value movements of assets which are recorded in other comprehensive income. The change in accounting policy has been applied retroactively. The effect of the change to the statements of equity, income and comprehensive income for the year ended December 31, 2009 are summarised in the following tables.

| STATEMENT OF EQUITY | Previously stated | Prior year adjustment | Restated |
|---|---|---|---|
| Balance, January 1, 2009: | | | |
| Shareholders' equity - reserves | (85,272) | 12,695 | (72,577) |
| Shareholders' equity - retained earnings | 274,870 | (10,840) | 264,030 |
| Participating account | 12,499 | (1,855) | 10,644 |
| | 202,097 | - | 202,097 |
| Balance, December 31, 2009: | | | |
| Shareholders' equity - reserves | (38,238) | (4,371) | (42,609) |
| Shareholders' equity - retained earnings | 296,927 | 5,504 | 302,431 |
| Participating account | 6,984 | (1,133) | 5,851 |
| | 265,673 | - | 265,673 |

## 38. RESTATEMENTS (continued)

| STATEMENT OF INCOME - 2009 | Previously stated | Prior year adjustment | Restated |
|---|---|---|---|
| Income before taxes | 82,635 | 24,254 | 106,889 |
| Income taxes | (12,184) | (7,148) | (19,332) |
| Net income | 70,451 | 17,106 | 87,557 |
| Net income attributed to: | | | |
| Shareholders | 50,502 | 16,344 | 66,846 |
| Participating accounts | (5,113) | 762 | (4,351) |
| Minority interest | 25,062 | - | 25,062 |
| | 70,451 | 17,106 | 87,557 |

| STATEMENT OF COMPREHENSIVE INCOME - 2009 | Previously stated | Prior year adjustment | Restated |
|---|---|---|---|
| Net income | 70,451 | 17,106 | 87,557 |
| Other comprehensive income | 30,395 | (17,106) | 13,289 |
| Total comprehensive income | 100,846 | - | 100,846 |
| Total comprehensive income attributed to: | | | |
| Shareholders | 83,775 | (722) | 83,053 |
| Participating accounts | (5,255) | 722 | (4,533) |
| Minority interest | 22,326 | - | 22,326 |
| | 100,846 | - | 100,846 |

Amounts expressed in US$000

## 39. COMMITMENTS AND CONTINGENT LIABILITIES

### 39.1 Commitments

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

### 39.2 Contingent liabilities

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

| | 2010 | 2009 |
|---|---|---|
| Customer guarantees and letters of credit | 12,594 | 13,107 |
| Letter of credit facility | 81,559 | 84,127 |
| | 94,153 | 97,234 |

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

(a) Legal proceedings

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

(b) Tax assessments

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

## 39. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

### 39.2 Contingent liabilities (continued)

(c) Insurance contracts

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

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

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

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

(d) Hurricane Ivan claims

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

Amounts expressed in US$000

39. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

39.2 Contingent liabilities (continued)

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

In December 2008, SGC withdrew its claims against the third parties and the third parties lodged counterclaims against SGC. Indemnity costs, unpaid invoices, damages and Court awards were paid. In addition, counterclaims related to abuse of process were lodged by third parties against SGC.

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

As part of the agreement for sale of SGI, SLC placed part of the sale proceeds in an escrow to compensate for the possibility of court awards over and above the provision of $4,750 made by SGI at December 31, 2009. In February 2011, SLC received communication from its legal advisors that judgement had been handed down in respect of the case and recognised an additional liability of $2,500 representing its share of the court awarded costs and interest.

40. RELATED PARTY TRANSACTIONS

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

(a) Key management transactions and balances

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

| Compensation | 2010 | 2009 |
|---|---|---|
| Salaries, directors' fees and other short-term benefits | 17,412 | 18,334 |
| Equity-settled and cash settled compensation benefits | 1,619 | 2,943 |
| Pension and other retirement benefits | 832 | 928 |
| | 19,863 | 22,205 |

| | Mortgage loans | Other loans | Total loans |
|---|---|---|---|
| Balance, beginning of year | 4,528 | 209 | 4,737 |
| Advances | 305 | 286 | 591 |
| Repayments | (688) | (176) | (864) |
| Effects of exchange rate changes | (2) | 5 | 3 |
| Balance, end of year | 4,143 | 324 | 4,467 |
| Interest rates prevailing during the year | 5% - 8.0% | 5% - 17.95% | |

## 41. FINANCIAL RISK

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

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

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

### 41.1 Credit risk

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

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

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

## 41. FINANCIAL RISK (continued)

### 41.1 Credit risk (continued)

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | $000 | % | $000 | % |
| Government and government-guaranteed securities | 1,497,082 | 35.7% | 1,350,052 | 35.2% |
| Collateralised mortgage obligations | 159,574 | 3.8% | 193,487 | 5.0% |
| Corporate debt securities | 898,452 | 21.4% | 632,867 | 16.5% |
| Other securities | 53,444 | 1.3% | 47,883 | 1.3% |
| Total debt securities | 2,608,552 | 62.2% | 2,224,289 | 58.0% |
| Mortgage loans | 297,082 | 7.1% | 313,276 | 8.2% |
| Policy loans | 123,250 | 2.9% | 124,017 | 3.2% |
| Finance loans and finance leases | 144,065 | 3.4% | 135,078 | 3.5% |
| Securities purchased under agreements to resell | 28,567 | 0.7% | 82,315 | 2.1% |
| Derivative financial instruments | 12,070 | 0.3% | 4,105 | 0.1% |
| Deposits | 311,694 | 7.4% | 274,516 | 7.2% |
| Reinsurance assets | 240,939 | 5.7% | 249,113 | 6.5% |
| Premiums receivable | 145,175 | 3.5% | 128,794 | 3.4% |
| Other accounts receivable | 39,708 | 0.9% | 62,736 | 1.6% |
| Cash resources | 218,635 | 5.3% | 196,020 | 5.1% |
| Total financial statements exposures | 4,169,737 | 99.4% | 3,794,259 | 98.9% |
| Loan commitments | 13,002 | 0.3% | 31,029 | 0.8% |
| Customer guarantees and letters of credit | 12,594 | 0.3% | 13,107 | 0.3% |
| Total off financial statements exposures | 25,596 | 0.6% | 44,136 | 1.1% |
| Total | 4,195,333 | 100.0% | 3,838,395 | 100.0% |

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

Amounts expressed in US$000

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

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

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

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

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

As internal credit ratings have only been done by the larger subsidiaries within the Group, approximately 89% (2009 - 91%) by value of financial investments and cash balances have been covered. The results are as follows:

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

| Category | | Sagicor Risk Rating | Classification | 2010 Exposure $0000 | 2010 Exposure % | 2009 Exposure $0000 | 2009 Exposure % |
|---|---|---|---|---|---|---|---|
| Non-default | Investment grade | 1 | Minimal risk | 708,264 | 21 | 749,236 | 24 |
| | | 2 | Low risk | 615,763 | 18 | 556,182 | 18 |
| | | 3 | Moderate risk | 759,269 | 22 | 646,834 | 20 |
| | Non-investment grade | 4 | Acceptable risk | 193,973 | 6 | 255,034 | 7 |
| | | 5 | Average risk | 1,087,105 | 32 | 89,827 | 3 |
| | Watch | 6 | Higher risk | 34,377 | 1 | 854,125 | 27 |
| | | 7 | Special | 20,091 | - | 12,630 | - |
| Default | | 8 | Substandard | 23,849 | - | 22,882 | 1 |
| | | 9 | Doubtful | 5,229 | - | 5,041 | - |
| | | 10 | Loss | 2,308 | - | 1,634 | - |
| | | | TOTALS | 3,450,228 | 100 | 3,163,425 | 100 |

Amounts expressed in US$000

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

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

| | Sagicor Risk Rating | 2010 | Sagicor Risk Rating | 2009 |
|---|---|---|---|---|
| **Debt securities:** | | | | |
| Government of Jamaica | 5 | 916,457 | 6 | 769,958 |
| Federal government of USA | 1 | 96,024 | 1 | 132,363 |
| Federal agencies of the USA | 1 | 143,990 | 1 | 143,377 |
| Government of Barbados | 3 | 133,168 | 3 | 113,541 |
| Government of Trinidad and Tobago | 2 | 122,660 | 2 | 150,056 |
| **Deposits & cash:** | | | | |
| The Bank of Nova Scotia | 1 | 113,996 | 1 | 102,235 |
| **Reinsurance assets:** | | | | |
| Scottish Re (U.S.) Inc [1] | 7 | 109,624 | Not rated | 128,563 |
| Washington National Insurance Company [2] | 5 | 56,745 | 5 | 63,113 |

[1] The reinsurance asset held in the name of Scottish Re is secured by assets held in trust by a third party and by the Group (see note 9.2). The total assets held in trust amount to $149,819 (2009 - $178,362).

