Sagicor

Wise Financial Thinking for Life

SAGICOR FINANCIAL CORPORATION

ANNUAL REPORT 2012

STABILITY

The greatest house is nothing without its foundation. In a world where even the slightest financial tremors reverberate around the globe, Sagicor is built on solid ground. It is our responsibility to those we serve, to our shareholders, and to ourselves to take every measure to protect our future, and to ensure that we stay strong, secure and stable through whatever comes our way.

To be a great company, committed to improving the lives of people in the communities in which we operate.

CONTENTS

PLAN

The road ahead is not set.
It is up to us to plan it.

OVERVIEW

Sagicor is synonymous with world-class financial services. Our vision is "To be a great company committed to improving the lives of people in the communities in which we operate."

With a proud history dating back to 1840, Sagicor is a dynamic, indigenous Group which has been redefining financial services in the Caribbean, building a strong base from which it has expanded into the international financial services market. Sagicor now operates in 22 countries in the Caribbean, Latin America, the UK and the US. In 2002, after 162 years as the Barbados Mutual Life Assurance Society, the company demutualised with the overwhelming support of its policyholders, and Sagicor Financial Corporation was formed as a publicly listed holding company. Sagicor, the new company name, means "wise judgment" and reflects a new vision for financial advice and services. For 170 years, we have worked to help families by providing the assurance and peace of mind needed, especially during their most challenging times. This will never change.

Our name and identity draw on the strength, stability and financial prudence that are our heritage, but this identity also represents the freedom that wise financial thinking can bring to our Customers throughout their lives. Through a wide range of financial products and services, Sagicor offers "wise judgment" throughout the entire life cycle – whether it is the purchase of a new home, planning a child's future and higher education, retirement, or simply providing security for loved ones. Sagicor will meet financial needs now and for the future.

Sagicor's objective is to continue to create a leading international financial services group which provides world class products and services to Customers, while generating excellent returns for Shareholders. The six key strategic areas that inform our current strategic plan are:

- Profitability
- Liquidity
- Capital Management
- Human Resource Management
- Information Technology Management
- Corporate Communications, Corporate Social Responsibility and Marketing Management

STRENGTHEN

Every day we move forward,
we become that much stronger.

CHAIRMAN'S STATEMENT

Stephen McNamara
Chairman

The Sagicor Group recorded net income from continuing operations of US$ 74.1 million for the year to December 31, 2012, a modest reduction from US$ 75.7 million achieved for the previous year.

Net income from continuing operations attributable to shareholders improved to US$ 52.4 million from the corresponding amount of US$ 44.8 million for 2011. Earnings per common share from continuing operations totalled US 16.8¢ and represents a return on common shareholders' equity of 9.5%. These results are very encouraging and provide shareholders with a reasonable level of return.

The Group's financial statements in 2012 have been presented with continuing operations being separated from the discontinued Sagicor Europe operations. In December 2012, the Board and Management made the determination that the Sagicor Europe operations, comprising our Sagicor at Lloyd's insurance business, would be divested and the Group would realise its value through a sale of the business. In accordance with International Financial Reporting Standards, the assets and liabilities associated with Sagicor Europe are presented separately in the statement of financial position, and the revenues, benefits, expenses and cash flows are also separated in the financial statements with the 2011 comparative amounts presented likewise.

Revenue from continuing operations totalled US$ 1,064.4 million and increased from the comparative amount of US$ 944.5 million for 2011. This growth of 13% in revenue is attributable to increased net premiums of US$ 60.5 million, increased investment income of US$ 17.5 million and increased other revenue of US$ 42.0 million. Other revenues in 2012 benefited from one-off items, notably a gain on the recapture of a previously reinsured block of policies.

Total benefits incurred from continuing operations totalled US$ 639.4 million as compared to US$ 541.8 million in 2011. The increase in benefits arose from an increase of US$ 38.1 million in policy benefits and more significantly from an increase in future policy benefits of US$ 62.0 million. The increase in future benefits has been impacted by the reducing yields on investment income in 2012 compared to 2011, as future benefits have to be set aside now to offset lower expected investment income in the future.