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

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

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

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

| | 2010 | 2009 |
|---|---|---|
| Barbados | 139,201 | 144,344 |
| Jamaica | 127,730 | 120,886 |
| Trinidad & Tobago | 103,886 | 106,401 |
| Other Caribbean | 45,902 | 47,681 |
| USA | 24,428 | 29,042 |
| | 441,147 | 448,354 |

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

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

For property casualty insurance premiums receivable, insurers frequently provide settlement terms to customers and intermediaries which extend up to 6 months.

Amounts expressed in US$000

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

(a) Past due and impaired financial investments

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

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

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

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

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

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

| | Debt securities | Mortgage loans | Finance loans /leases |
|---|---|---|---|
| **2010** | | | |
| With amounts past due up to 3 months | 10,945 | 54,833 | 39,908 |
| With amounts past due up to 12 months | 1,836 | 9,296 | 598 |
| With amounts past due up to 5 years | 331 | 6,952 | - |
| With amounts past due over 5 years | 33 | 8,127 | - |
| Total | 13,145 | 79,208 | 40,506 |
| Estimated fair value of collateral | 2,558 | 136,641 | 113,992 |
| **2009** | | | |
| With amounts past due up to 3 months | 21,164 | 20,237 | 18,447 |
| With amounts past due up to 12 months | 2,220 | 6,837 | 434 |
| With amounts past due up to 5 years | 766 | 6,086 | - |
| With amounts past due over 5 years | 52 | 6,100 | - |
| Total | 24,202 | 39,260 | 18,881 |
| Estimated fair value of collateral | - | 112,789 | 54,036 |

Amounts expressed in US$000

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

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

| | Gross carrying value | Accumulated allowance for impairment | Net carrying value | Estimated fair value of collateral |
|---|---|---|---|---|
| 2010 | | | | |
| Debt securities | 12,811 | (6,445) | 6,366 | 3,955 |
| Mortgage loans | 19,257 | (3,418) | 15,839 | 22,911 |
| Finance loans and finance leases | 6,242 | (2,706) | 3,536 | 25,863 |
| Total | 38,310 | (12,569) | 25,741 | 52,729 |
| 2009 | | | | |
| Debt securities | 14,415 | (7,651) | 6,764 | 5,931 |
| Mortgage loans | 18,806 | (2,310) | 16,496 | 26,884 |
| Finance loans and finance leases | 4,184 | (2,301) | 1,883 | 6,329 |
| Total | 37,405 | (12,262) | 25,143 | 39,144 |

Interest of $472 (2009 - $423) has been accrued on impaired financial investments.

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

41. FINANCIAL RISK (continued)

41.1 Credit risk (continued)

(b) Repossessed assets

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

(c) Renegotiated assets

The Group may renegotiate the terms of any financial investment to facilitate borrowers in financial difficulty. Arrangements to waive, adjust or postpone scheduled amounts due may be entered into. The Group classifies these amounts as past due, unless the original agreement is formally revised, modified or substituted, in which case, the financial investment is classified as renegotiated. The carrying value of financial investments at the date of the financial statements which were renegotiated during the year totalled $6,689 (2009 - $1,190).

41. FINANCIAL RISK (continued)

## 41.2 Liquidity risk

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

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

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

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

(a) Financial liabilities and commitments

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

Year ended December 31, 2010 Amounts expressed in US$000

41. FINANCIAL RISK (continued)

41.2 Liquidity risk (continued)

| | 2010 - Contractual cash flows | | | | 2009 - Contractual cash flows | | | |
|---|---|---|---|---|---|---|---|---|
| | Within 1 year | 1 to 5 years | After 5 years | Total | Within 1 year | 1 to 5 years | After 5 years | Total |
| **Financial liabilities:** | | | | | | | | |
| Investment contract liabilities | 264,112 | 27,785 | 6,221 | 298,118 | 286,627 | 17,405 | 3,166 | 307,198 |
| Notes and loans payable | 42,929 | 52,963 | 151,845 | 247,737 | 48,713 | 73,992 | 162,134 | 284,839 |
| Deposit and security liabilities: | | | | | | | | |
| Other funding instruments | 179,998 | 37,413 | 32,707 | 250,118 | 170,777 | 44,430 | 37,208 | 252,415 |
| Customer deposits | 135,637 | 38,943 | 12,107 | 186,687 | 128,382 | 32,489 | 13,064 | 173,935 |
| Structured products | 4,702 | 6,057 | 2,598 | 13,357 | - | 4,071 | 2,573 | 6,644 |
| Securities sold under agreements to repurchase | 578,773 | 709 | - | 579,482 | 507,664 | 359 | - | 508,023 |
| Derivative financial instruments | 1,372 | 66 | 411 | 1,849 | - | 199 | 2,049 | 2,248 |
| Bank overdrafts | 2,750 | - | - | 2,750 | 2,380 | - | - | 2,380 |
| Accounts payable and accrued liabilities | 149,510 | 7,054 | 30,894 | 187,458 | 156,205 | 8,774 | 30,688 | 195,667 |
| Total financial liabilities | 1,359,783 | 170,990 | 236,783 | 1,767,556 | 1,300,748 | 181,719 | 250,882 | 1,733,349 |
| **Off financial statement commitments:** | | | | | | | | |
| Loan commitments | 12,793 | 199 | 10 | 13,002 | 27,479 | 3,433 | 117 | 31,029 |
| Operating lease and rental payments | 4,253 | 6,214 | - | 10,467 | 4,585 | 9,253 | 3 | 13,841 |
| Total off financial statements commitments | 17,046 | 6,413 | 10 | 23,469 | 32,064 | 12,686 | 120 | 44,870 |
| **Total** | 1,376,829 | 177,403 | 236,793 | 1,791,025 | 1,332,812 | 194,405 | 251,002 | 1,778,219 |

Amounts expressed in US$000

41. FINANCIAL RISK (continued)

41.2 Liquidity risk (continued)

(b) Insurance liabilities

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

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Maturing within 1 year | Maturing 1 to 5 years | Maturing after 5 years | Total | Maturing within 1 year | Maturing 1 to 5 years | Maturing after 5 years | Total |
| Actuarial liabilities | 79,292 | 326,522 | 1,347,898 | 1,753,712 | 93,497 | 284,890 | 1,234,144 | 1,612,531 |
| Other insurance liabilities [1] | 244,530 | 88,881 | 92,085 | 425,496 | 156,785 | 66,177 | 77,228 | 300,190 |
| Total | 323,822 | 415,403 | 1,439,983 | 2,179,208 | 250,282 | 351,067 | 1,311,372 | 1,912,721 |

[1] Consists of monetary items

Amounts expressed in US$000

41. FINANCIAL RISK (continued)

41.2 Liquidity risk (continued)

(c) Financial and insurance assets

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

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Maturing within 1 year | Maturing 1 to 5 years | Maturing after 5 years | Total | Maturing within 1 year | Maturing 1 to 5 years | Maturing after 5 years | Total |
| Debt securities | 373,984 | 682,412 | 1,552,156 | 2,608,552 | 433,425 | 576,966 | 1,213,898 | 2,224,289 |
| Mortgage loans | 25,527 | 32,884 | 238,671 | 297,082 | 22,081 | 27,471 | 263,724 | 313,276 |
| Policy loans | 3,958 | 14,155 | 105,137 | 123,250 | 4,251 | 12,294 | 107,472 | 124,017 |
| Finance loans and finance leases | 65,832 | 58,481 | 19,752 | 144,065 | 56,466 | 51,631 | 26,981 | 135,078 |
| Securities purchased under agreements to resell | 28,530 | - | 37 | 28,567 | 82,315 | - | - | 82,315 |
| Deposits | 264,670 | 46,270 | 754 | 311,694 | 229,098 | 44,900 | 518 | 274,516 |
| Derivative financial instruments | 2,018 | 9,640 | 412 | 12,070 | 274 | 3,345 | 486 | 4,105 |
| Reinsurance assets: share of actuarial liabilities | 15,688 | 53,875 | 108,515 | 178,078 | 25,148 | 66,934 | 115,614 | 207,696 |
| Reinsurance assets: other | 44,921 | 13,366 | 4,574 | 62,861 | 33,794 | 3,084 | 4,539 | 41,417 |
| Premiums receivable | 145,175 | - | - | 145,175 | 128,043 | 751 | - | 128,794 |
| Other accounts receivable | 33,491 | 1,174 | 5,043 | 39,708 | 58,567 | 653 | 3,516 | 62,736 |
| Cash resources | 218,635 | - | - | 218,635 | 196,020 | - | - | 196,020 |
| Total | 1,222,429 | 912,257 | 2,035,051 | 4,169,737 | 1,269,482 | 788,029 | 1,736,748 | 3,794,259 |