Total expenses from continuing operations amounted to US$ 326.5 million, an increase of US$ 21.3 million or 7.0% over the prior year.

As indicated in a foregoing paragraph, the Sagicor Europe results have been classified as discontinued. These operations had another disappointing year, with the incidence of large losses and catastrophe loss movements being recorded, resulting in an operating loss of US$ 15.6 million. Though this is an improvement over the operating loss of US$ 43.2 million incurred in 2011, the result is still disappointing. After including taxation, finance, currency exchange and impairment charges, the net loss associated with this business totalled US$ 42.0 million (2011 - US$ 43.9 million). Sagicor is currently engaged in a sale process with prospective buyers and we anticipate a sale of the business in the very near future.

Overall, after including discontinued operations, the net income attributable to shareholders was US$ 10.4 million in 2012 and US$ 1.0 million in 2011.

In the consolidated statement of financial position, assets amounted to US$ 5.5 billion. Of this US$ 4.8 billion is attributable to continuing operations and the remaining US$ $0.7 billion is associated with the discontinued operation. Total liabilities are recorded at US$ 4.7 billion, of which US$ 4.1 billion is attributable to continuing operations and the remaining US$ $0.6 billion is associated with the discontinued operation.

Total equity was US$ 818.6 million as of December 31, 2012 (2011 - US$ 797.5 million). Sagicor's debt to equity ratio was 29.5% as of December 31, 2012 (2011 - 29.2%).

Subsequent to the end of the year, the Government of Jamaica (GOJ) announced the National Debt Exchange (NDX) programme. This is a programme where government debt securities are exchanged for replacement securities with a lower interest rate and longer tenor, to enable the GOJ to reduce its debt service levels and facilitate an agreement with the International Monetary Fund and for international lenders to provide funding for the further development of Jamaica. Sagicor's Jamaican operations have agreed to participate in this programme. The NDX announcement led to a downgrade of the Government of Jamaica's credit rating by Standard and Poor's (S&P) and consequently to a downgrade of the Sagicor Group's credit rating to BB+. These developments illustrate the continuing fiscal and economic challenges faced by many countries in the Caribbean. The NDX programme is not expected to significantly impact the long-term profitability of the Sagicor Group

Also subsequent to the end of the year, Sagicor completed the acquisition of the traditional life insurance policies of British American Insurance Company Limited in the Eastern Caribbean. These policies number approximately 17,500 and we welcome these Policyholders as Sagicor's newest Customers.

As the Group moves to complete the disposal of its Sagicor Europe operations, the Board and Management will focus exclusively on maintaining the good results achieved for the continuing operations and enhancing them even through these challenging economic conditions.

The Board has declared half-yearly dividends of US 3.25¢ per preference share and US 2.0¢ per common share payable on May 15.

On behalf of the Board of Sagicor, I wish to thank our Policyholders and Clients for their continued support.

Stephen McNamara
Chairman

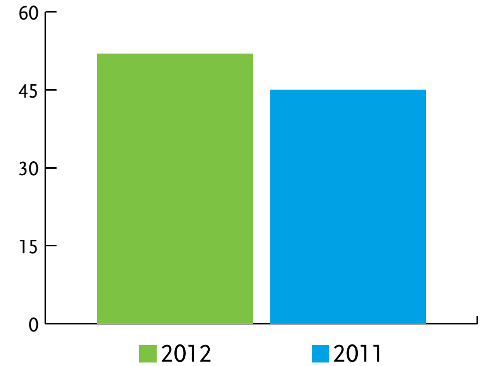
April 2, 2013.