41. FINANCIAL RISK (continued)

41.3 Interest rate risk

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

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

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

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

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

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

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

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

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

Amounts expressed in US$000

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

| | 2010 | | | | | 2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Exposure within 1 year | Exposure 1 to 5 years | Exposure after 5 years | Not exposed to interest | Total | Exposure within 1 year | Exposure 1 to 5 years | Exposure after 5 years | Not exposed to interest | Total |
| Other insurance liabilities [1] | 32,554 | 5,430 | 56,134 | 331,378 | 425,496 | 29,483 | 4,604 | 54,990 | 211,113 | 300,190 |
| Investment contract liabilities | 257,945 | 26,400 | 5,096 | 4,897 | 294,338 | 284,954 | 16,541 | 2,738 | 164 | 304,397 |
| Notes and loans payable | 30,527 | 7,155 | 145,838 | (1,635) | 181,885 | 36,513 | 20,005 | 146,811 | (2,485) | 200,844 |
| Deposit and security liabilities: | | | | | | | | | | |
| Other funding instruments | 174,792 | 27,445 | 27,033 | 347 | 229,617 | 174,177 | 28,742 | 30,187 | 337 | 233,443 |
| Customer deposits | 125,948 | 31,479 | 9,655 | 1,052 | 168,134 | 122,735 | 27,963 | 10,658 | 1,633 | 162,989 |
| Structured products | 2,309 | 740 | 1,533 | 1,073 | 5,655 | - | 3,765 | 1,534 | - | 5,299 |
| Securities sold under agreements to repurchase | 571,198 | 649 | - | 3,869 | 575,716 | 492,177 | 283 | - | 8,668 | 501,128 |
| Derivative financial instruments | - | - | - | 1,849 | 1,849 | - | - | - | 2,248 | 2,248 |
| Bank overdrafts | 2,580 | - | - | - | 2,580 | 2,380 | - | - | - | 2,380 |
| Accounts payable and accrued liabilities | 264 | 108 | - | 187,037 | 187,409 | 153 | | - | 195,514 | 195,667 |
| Total | 1,198,117 | 99,406 | 245,289 | 529,867 | 2,072,679 | 1,142,572 | 101,903 | 246,918 | 417,192 | 1,908,585 |

[1] Consists of monetary items

Amounts expressed in US$000

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

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

| | 2010 | | | | | 2009 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Exposure within 1 year | Exposure 1 to 5 years | Exposure after 5 years | Not exposed to interest | Total | Exposure within 1 year | Exposure 1 to 5 years | Exposure after 5 years | Not exposed to interest | Total |
| Debt securities | 580,495 | 567,323 | 1,416,369 | 44,365 | 2,608,552 | 595,890 | 527,013 | 1,056,989 | 44,397 | 2,224,289 |
| Equity securities | - | - | - | 111,552 | 111,552 | - | - | - | 116,846 | 116,846 |
| Mortgage loans | 84,318 | 27,457 | 180,850 | 4,457 | 297,082 | 90,812 | 23,554 | 194,604 | 4,306 | 313,276 |
| Policy loans | 3,220 | 13,991 | 102,400 | 3,639 | 123,250 | 3,418 | 12,166 | 104,441 | 3,992 | 124,017 |
| Finance loans and leases | 64,476 | 58,318 | 20,104 | 1,167 | 144,065 | 58,399 | 50,687 | 24,875 | 1,117 | 135,078 |
| Securities purchased under agreements to resell | 28,401 | - | 37 | 129 | 28,567 | 81,911 | - | - | 404 | 82,315 |
| Deposits | 307,682 | 1,389 | 431 | 2,192 | 311,694 | 268,806 | - | 304 | 5,406 | 274,516 |
| Derivative financial instruments | 845 | 1,661 | - | 9,564 | 12,070 | 196 | 648 | - | 3,261 | 4,105 |
| Reinsurance assets: other | 38 | 114 | 4,574 | 58,135 | 62,861 | 64 | 182 | 4,539 | 36,632 | 41,417 |
| Premiums receivable | 72 | - | - | 145,103 | 145,175 | - | - | - | 128,794 | 128,794 |
| Other accounts receivable | 415 | 1,159 | - | 38,134 | 39,708 | 398 | 564 | - | 61,774 | 62,736 |
| Cash resources | 122,528 | 1,568 | - | 94,539 | 218,635 | 153,089 | - | - | 42,931 | 196,020 |
| Total | 1,192,490 | 672,980 | 1,724,765 | 512,976 | 4,103,211 | 1,252,983 | 614,814 | 1,385,752 | 449,860 | 3,703,409 |

Year ended December 31, 2010 Amounts expressed in US$000

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

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

| | 2010 | 2009 |
|---|---|---|
| Financial assets: | | |
| Debt securities | 8.1% | 9.8% |
| Mortgage loans | 8.3% | 8.6% |
| Policy loans | 8.6% | 8.6% |
| Finance loans and finance leases | 11.4% | 12.9% |
| Securities purchased under agreements to resell | 5.6% | 15.5% |
| Deposits | 2.5% | 2.9% |
| Financial liabilities | | |
| Investment contract liabilities | 8.3% | 8.1% |
| Notes and loans payable | 8.7% | 8.7% |
| Other funding instruments | 2.0% | 2.4% |
| Customer deposits | 5.3% | 6.7% |
| Securities sold under agreements to repurchase | 7.4% | 11.8% |

a) Sensitivity

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

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

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

41. FINANCIAL RISK (continued)

41.3 Interest rate risk (continued)

*Pan Caribbean Financial Services Limited and its subsidiaries (PCFS)*

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

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

| 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|
| Change in interest rate | | Effect on net income | Effect on TCI | Change in interest rate | | Effect on net income | Effect on TCI |
| JMD | USD | | | JMD | USD | | |
| - 1% | - 0.5% | 1,841 | 10,112 | - 8% | - 3% | 8,394 | 35,379 |
| + 2% | + 0.5% | (3,401) | (14,974) | + 2% | + 1% | (2,617) | (8,471) |

41.4 Foreign exchange risk

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

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

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

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

| | US$ 000 equivalents of balances denominated in | | | | | | |
|---|---|---|---|---|---|---|---|
| 2010 | Barbados $ | Jamaica $ | Trinidad $ | UK £ | US $ | Other currencies | Total |
| ASSETS | | | | | | | |
| Financial investments(1) | 325,300 | 660,971 | 306,771 | 66,939 | 1,836,535 | 328,764 | 3,525,280 |
| Reinsurance assets | 4,336 | 515 | 7,791 | 17,425 | 203,283 | 7,589 | 240,939 |
| Receivables (1) | 11,109 | 27,524 | 8,971 | 48,788 | 53,331 | 35,160 | 184,883 |
| Cash resources | 14,242 | 9,260 | 24,456 | 33,506 | 75,669 | 61,502 | 218,635 |
| | 354,987 | 698,270 | 347,989 | 166,658 | 2,168,818 | 433,015 | 4,169,737 |
| Other assets (2) | 217,804 | 141,862 | 80,029 | 98,314 | 105,278 | 54,227 | 697,514 |
| Total assets | 572,791 | 840,132 | 428,018 | 264,972 | 2,274,096 | 487,242 | 4,867,251 |
| LIABILITIES | | | | | | | |
| Actuarial liabilities | 403,035 | 248,201 | 238,997 | 2,085 | 729,644 | 131,750 | 1,753,712 |
| Other insurance liabilities(1) | 62,412 | 20,179 | 19,739 | 146,242 | 120,193 | 56,731 | 425,496 |
| Investment contracts | 32,251 | 69,758 | 90,011 | - | 63,789 | 38,529 | 294,338 |
| Notes and loans payable | - | 7,192 | - | - | 174,693 | - | 181,885 |
| Deposits and securities | 53,573 | 342,108 | 7,299 | 4,216 | 562,405 | 13,950 | 983,551 |
| Provisions | 11,467 | 7,772 | 6,539 | 4,448 | 2,669 | 5,939 | 38,834 |
| Accounts payable and accruals | 20,022 | 36,538 | 19,346 | 18,253 | 77,242 | 16,008 | 187,409 |
| | 582,760 | 731,748 | 381,931 | 175,244 | 1,730,635 | 262,907 | 3,865,225 |
| Other liabilities (2) | 14,882 | 12,204 | 17,621 | 79,952 | 88,252 | 50,274 | 263,185 |
| Total liabilities | 597,642 | 743,952 | 399,552 | 255,196 | 1,818,887 | 313,181 | 4,128,410 |
| Net position | (24,851) | 96,180 | 28,466 | 9,776 | 455,209 | 174,061 | 738,841 |