FINANCIAL HIGHLIGHTS

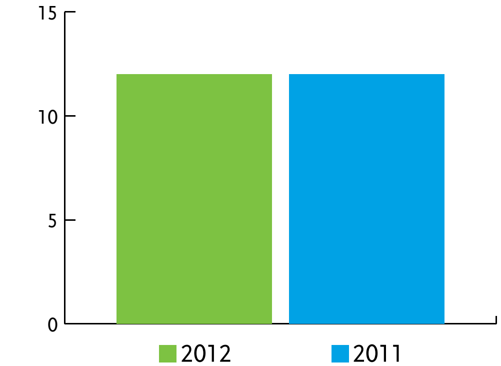
Amounts in US$ millions unless otherwise stated

SHAREHOLDER RETURNS

NET INCOME [1]

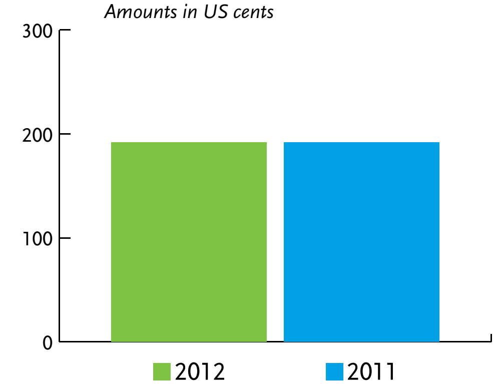


DIVIDENDS



BOOK VALUE PER SHARE

Amounts in US cents

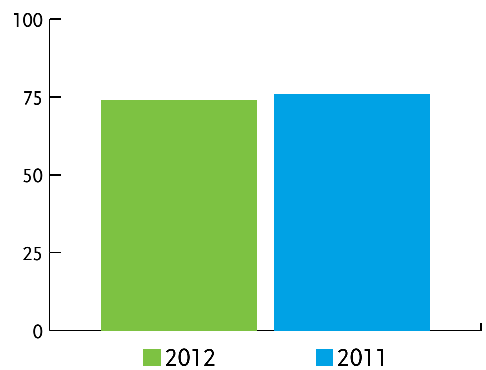


	2012	2011
Earnings per share [1]	16.8¢	15.1¢
Return on shareholder's equity [1]	9.5%	8.2%

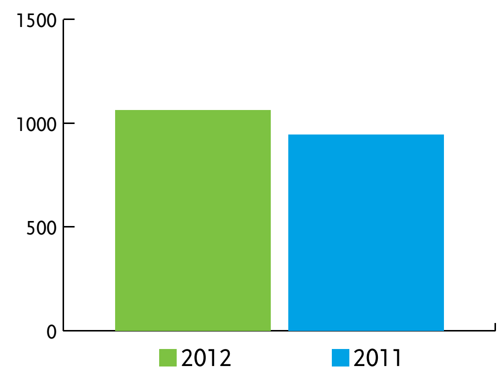
[1] *from continuing operations*

GROUP RESULTS [1]

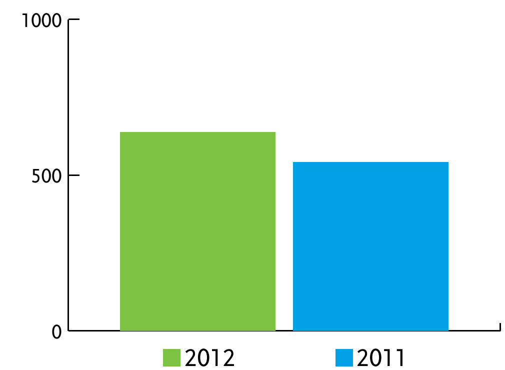
NET INCOME



REVENUE



BENEFITS



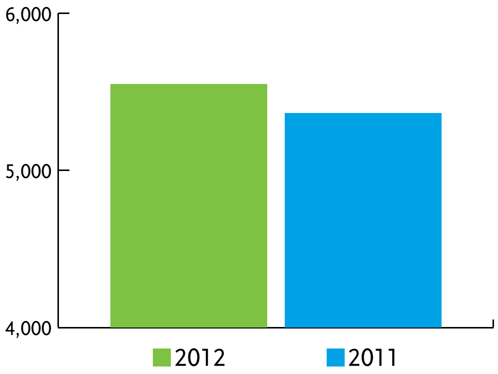
	2012	2011
Income before taxes	99	98
Total comprehensive income	58	75