(1) Monetary items

(2) Non-monetary balances, income tax balances and retirement plan assets

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

| | US$ 000 equivalents of balances denominated in | | | | | | |
|---|---|---|---|---|---|---|---|
| 2009 | Barbados $ | Jamaica $ | Trinidad $ | UK £ | US $ | Other currencies | Total |
| ASSETS | | | | | | | |
| Financial investments[1] | 325,176 | 492,749 | 299,953 | 62,810 | 1,673,319 | 303,589 | 3,157,596 |
| Reinsurance assets | 3,766 | 600 | 5,722 | 4,860 | 225,238 | 8,927 | 249,113 |
| Receivables [1] | 7,365 | 21,500 | 7,804 | 52,769 | 61,249 | 40,843 | 191,530 |
| Cash resources | 24,450 | 19,057 | 11,420 | 39,392 | 76,187 | 25,514 | 196,020 |
| | 360,757 | 533,906 | 324,899 | 159,831 | 2,035,993 | 378,873 | 3,794,259 |
| Other assets [2] | 223,658 | 146,180 | 80,219 | 63,604 | 84,478 | 67,574 | 665,713 |
| Total assets | 584,415 | 680,086 | 405,118 | 223,435 | 2,120,471 | 446,447 | 4,459,972 |
| LIABILITIES | | | | | | | |
| Actuarial liabilities | 385,487 | 201,290 | 220,299 | 1,260 | 685,917 | 118,278 | 1,612,531 |
| Other insurance liabilities[1] | 59,314 | 18,027 | 16,011 | 74,498 | 94,751 | 37,589 | 300,190 |
| Investment contracts | 29,839 | 53,346 | 85,648 | - | 100,845 | 34,719 | 304,397 |
| Notes and loans payable | - | 14,235 | - | - | 186,609 | - | 200,844 |
| Deposits and securities | 55,373 | 258,379 | 19,269 | - | 557,165 | 17,301 | 907,487 |
| Provisions | 10,022 | 6,646 | 5,737 | 6,467 | 376 | 10,111 | 39,359 |
| Accounts payable and accruals | 26,713 | 57,869 | 12,783 | 10,260 | 79,645 | 8,397 | 195,667 |
| | 566,748 | 609,792 | 359,747 | 92,485 | 1,705,308 | 226,395 | 3,560,475 |
| Other liabilities [2] | 15,164 | 8,090 | 14,411 | 63,969 | 79,273 | 37,162 | 218,069 |
| Total liabilities | 581,912 | 617,882 | 374,158 | 156,454 | 1,784,581 | 263,557 | 3,778,544 |
| Net position | 2,503 | 62,204 | 30,960 | 66,981 | 335,890 | 182,890 | 681,428 |

[1] Monetary items

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

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

(a) Sensitivity

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

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

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

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

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

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

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

- Currency risk of reported results of foreign operations

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

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

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

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

Amounts expressed in US$000

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

*(i) JMD currency risk*

The effect of a 10% depreciation in the JMD relative to the USD arising from JMD reporting units as of December 31, 2010 and for the year then ended are considered in the following table.

| | Amounts denominated in JMD | Amounts denominated in USD | Total amounts | Effect of a 10% depreciation |
|---|---|---|---|---|
| Financial position: | | | | |
| Assets | 836,085 | 617,299 | 1,453,384 | (76,008) |
| Liabilities | 743,781 | 439,942 | 1,183,723 | (67,617) |
| Net position | 92,304 | 177,357 | 269,661 | (8,391) |
| Represented by: | | | | |
| Currency risk of the Group's investment in foreign operations | | | | (8,391) |
| Income statement: | | | | |
| Revenue | 271,751 | 47,760 | 319,511 | (8,904) |
| Benefits | (146,583) | (16,453) | (163,036) | 13,326 |
| Expenses | (95,739) | (1,963) | (97,702) | 8,704 |
| Income taxes | (10,121) | (616) | (10,737) | 920 |
| Net income | 19,308 | 28,728 | 48,036 | 14,046 |
| Represented by: | | | | |
| Currency risk relating to the future cash flows of monetary balances | | | | 15,801 |
| Currency risk of reported results of foreign operations | | | | (1,755) |
| | | | | 14,046 |

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

41. FINANCIAL RISK (continued)

41.4 Foreign exchange risk (continued)

*(ii) GBP currency risk*

The effect of a 15% depreciation in the GBP relative to the USD arising from JMD reporting units as of December 31, 2010 and for the year then ended are considered in the following table.

| | Amounts denominated in GBP | Amounts denominated in USD | Total amounts | Effect of a 15% depreciation |
|---|---|---|---|---|
| Financial position: | | | | |
| Assets | 263,280 | 226,052 | 489,332 | (34,335) |
| Liabilities | 245,147 | 183,011 | 428,158 | (31,970) |
| Net position | 18,133 | 43,041 | 61,174 | (2,365) |
| Represented by: | | | | |
| Currency risk of the Group's investment in foreign operations | | | | (2,365) |
| Income statement: | | | | |
| Revenue | 135,239 | 134,865 | 270,104 | (5,084) |
| Benefits | (124,266) | (80,101) | (204,367) | 16,212 |
| Expenses | (63,989) | (44,624) | (108,613) | 8,348 |
| Income taxes | 1,739 | - | 1,739 | (227) |
| Net income | (51,277) | 10,140 | (41,137) | 19,249 |
| Represented by: | | | | |
| Currency risk relating to the future cash flows of monetary balances | | | | 12,559 |
| Currency risk of reported results of foreign operations | | | | 6,690 |
| | | | | 19,249 |

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

41. FINANCIAL RISK (continued)

## 41.5 Fair value of financial instruments

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

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

(b) Level 2 – inputs other than quoted prices in Level 1 that are observable for the instrument, either directly or indirectly.

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

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

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

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

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

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

Year ended December 31, 2010 Amounts expressed in US$000

41. FINANCIAL RISK (continued)

41.5 Fair value of financial instruments (continued)

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Available for sale securities: | | | | | | | | |
| Debt securities | 377,490 | 1,323,030 | 42,315 | 1,742,835 | 367,245 | 1,006,847 | 84,673 | 1,458,765 |
| Equity securities | 57,770 | 22,038 | 7,905 | 87,713 | 64,554 | 27,219 | 8,015 | 99,788 |
| | 435,260 | 1,345,068 | 50,220 | 1,830,548 | 431,799 | 1,034,066 | 92,688 | 1,558,553 |
| Financial assets designated at fair value: | | | | | | | | |
| Debt securities | 14,699 | 79,283 | 2,351 | 96,333 | 2,179 | 66,462 | 2,673 | 71,314 |
| Equity securities | 15,548 | 3,969 | 4,322 | 23,839 | 10,628 | 1,580 | 4,850 | 17,058 |
| Mortgage loans | - | - | 46,876 | 46,876 | - | - | 48,180 | 48,180 |
| Securities purchased under agreements to resell | - | - | 2,982 | 2,982 | - | - | 10,020 | 10,020 |
| | 30,247 | 83,252 | 56,531 | 170,030 | 12,807 | 68,042 | 65,723 | 146,572 |
| Derivative financial assets: | | | | | | | | |
| Equity indexed options | - | 521 | 8,675 | 9,196 | - | 803 | 2,365 | 3,182 |
| Interest rate swap | - | - | 2,506 | 2,506 | - | - | 843 | 843 |
| Foreign currency put option, currency forward and collar option | - | 368 | - | 368 | - | 80 | - | 80 |
| | - | 889 | 11,181 | 12,070 | - | 897 | 3,208 | 4,105 |
| Total assets | 465,507 | 1,429,209 | 117,932 | 2,012,648 | 444,606 | 1,103,005 | 161,619 | 1,709,230 |
| Total assets by percentage | 23% | 71% | 6% | 100% | 26% | 65% | 9% | 100% |

There have been no material transfers between Level 1 and Level 2 during 2010 and 2009.

Amounts expressed in US$000

41. FINANCIAL RISK (continued)

41.5 Fair value of financial instruments (continued)

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Policy liabilities: | | | | | | | | |
| Unit linked deposit administration liabilities | - | 83,847 | - | 83,847 | - | 76,587 | - | 76,587 |
| Non-derivative financial liabilities: | | | | | | | | |
| Structured products | - | - | 5,655 | 5,655 | - | - | 5,299 | 5,299 |
| Derivative financial liabilities: | | | | | | | | |
| Exchange traded funds | 1,328 | - | - | 1,328 | 1,431 | - | - | 1,431 |
| Equity indexed options | - | 521 | - | 521 | - | 817 | - | 817 |
| | 1,328 | 521 | - | 1,849 | 1,431 | 817 | - | 2,248 |
| Total liabilities | 1,328 | 84,368 | 5,655 | 91,351 | 1,431 | 77,404 | 5,299 | 84,134 |
| Total liabilities by percentage | 1% | 93% | 6% | 100% | 2% | 92% | 6% | 100% |

There have been no material transfers between Level 1 and Level 2 during 2010 and 2009.

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

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

The following tables present the movements in Level 3 instruments for the year.

Amounts expressed in US$000

41. FINANCIAL RISK (continued)

41.5 Fair value of financial instruments (continued)

| | 2010 | | | | 2009 | 2010 | | 2009 |
|---|---|---|---|---|---|---|---|---|
| | Available for sale assets | Assets designated at fair value | Derivative assets | Total assets | Total assets | Non-derivative liabilities | Total liabilities | Total liabilities |
| Balance, beginning of year | 92,688 | 65,723 | 3,208 | 161,619 | 165,201 | 5,299 | 5,299 | 13,604 |
| Additions | 5,015 | 7,480 | 4,362 | 16,857 | 31,055 | 390 | 390 | - |
| Issues | - | - | - | - | - | 48 | 48 | - |
| Transfers into Levels 3 | 95 | - | - | 95 | 8,706 | - | - | 552 |
| Fair value changes recorded in income | (101) | 1,493 | 2,359 | 3,751 | 3,685 | - | - | - |
| Fair value changes recorded in other comprehensive income | 690 | - | 1,516 | 2,206 | 1,849 | - | - | (10,009) |
| Disposals and divestitures | (34,715) | (18,705) | (264) | (53,684) | (39,917) | - | - | - |
| Settlements | - | - | - | - | - | (77) | (77) | - |
| Transfers from Level 3 | (15,507) | - | - | (15,507) | - | - | - | - |
| Effect of exchange rate changes | 2,055 | 540 | - | 2,595 | (8,960) | (5) | (5) | 1,152 |
| Balance, end of year | 50,220 | 56,531 | 11,181 | 117,932 | 161,619 | 5,655 | 5,655 | 5,299 |
| Fair value changes recorded in income for instruments held at end of year | - | 1,432 | 2,223 | 3,655 | - | - | - | - |

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

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

Amounts expressed in US$000

41. FINANCIAL RISK (continued)

### 41.5 Fair value of financial instruments (continued)

(a) Sensitivity

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

The effects of an across the board 20% change in equity prices of the Group's available for sale equity securities as of December 31, 2010 on total comprehensive income before tax (TCIBT) are as follows.

| Available for sale equities | Carrying value | Effect of a 20% change on TCIBT |
|---|---|---|
| Listed on Caribbean stock exchanges and markets | 28,433 | 5,687 |
| Listed on US stock exchanges and markets | 47,657 | 9,531 |
| Listed on other exchanges and markets | 11,623 | 2,325 |
| | 87,713 | 17,543 |

### 41.6 Derivative financial instruments and hedging activities

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

41. FINANCIAL RISK (continued)

### 41.6 Derivative financial instruments and hedging activities (continued)

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Derivatives held for trading: | | | | |
| Currency forward | 70 | - | - | - |
| Exchange traded funds – short sale | - | 1,328 | - | 1,431 |
| Foreign currency put option | - | - | 80 | - |
| Foreign exchange collar option | 298 | - | - | - |
| Equity indexed options | 9,196 | 521 | 3,182 | 817 |
| Interest rate swap | 2,506 | - | - | - |
| | 12,070 | 1,849 | 3,262 | 2,248 |
| Derivatives designated as cash flow hedges: | | | | |
| Interest rate swap | - | - | 843 | - |
| | 12,070 | 1,849 | 4,105 | 2,248 |

*(i) <u>Currency forward</u>*

Currency forwards represent commitments to buy and sell foreign currencies on a gross basis at future dates at specified prices. The credit risk is evaluated for each contract and is collateralised where deemed necessary. The currency forward contracts are settled on a net basis. The contract expires in January 2011.

41. FINANCIAL RISK (continued)

41.6 Derivative financial instruments and hedging activities (continued)

*(ii) Exchange traded funds – short sale*

During 2009, the Group entered into transactions to sell euro currencies that were borrowed from a broker. The Group benefits if there is a decline in the asset price between the sale and the repurchase date. The contract expires in January 2011.

*(ii) Foreign currency put option*

Foreign currency put options are contractual agreements under which the seller grants the purchaser the right but not the obligation to sell at a set date, a specified amount of a foreign currency at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange risk.

*(iii) Foreign exchange collar option*

During the year the Group entered a collar to sell a call option and buy a put option; the notional amount was £963,000 and will be settled on a net basis. The contract expires on various settlement dates ending in December 2012.

*(iv) Equity indexed options*

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

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

41. FINANCIAL RISK (continued)

41.6 Derivative financial instruments and hedging activities (continued)

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

*(v) Cash flow hedge – interest rate swap*

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

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

During the year, the Group discontinued hedge accounting as the hedge relationship was no longer effective arising from the Jamaica Debt Exchange programme. Hedge accounting was therefore ceased from January 1, 2010. Consequently, effective January 1, 2010, changes in fair value of the interest rate swap are now recognised in revenue in the statement of income. The amount recognised in the current year is $1,063, net of deferred tax. The hedge accounting gains and losses up to December 31, 2009 will be transferred to the statement of income as interest income is recognised on the floating rate financial instrument.

## 42. INSURANCE RISK

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

### 42.1 Property and casualty insurance risks

(a) Pricing risk

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

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

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

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

## 42. INSURANCE RISK (continued)

### 42.1 Property and casualty insurance risks (continued)

(b) Claims risk

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

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

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

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

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

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

Amounts expressed in US$000

42. INSURANCE RISK (continued)

42.1 Property and casualty insurance risks (continued)

(c) Concentration of insurance risk

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

| 2010 Premium revenue by geographical location | Gross | Ceded | Net |
|---|---|---|---|
| Barbados | 22,197 | 17,315 | 4,882 |
| Jamaica | 567 | 138 | 429 |
| Trinidad & Tobago | 28,563 | 19,412 | 9,151 |
| Other Caribbean | 12,094 | 6,761 | 5,333 |
| United Kingdom | 124,495 | 14,295 | 110,200 |
| USA | 108,280 | 19,827 | 88,453 |
| Rest of the world & worldwide | 158,006 | 26,236 | 131,770 |
| Total | 454,202 | 103,984 | 350,218 |

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

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

42. INSURANCE RISK (continued)

42.1 Property and casualty insurance risks (continued)

Realistic disaster scenarios modelled for 2010 resulted in estimated losses in the originating currencies. Four scenarios are listed below.

| Scenario: | Gross loss | Net loss |
|---|---|---|
| A $112,500,000 industry loss from a Gulf of Mexico hurricane resulting in offshore energy insured loss of approximately $5,500,000 and mainland property losses of $107,000,000 including the consideration of demand surge and storm surge. | 62,684 | 14,684 |
| North East Windstorm: A $78,000,000 industry loss, for a major hurricane making landfall in New York State, with damage also occurring in neighbouring states. | 72,373 | 16,524 |
| California Quake - San Francisco. A $78,000,000 industry property (shake and fire following) loss, including consideration of demand surge, from an earthquake originating from the San Andreas Fault (North) near San Francisco. | 75,118 | 16,316 |
| Hurricane affecting Barbados and St. Lucia having a 100 year return period. | 220,053 | 5,000 |

(d) Reinsurance risk

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

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

## 42. INSURANCE RISK (continued)

### 42.1 Property and casualty insurance risks (continued)

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

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

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

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

42. INSURANCE RISK (continued)

42.1 Property and casualty insurance risks (continued)

| Caribbean operations | Retention by insurers - currency amounts in thousands |
|---|---|
| Property risks | • maximum retention of $3,750 for a single event;<br>• maximum retention of $5,000 for a catastrophic event;<br>• quota share retention to maximum of 25% in respect of treaty limits;<br>• quota share retention is further reduced to a maximum of $500 per event. |
| Motor and liability risks | • maximum retention of $500 for a single event;<br>• quota share retention a maximum of 50% in respect of treaty limits<br>• treaty limits apply. |
| Miscellaneous accident risks | • maximum retention of $75 for a single event; treaty limits apply. |
| Engineering business risks | • maximum retention of $250 for a single event;<br>• treaty limits apply. |
| Property, motor, and engineering risks | • catastrophic excess of loss reinsurance cover is available per event for amounts in excess of treaty limits;<br>• treaty limits apply to catastrophic excess of loss coverage. |