[1] *from continuing operations*

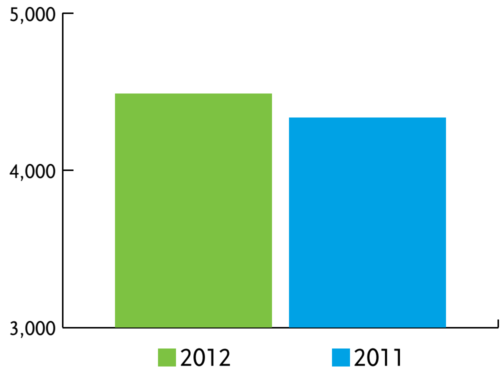
Amounts in US$ millions unless otherwise stated

GROUP FINANCIAL POSITION

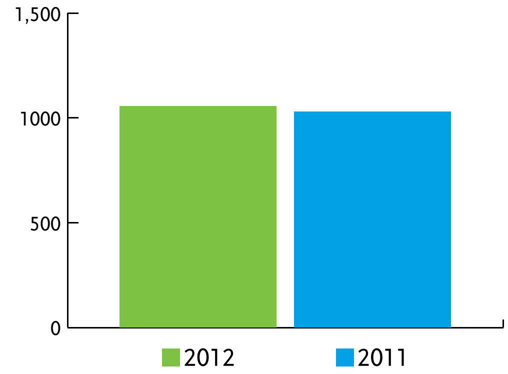
ASSETS



OPERATING LIABILITIES



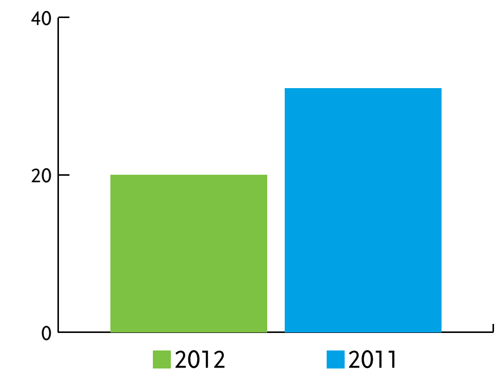
EQUITY & DEBT CAPITAL



	2012	2011
Debt to Equity	29.5%	29.2%
MCCSR	253%	229%

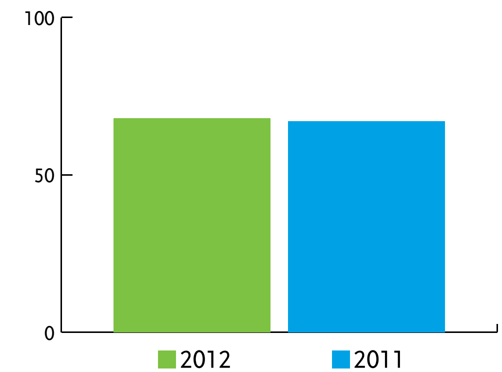
SEGMENT RESULTS

SAGICOR LIFE INC - NET INCOME



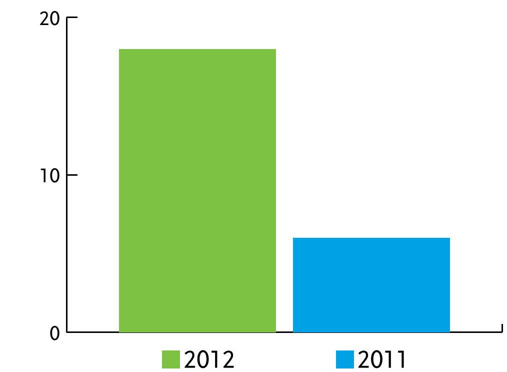
	2012	2011
Revenue	340	328
Assets	1,610	1,488

SAGICOR JAMAICA- NET INCOME



	2012	2011
Revenue	448	433
Assets	1,893	1,864

SAGICOR USA - NET INCOME



	2012	2011
Revenue	236	143
Assets	1,219	1,102

SUPPORT

We all depend on each other for support.
Without one another, we are truly alone.