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42. INSURANCE RISK (continued)

42.1 Property and casualty insurance risks (continued)

| UK operations - underwriting year 2010 | Retention by insurers - currency amounts in thousands |
|---|---|
| Direct property risks | • maximum retention of $2,500 per risk;<br>• maximum retention of $15,000 for 1st loss, $5,000 for 2nd loss, $5,000 for 3rd loss, for catastrophe exposed events;<br>• treaty and aggregate limits apply. |
| Personal accident risks | • maximum retention of $3,000 per risk;<br>• maximum retention of $3,000 per event;<br>• maximum retention of $2,000 per person<br>• maximum retention of £300 per travel and medical risk;<br>• treaty limits apply |
| Special lines (liability) and liability | • maximum retention of £5,000 per event;<br>• treaty limits apply. |
| International treaty property | • maximum retention of £5,000 per event;<br>• treaty limits apply. |
| Direct motor | • 70% quota share retention per event<br>• maximum retention - £500 per event;<br>• treaty limits apply |

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

42. INSURANCE RISK (continued)

42.1 Property and casualty insurance risks (continued)

(e) Credit risk – reinsurance exposures

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

- North East Windstorm: A $78,000,000 industry loss, for a major hurricane making landfall in New York State, with damage also occurring in neighbouring states;
- Hurricane with a 250 year return period affecting Barbados and St. Lucia and an earthquake with a 250 year return period affecting Trinidad within a 24 hour period.

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

| Category | | Sagicor Risk Rating | Classification | Exposure $000 | Exposure % |
|---|---|---|---|---|---|
| Non-default | Investment grade | 1 | Minimal risk | 275,055 | 32 |
| | | 2 | Low risk | 553,755 | 65 |
| | | 3 | Moderate risk | - | - |
| | Non- investment grade | 4 | Acceptable risk | 28,024 | 3 |
| | | 5 | Average risk | - | - |
| | Watch | 6 | Higher risk | - | - |
| | | | TOTAL | 856,834 | 100 |

42. INSURANCE RISK (continued)

42.2 Term life, health and critical illness insurance risks

(a) Pricing risk

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

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

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

(b) Mortality risk and morbidity

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

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

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

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

42. INSURANCE RISK (continued)

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

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

42.3 Life and annuity insurance risks (with investment returns)

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

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

(a) Mortality risk

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

(b) Lapse risk

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

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

Amounts expressed in US$000

42. INSURANCE RISK (continued)

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

(c) Expense risk

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

(d) Financial risk

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

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

(a) Mortality and morbidity risk

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

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

42. INSURANCE RISK (continued)

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

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

| | Gross amount insured | | Net amount insured | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Contracts issued to individuals – life insurance | 19,480,346 | 17,767,943 | 15,853,511 | 14,417,374 |
| Contracts issued to groups – life insurance | 10,470,005 | 8,288,414 | 7,804,779 | 6,539,084 |

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

| 2010 Premium revenue by location of insureds | Gross | Ceded | Net |
|---|---|---|---|
| Barbados | 19,083 | 1,076 | 18,007 |
| Jamaica | 70,938 | 1,412 | 69,526 |
| Trinidad & Tobago | 16,178 | 634 | 15,544 |
| Other Caribbean | 26,259 | 1,019 | 25,240 |
| USA | 290 | 215 | 75 |
| Total | 132,748 | 4,356 | 128,392 |

## 42. INSURANCE RISK (continued)

### 42.5 Reinsurance risk (life, annuity and health insurance)

To limit its exposure of potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. The Group selects reinsurers which have well established capability to meet their contractual obligations and which generally have high credit ratings. The credit ratings of reinsurers are monitored. Reinsurance ceded does not discharge the insurer's liability and failure by a reinsurer to honour its commitments could result in losses to the Group.

For life, annuity and health insurance risks, insurers limit their exposure per person by excess of loss or quota share treaties.

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

| Type of insurance contract | Retention by insurers<br>- currency amounts in thousands |
|---|---|
| Health insurance contracts with individuals | Retention per individual to a maximum of $75 |
| Health insurance contracts with groups | Retention per individual to a maximum of $75 |
| Life insurance contracts with individuals | Retention per individual life to a maximum of $783 |
| Life insurance contracts with groups | Retention per individual life to a maximum of $783 |
| Life insurance and annuity blocks of contracts | 0% to 37.5% retention on policy liabilities |

The effects of reinsurance ceded are disclosed in the notes 13, 14, 24 and 27. Information on reinsurance balances are disclosed in notes 10, 20 and 41.

## 43. SENSITIVITY ANALYSIS OF ACTUARIAL LIABILITIES

Actuarial liabilities comprise 73% of total insurance liabilities (2009 – 76%). The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in those assumptions could have a significant effect on the valuation results. These factors are discussed below.

### 43.1 Sensitivity arising from the valuation of life insurance and annuity contracts

The valuation of actuarial liabilities of life insurance and annuity contracts is sensitive to:

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

Under the CALM methodology, the AA is required to test the actuarial liability under 9 economic scenarios. These tests have been done and the results of the valuation provide adequately for liabilities derived from the worst of these different scenarios.

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

The other assumptions which are most sensitive in determining the actuarial liabilities of the Group are:

- Operating expenses and taxes
- Lapse
- Mortality and morbidity

The scenarios developed and tested by insurers were as follows.

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## 43. SENSITIVITY ANALYSIS OF ACTUARIAL LIABILITIES (continued)

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

<table>
<tr><th>Sensitivity</th><th colspan="3">Scenario</th></tr>
<tr><td></td><td>Sagicor Life Inc segment</td><td>Sagicor Life Jamaica segment</td><td>Sagicor USA segment</td></tr>
<tr><td>Worsening rate of lapse</td><td>Lapse rates were either doubled or halved, and the more adverse result was selected.</td><td colspan="2">For business which produces higher valuation reserves with an increase in lapse rates, the scenario lapse rates were doubled. For business which produces higher valuation reserves with a decrease in lapse rates, the scenario lapse rates were halved.</td></tr>
<tr><td>High interest rate</td><td>Assumed increases in the investment portfolio yield rates of 0.25% per year for 5 years.</td><td>Assumed increases in the investment portfolio yield rates of 0.5% for 10 years.</td><td>A 1% flat increase was applied to the statutory and pricing interest rate.</td></tr>
<tr><td>Low interest rate</td><td>Assumed decreases in investment portfolio yield rates of 0.25% per year for 5 years.</td><td>Assumed decreases in investment portfolio yield rates of 0.5% per year for 10 years.</td><td>A 1% flat decrease was applied to the statutory and pricing interest rate.</td></tr>
<tr><td>Worsening mortality and morbidity</td><td colspan="2">Mortality and morbidity rates for insurance and critical illness products were increased by 3% of the base rate per year for 5 years.<br>For annuity products, the mortality rates were decreased by 3% of the base rate for 5 years.</td><td>For life insurance products only, the base assumed rates were increased annually by 3% cumulatively over the next five years.</td></tr>
<tr><td>Higher expenses</td><td colspan="2">Policy unit maintenance expense rates were increased by 5% for 5 years above those reflected in the base scenario.</td><td>The assumed inflation rate was increased annually by 5% cumulatively over the next five years.</td></tr>
</table>

## 43. SENSITIVITY ANALYSIS OF ACTUARIAL LIABILITIES (continued)

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

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

| | Sagicor Life Inc segment | | Sagicor Life Jamaica segment | | Sagicor USA segment | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Base net actuarial liability - $000 | 759,399 | 730,013 | 347,449 | 300,801 | 454,397 | 367,048 |
| Scenario | % change in liability | | % change in liability | | % change in liability | |
| Worsening rate of lapse | 64,978 | 62,576 | 37,183 | 32,783 | 19,022 | 15,366 |
| High interest rate | (62,479) | (45,587) | (57,884) | (54,373) | (27,401) | (22,134) |
| Low interest rate | 106,512 | 66,075 | 93,590 | 62,269 | 31,559 | 25,493 |
| Worsening mortality / morbidity | 24,830 | 19,714 | 24,229 | 20,480 | 8,795 | 7,104 |
| Higher expenses | 30,509 | 28,673 | 19,967 | 16,641 | 1,166 | 942 |

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## 43. SENSITIVITY ANALYSIS OF ACTUARIAL LIABILITIES (continued)

### 43.2 Dynamic capital adequacy testing (DCAT)

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

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

The financial condition of an insurer at a particular date is its prospective ability at that date to meet its future obligations, especially obligations to policyholders, those to whom it owes benefits and to its shareholders.

The financial condition analysis examines both an insurer's ability to execute its business plan and to absorb adverse experience beyond that provided for when its actuarial liabilities are established.

The purpose of the DCAT is

- to develop an understanding of the sensitivity of the total equity of the insurer and future financial condition to changes in various experience factors and management policies;
- to alert management to material, plausible and imminent threats to the insurer's solvency;
- and to describe possible courses of action to address these threats.

Full DCAT is conducted periodically by insurers within the Group.

## 44. ANALYSIS OF PROPERTY AND CASUALTY CLAIM LIABILITIES

### 44.1 Development of claim liabilities

The development of an insurer's claims in the course of settlement provides a measure of its ability to estimate the ultimate value of claims incurred. In the following tables, estimates of total ultimate claims incurred and recoverable from reinsurers for each year are provided at successive year ends. The most recent estimate is then reconciled to the recognised liability.

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

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

Amounts expressed in US$000

44. ANALYSIS OF PROPERTY AND CASUALTY CLAIM LIABILITIES (continued)

44.1 Development of claim liabilities

| | CARIBBEAN OPERATIONS - BY ACCIDENT YEAR | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | Total |
| Estimate of gross claims incurred as of December 31 | 9,206 | 21,325 | 16,953 | 15,521 | 18,643 | 81,648 |
| One year later | 8,658 | 16,247 | 16,256 | 15,215 | - | - |
| Two years later | 8,535 | 15,305 | 16,101 | - | - | - |
| Three years later | 8,368 | 15,237 | - | - | - | - |
| Four years later | 8,786 | - | - | - | - | - |
| Most recent year | 8,786 | 15,237 | 16,101 | 15,215 | 18,643 | 73,982 |
| Cumulative payments to date | (7,781) | (14,320) | (14,050) | (11,194) | (9,215) | (56,560) |
| Gross liability recognised | 1,005 | 917 | 2,051 | 4,021 | 9,428 | 17,422 |
| Liability for prior years | - | - | - | - | - | 1,217 |
| Total liability | - | - | - | - | - | 18,639 |
| Net favourable (unfavourable) development | 420 | 6,088 | 852 | 306 | - | 7,666 |
| Estimate of reinsurers' share as of December 31 | 1,266 | 9,922 | 9,411 | 8,392 | 11,020 | 39,971 |
| One year later | 886 | 6,693 | 9,540 | 8,207 | - | - |
| Two years later | 884 | 6,327 | 9,392 | - | - | - |
| Three years later | 999 | 6,293 | - | - | - | - |
| Four years later | 975 | - | - | - | - | - |
| Most recent year | 975 | 6,293 | 9,392 | 8,207 | 11,020 | 35,887 |
| Cumulative receipts to date | (951) | (6,204) | (8,226) | (6,060) | (4,969) | (26,410) |
| Recoverable recognised | 24 | 89 | 1,166 | 2,147 | 6,051 | 9,477 |
| Recoverable for prior years | - | - | - | - | - | (235) |
| Total recoverable from reinsurers | - | - | - | - | - | 9,242 |
| Net (favourable) unfavourable development | 251 | 3,629 | 19 | 185 | - | 4,084 |

Amounts expressed in US$000

44. ANALYSIS OF PROPERTY AND CASUALTY CLAIM LIABILITIES (continued)

| 44.1 Development of claim liabilities | UK OPERATIONS - BY UNDERWRITING YEAR | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | 2009 | 2010 | Total |
| Estimate of gross claims incurred as of December 31 | 48,285 | 55,700 | 109,814 | 193,513 | 262,362 | 669,674 |
| One year later | 36,547 | 57,384 | 119,218 | 212,784 | - | - |
| Two years later | 34,571 | 58,385 | 131,771 | - | - | - |
| Three years later | 33,610 | 58,748 | - | - | - | - |
| Four years later | 32,931 | - | - | - | - | - |
| Most recent year | 32,931 | 58,748 | 131,771 | 212,784 | 262,362 | 698,596 |
| Cumulative payments to date | (30,954) | (53,629) | (92,159) | (93,347) | (14,686) | (284,775) |
| Claims on unearned premiums | - | - | (16) | (10,072) | (140,641) | (150,729) |
| Gross liability recognised | 1,977 | 5,119 | 39,596 | 109,365 | 107,035 | 263,092 |
| Liability for prior years | - | - | - | - | - | 16,046 |
| **Total liability** | - | - | - | - | - | 279,138 |
| Net favourable (unfavourable) development | 15,354 | (3,048) | (21,957) | (19,271) | - | (28,922) |
| Estimate of reinsurers' share as of December 31 | 13 | - | 9,869 | 8,114 | 14,650 | 32,646 |
| One year later | - | 2,777 | 6,738 | 14,634 | - | - |
| Two years later | 94 | 2,043 | 17,691 | - | - | - |
| Three years later | 24 | 2,125 | - | - | - | - |
| Four years later | 50 | - | - | - | - | - |
| Most recent year | 50 | 2,125 | 17,691 | 14,634 | 14,650 | 49,150 |
| Cumulative receipts to date | - | (1,184) | (7,164) | (2,563) | - | (10,911) |
| Recoverable from claims on unearned premiums | - | - | (5) | (731) | (4,033) | (4,769) |
| Recoverable recognised | 50 | 941 | 10,522 | 11,340 | 10,617 | 33,470 |
| Recoverable for prior years | - | - | - | - | - | 1,984 |
| **Total recoverable from reinsurers** | - | - | - | - | - | 35,454 |
| Net (favourable) unfavourable development | (37) | (2,125) | (7,822) | (6,520) | - | (16,504) |

Amounts expressed in US$000

44. ANALYSIS OF PROPERTY AND CASUALTY CLAIM LIABILITIES (continued)

### 44.2 Sensitivity of claim liabilities

The effect of a 5% increase in the property and casualty net claims ratio would result in a decrease in income before taxes of $17,511 (2009 – $12,475).

## 45. CAPITAL MANAGEMENT

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

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

### 45.1 Capital resources

The principal capital resources of the Group are as follows:

| | 2010 | 2009 |
|---|---|---|
| Shareholders' equity | 565,552 | 538,074 |
| Minority interest | 168,942 | 137,503 |
| Notes and loans payable | 181,885 | 200,844 |
| Total financial statements capital resources | 916,379 | 876,421 |
| Letter of credit facilities, net of collateral assets | 34,530 | 35,775 |
| Total off financial statements resources | 34,530 | 35,775 |
| Total capital resources | 950,909 | 912,196 |

45. CAPITAL MANAGEMENT (continued)

### 45.1 Capital resources (continued)

The Group deploys its capital resources through its operating activities. These operating activities are carried out by subsidiary companies which are either insurance entities or provide other financial services. The capital is deployed in such a manner as to ensure that subsidiaries have adequate and sufficient capital resources to carry out their activities and to meet regulatory requirements.

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

### 45.2 Capital adequacy

(a) Life insurers

Capital adequacy is managed at the operating company level. It is calculated by the Appointed Actuary and reviewed by executive management, the audit committee and the board of directors. In addition, the Group seeks to maintain internal capital adequacy at levels higher than the regulatory or internationally recognised requirements. To assist in evaluating the current business and strategy opportunities, a risk-based capital approach is a core measure of financial performance. The risk-based assessment measure which has been adopted is the Canadian Minimum Continuing Surplus and Capital Requirement (MCCSR) standard. The minimum standard recommended by the Canadian regulators for companies is an MCCSR of 150%. A number of jurisdictions in the Caribbean region have no internationally recognised capital adequacy requirements, and in accordance with its objectives for managing capital, the Group has adopted the Canadian MCCSR standard.

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

| | 2010 | 2009 |
|---|---|---|
| Sagicor Group | 224% | 273% |

Amounts expressed in US$000

45. CAPITAL MANAGEMENT (continued)

45.2 Capital adequacy (continued)

(b) Sagicor at Lloyd's: Syndicates 1206 & 44

The Financial Services Authority (FSA) Lloyd's sourcebook requires Lloyd's syndicates to comply with an Individual Capital Adequacy Standards regime. A key objective of the regime is that syndicate management focuses on risk management and there is a clearly defined link between risk and capital setting.

Sagicor at Lloyd's has adopted an approach whereby risks identified as having a material effect on the capital requirements are documented within a risk register are shown as prime risks. It is recognised that this register is dependent on both the identification and subsequent analysis of individual risks by management. The risk register is subject to regular review and is updated to reflect the changes in the syndicate's risk profile. The risk classes comprise insurance, credit, market, liquidity, Group and operational risks.