CORPORATE SOCIAL RESPONSIBILITY

Sagicor's view of the importance of corporate social responsibility is summarised in its vision - "To be a great company, committed to improving the lives of people in the communities in which we operate." During 2012, the Sagicor Group of Companies continued to play an active part in its various communities around the world.

United States of America

In the United States of America, it was another busy year of volunteerism and community involvement for Sagicor Life Insurance Company (SLIC). Their primary focus was on sports, youth, health and education in Florida.

In 2012 Sagicor sponsored football, men's and women's basketball and baseball programmes at the Arizona State University (ASU). ASU is one of the largest universities in the nation, with over 73,000 students.

In the area of health, SLIC continued its support of the Phoenix Children's Hospital with its corporate donation, and staff members volunteered to answer phones during the annual Radio-thon fundraiser. Funds raised go directly to critical programmes and services to patients and their families.

The Muscular Dystrophy Association was the recipient of funds raised during the Sagicor-sponsored 12th Annual Taste of the Town in October 2012. This event showcases signature dishes from some of the finest restaurants in the Scottsdale area, complemented with fine wine and live music. Proceeds benefit more than 2,400 Arizona families affected by neuromuscular diseases.

Sagicor staff members in Scottsdale, Arizona participated in the Relay for Life Walk by the American Cancer Society, raising money through donations for those participating in the Walk. They also supported their local Salvation Army and its Hydration Station Initiative by donating over 30,000 bottles of water to the cause. An initial supply of water was purchased by SLIC to get the collection started. However, the vast majority of the water was purchased and donated by staff members. Equally impressive was the decision by staff members to rent a truck, load the water, and deliver it to the Salvation Army for final distribution. The Salvation Army's Hydration Stations are set up at a number of street locations during the summer, providing some of the neediest with water so that they can stay hydrated during the hot weather.

SLIC continued its sponsorship of the NFL's Arizona Cardinals in 2012. The community outreach programme with the Cardinals focused on three initiatives: the Annual Holiday Food Drive, the Hometown Huddle Football Camps and the Reading with Big Red programme. Each year, prior to the Thanksgiving holiday, Sagicor and the Arizona Cardinals sponsor a Food Drive to benefit

1. *Sagicor signage at an Arizona State University (ASU) basketball game.*
2. *Bart Catmull, President and COO of Sagicor Life Insurance Company, presents a donation to the Phoenix Children's Hospital at their annual telethon.*

the St. Mary's Food Bank Alliance. Sagicor staff members volunteer to collect non-perishable goods at a Cardinal home game from fans donating items as they go into the stadium.

The Hometown Huddle programme brings Cardinal players and Sagicor volunteers together to provide a day of exercise and fun for children. In 2012, the Hometown Huddle was held at the Wilson Elementary School, and over 100 children participated.

The Reading with Big Red programme involves a Cardinal football player, the Cardinals mascot, Big Red, and Sagicor volunteers. The purpose of the programme is to promote reading. The selected school in 2012 was the Wilson Elementary School in Phoenix, Arizona. Wilson Elementary serves some of the most disadvantaged children in the Phoenix area. SLIC adopted a class at the school and provided a holiday party and gifts for the entire class.

Habitat for Humanity is dedicated to eliminating sub-standard housing. The organisation utilises volunteers from the community, corporations and educational institutions to build homes for those in need. In 2012, Sagicor staff members volunteered for several Habitat for Humanity projects. Sagicor staff members gave their time and efforts, working side-by-side with the future homeowners to complete Habitat home projects throughout the year.

In the Metropolitan Phoenix area, SLIC partnered with the Boys & Girls Club, providing volunteers throughout the year to work with children. The Boys & Girls Club provides programmes and guidance to children with the ultimate goal of helping them to reach their full potential as productive, caring and responsible citizens.

In Tampa, Florida, SLIC and its staff members sponsored and volunteered for several projects. Staff participated and solicited donations for the fourth consecutive year in the Arthritis Walk-a-thon. Sagicor was a Silver Sponsor for the event in 2012, and Bart Catmull (President and COO) served as the Corporate Honorary Chair. He gave the keynote speech at the kick-off luncheon, and welcomed the participants on the day of the event.

For the third consecutive year, SLIC was the premium sponsor of the Lowry Park Zoo's two annual 5K runs, with all proceeds going to

Sagicor Career Agents with participants at the 7th Annual Zoo Zoom Run.

support the Zoo. The runs have grown both in the number of runners participating and in the amount of money raised each year. In 2012, Sagicor increased its sponsorship of the Zoo by not only sponsoring the runs, the "Zoo Zoom Run" in the Spring and the "Zoo Run Run" in Fall, but also by sponsoring the Malayan Tiger Exhibit. Malayan Tigers are considered to be a critically endangered species and the Zoo has a fabulous exhibit highlighting these beautiful animals. Visitors at the Zoo will now see the Sagicor logo on the sign at the exhibit as they read about and see the Malayan Tigers.

2012 marked the fifth year of SLIC's sponsorship of the University of South Florida (USF) football and basketball programmes. Sagicor was also involved with USF Business Department, working with the Department and their graduate students in conducting "real world" marketing research projects.

Sagicor continued its support of All Children's Hospital through its partnership with the Tampa Bay Rays Major League Baseball team and participated in the hospital's Annual Telethon. During the season, Tampa Bay Rays players, along with Sagicor staff, conducted a series of visits to the hospital during which Players autographed Sagicor/Rays baseball shaped pillows. In addition to making a donation to the Hospital's largest fundraiser for the fourth consecutive year, SLIC staff volunteered to answer phones during the Telethon.

SLIC added another element to the Rays' partnership with a sponsorship called Sagicor's Tuesday Champion. At every Tuesday's home game, Sagicor hosted a child from the Make-A-Wish Children's Dream Fund for a special day at the ballpark as the Tuesday Champion. Tuesday's

Finalists at the 18th Tower Hamlets Schools' Public Speaking Competition at Lloyd's Old Library, with Sagicor at Lloyd's Paul Marden, Head of Marketing (far right).

Champion is an opportunity for children battling life-threatening illnesses to enjoy a once-in-a-lifetime experience, interacting on the field with players during batting practice, receiving a bat and a ball to be used to get autographs from the players, and throwing the first pitch of the game. With their families in attendance, many of the children selected came straight from the hospital to the game.

The class adopted by the SLIC staff in Tampa was the 3rd grade class of Booker T. Washington. For the past three years, they have helped finance and provide assistance for the end-of-the-school-year Carnival, and hosted a holiday party for the entire class at the Lowry Park Zoo.

SLIC, along with other companies in the area, partnered with Hillsborough County Education Foundation to collect school supplies for the 2012 school year. The Tampa office divided into teams, and were very competitive to see which one could collect the most supplies. The Hillsborough Education Foundation serves students, teachers and schools by bridging the gap between student needs and public funding.

In March 2012, SLIC opened its newest U.S. office in Plantation, Florida. Shortly thereafter, it launched its community involvement with a donation to the Miami Children's Hospital by sponsoring six bunkers for the Hospital's Annual Golf Invitational. SLIC also funded two other programmes associated with the Hospital: the 'Kids with Cancer Outing' and Vital Flights, an organisation that works closely with the Hospital to provide air transportation to critically ill children receiving treatments at medical facilities away from their homes.

United Kingdom

Sagicor at Lloyd's (SaL) again signed up to Lloyd's community programme as part of its corporate social responsibility policy. SaL staff were also heavily involved in volunteering to make their local community stronger.