The Individual Capital Assessment (ICA) is calculated using "stress and scenario" methodology for prime risk categories except for reserving risk where a stochastic model is used. Prime risks have been correlated to minimise potential aggregation of risks.

Each year, an ICA is prepared based on a one year event horizon and capital requirements are based on the 99.5% confidence level over the next year. The ICA provides for all losses modelled to ultimate. An overall ICA number is computed. To this is added a premium and the resulting total, known as the Funds at Lloyd's requirement (FaL) is placed at the disposal of Lloyd's of London. The FaL may consist of cash, securities or banker's irrevocable standby letters of credit. The FaL is put into effect before the start of the underwriting year and remains in place until the underwriting year closes and its profits are distributed or its losses are assumed by the participating member. An underwriting year is normally held open for a period of three years. The FaL requirements for the Syndicates at the beginning of each underwriting are as follows:

45. CAPITAL MANAGEMENT (continued)

45.2 Capital adequacy (continued)

| | Underwriting year | | |
|---|---|---|---|
| | 2011 - £000 | 2010 - £000 | 2009 - £000 |
| FaL requirement: | | | |
| Syndicate 1206 | 137,241 | 98,440 | 65,000 |
| Syndicate 44 | 4,438 | 4,899 | 2,833 |
| | 141,679 | 103,339 | 67,833 |
| Represented by: | | | |
| Banker's letters of credit | 52,100 | 52,100 | 52,100 |
| Deposits at Lloyd's of London | 31,622 | 30,934 | 733 |
| Reinsurance financing | 60,000 | 18,750 | 15,000 |
| Solvency surplus | - | 1,555 | - |
| | 141,722 | 103,339 | 67,833 |

(c) Pan Caribbean Financial Services Group

Capital adequacy and the use of regulatory capital are monitored monthly by the PCFS Group management employing techniques based on the guidelines developed by the Financial Services Commission (FSC), the Bank of Jamaica (BOJ), Basel II and the Risk Management and Compliance Unit. The required information is filed with the respective Regulatory Authorities at stipulated intervals. The BOJ and the FSC require each regulated entity to:

- Hold the minimum level of regulatory capital;
- Maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

Amounts expressed in US$000

45. CAPITAL MANAGEMENT (continued)

45.2 Capital adequacy (continued)

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

The table below summarises the ratios of the regulated companies within the PCFS Group for the years ended December 31, 2010 and 2009. During those two years, the individual entities within this Group complied with all of the externally imposed capital requirements to which they are subject. The regulated companies within the PCFS Group are Pan Caribbean Financial Services Limited (PCFS) and PanCaribbeanBank Limited (PCB).

| | PCFS | | PCB | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Actual capital base to risk weighted assets | 46% | 61% | 32% | 33% |
| Required capital base to risk weighted assets | 10% | 10% | 10% | 10% |

45.3 Financial covenants

(a) 7.5% senior notes due 2016

Under an indenture entered into by the Group on the issue of the senior notes (see note 16), the Group has to comply with a restrictive covenant which will not allow the Company or any of its subsidiaries to directly or indirectly, incur or permit to exist any lien to secure any indebtedness or any guarantee of indebtedness, other than permitted liens, without effectively providing that the senior notes are secured equitably and rateably with (or, if the obligation to be secured by the lien is subordinated in right of payment to the senior notes, prior to) the obligations so secured for so long as such obligations are so secured.

45. CAPITAL MANAGEMENT (continued)

45.3 Financial covenants (continued)

Permitted liens are defined to be liens existing on the date of issue of the senior notes, certain liens which would arise in the course of normal business, and other liens as long as the aggregate outstanding principal amount of such secured indebtedness of the Group, taken as a whole, does not exceed 10% of the consolidated net tangible assets. The latter is defined in the indenture.

As of December 31, 2010, the Group satisfied this requirement.

(b) Letter of credit facilities

The financial covenants entered into by the Group on the issue of letter of credit facilities by the Bank of Nova Scotia are summarised below.

(i) *Tangible net worth*

The Group is required to maintain a tangible net worth greater than $250,000 at all times, such covenant to be tested annually based on the consolidated audited financial statements. Tangible net worth is defined in the agreements to establish letter of credit facilities.

As of December 31, 2010 and 2009, the Group satisfied this requirement.

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45. CAPITAL MANAGEMENT (continued)

45.3 Financial covenants (continued)

(ii) *Interest coverage ratio*

The Group is required to maintain an interest coverage ratio of at least 5:1 at all times, such covenant to be tested annually based on the consolidated audited financial statements. Interest coverage ratio is defined in the agreements to establish letter of credit facilities.

For the years ended December 31, 2010 and 2009, the Group's interest coverage ratio was 5.6:1 and 7.6:1 respectively.

(iii) *Financial strength*

Under the agreements to establish the letter of credit facilities, Sagicor Life Inc is required to maintain minimum financial strength ratings of BBB- from Standard & Poor's and of B+ from A.M. Best. A further requirement is that a material adverse change in the financial condition of Sagicor Life Inc should not occur.

As of December 31, 2010 and up to the date of issue of these financial statements, Sagicor Life Inc maintained the required financial strength ratings.

(iv) *Permitted liens*

The covenant described in part (a) of this note also forms a covenant under the agreements to establish the letter of credit facilities.

(c) Loan from the Royal Bank of Canada (RBC)

The financial covenants entered into by the Group on the receipt in December 2009 of a loan of $25,000 by the Royal Bank of Canada are summarised below.

45. CAPITAL MANAGEMENT (continued)

45.3 Financial covenants (continued)

(i) *Equity*

The Group is required to maintain Equity of at least $575,000 at all times.

As of December 31, 2010 and 2009, the Group satisfied this requirement.

(ii) *Interest coverage ratio*

The Group is required to maintain an interest coverage ratio of at least 1.75:1 at all times, such covenant to be tested quarterly based on the consolidated financial statements. Interest coverage ratio is defined in the agreement to establish the loan.

For the year ended December 31, 2010 and 2009, the Group's interest coverage ratio was 1.80:1 and 1.86:1 respectively.

46. STATUTORY RESTRICTIONS ON ASSETS

Insurers are registered to conduct insurance business under legislation in place in each relevant jurisdiction. This legislation may prescribe a number of requirements with respect to deposits, investment of funds and solvency for the protection of policyholders. In general, these requirements do not restrict the ability of the insurer to trade investments.

Banking subsidiaries may also be required to hold deposits with Central Banks which regulate the conduct of banking operations.

To satisfy the above requirements, invested assets and cash totalling $1,262,023 (2009 - $1,100,760) 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.

Amounts expressed in US$000

## 47. FIDUCIARY RISK

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

In the ordinary course of business, the Group manages assets of pension funds, mutual funds, unit trusts and other corporate entities which are not included in the Group's financial statements. The investments and cash under administration are as follows:

| | 2010 | 2009 |
|---|---|---|
| Pension and insurance fund assets | 1,134,473 | 987,096 |
| Mutual fund, unit trust and other investment fund assets | 348,593 | 327,776 |
| | 1,483,066 | 1,314,872 |

## 48. EVENTS AFTER DECEMBER 31, 2010

### 48.1 Joint venture

Sagicor Life Jamaica Ltd (SLJ) entered into a joint venture agreement with an investment services company incorporated in Costa Rica on February 2, 2011 to explore insurance business and insurance related services in Central America. Under the terms of the agreement SLJ will provide technical expertise, administrative services and operating systems to support joint venture operations. The joint venture partner will provide marketing know-how and local support to the joint venture. The agreement is subject to regulatory approval in the applicable countries in Central America.

## 48. EVENTS AFTER DECEMBER 31, 2010 (continued)

### 48.2 Insurance catastrophe events

Since the date of these financial statements, insurance catastrophe events have occurred in the southern hemisphere to which the Group is exposed through its Sagicor at Lloyd's operations. The events and initial estimates of claims are as follows:

- Toowoomba & Brisbane floods estimated at $5,500;
- Cyclone Yasi estimated at $4,700;
- Christchurch Earthquake, estimated at $7,800.

Sagicor at Lloyd's exposure in these events is protected by reinsurance above $7,800 per event.

In addition to the above, the recent Japan Earthquake will also have a material impact on the 2011 results; however, it is too early to quantify the effect of this event.

### 48.3 International Finance Corporation (IFC)

In February 2011, the Company announced that it had entered into discussions with IFC for the latter to invest up to $100,000 in the Company, in the form of common and preference shares. The investment by IFC is subject to completion of negotiations and all necessary regulatory and shareholder approvals.