Right next door to Lloyd's is a square mile of the most diverse of communities in East London. Like many city areas, it has more than its fair share of socio-economic challenges, ranging from children who need help with literacy and numeracy, to young teenagers struggling to find work, and run-down areas that need to be revitalised.

SaL is involved with a number of initiatives in East London. In partnership with the Globe Primary School's Words & Numbers, SaL staff members volunteer as reading and number partners, in an effort to improve the children's literacy and numeracy skills. They spend their lunchtime working with individual children to make numbers fun, and helping them develop their reading abilities.

SaL continues to grow its partnership with the Globe, helping to manage and make donations towards stalls for the Summer and Christmas Fayres. Paul Marden, SaL's Head of Marketing, Communications and Corporate Social Responsibility, is now one of the Governors of the Globe Primary School, helping to continue the good work taking place there as part of the Lloyd's Mentoring Scheme.

SaL staff have also partnered with students from Cambridge Heath Sixth Form College in Tower Hamlets to help them through what is a very challenging time. Using their knowledge and experience, the volunteers arrange to meet with students on a monthly basis to advise them on exam techniques, university choices, the world of work and more.

Passing on our passion for sports, SaL volunteers will again be participating in the Lloyd's Community Programme supporting Tower Hamlets School Sports Partnership (THSSP) Annual Spring and Summer Games. THSSP trains young people to organise and administer after-school sports clubs. There are currently 32 clubs, covering all primary schools in Tower Hamlets, with up to 1,200 children attending the clubs each week.

The Spring and Summer Games attract over 800 children, between the ages of 8-10 years from the various clubs. During the Games, they have the opportunity to take part in competitive tournaments, including Athletics, Cricket, Football, Tag-Rugby, Badminton and Fencing, and to try out new sports including Judo, Ultimate Frisbee, Golf and Skateboarding.

Still in the area of sports, SaL continued to sponsor their Annual Sporting Lunch to raise funds for the 'Willow Foundation', a charity dedicated to bringing special days to the seriously ill who are between the ages of 16 and 40 years who live in the United Kingdom.

The Caribbean

2012 marked a new chapter in Sagicor Life Inc's (SLI)efforts to sensitise Caribbean citizens about the threat of Chronic Non-communicable Disease (CNCDs). In Barbados and the Eastern Caribbean, CNCDs account for approximately 77% of deaths each year. Sagicor Life Inc is committed to supporting and implementing strategies which can help decrease the number of reported cases of CNCDs across the region and their resulting negative social and economic effects.

SLI, represented by Mr. J. Edward Clarke, COO of SLI and General Manager Barbados Operations, and the Healthy Caribbean Coalition (HCC), represented by Professor Trevor Hassell, President of the HCC formalised a Memorandum of Understanding (MOU) during a signing ceremony at the United Nations Development Programme Headquarters.

Under the MOU, Sagicor Life Inc will make an annual contribution to HCC until 2015. This much-needed contribution will enable the regional organisation to establish a Secretariat to manage programmes for the prevention and management of chronic diseases among Caribbean people. In addition, HCC has made a commitment to prepare and implement a Caribbean Civil Society Action Plan for tackling CNCD, over the next four years.

As a testament to its commitment to reducing the level of CNCD in the region, SLI also signed a three-year Memorandum of Understanding for the establishment of a new research and teaching position in Health Economics at the Chronic Disease Research Centre (CDRC) at the Cave Hill Campus of the University of the West Indies. The research that will be conducted will help determine the economic and financial impact of CNCDs as well as provide insight for governments and non-governmental organisations which are currently striving to find solutions to the issues caused by the rise in CNCDs, across the region.

Sagicor Life Advisor, Eural Baptiste (center), presenting a donation towards the Youth Internship Programme, to Mr. Leslie Emanuel, Executive Director of DPINAC Inc., and Ms. Damisha Boyer.

In a continuing effort to bring positive change and awareness in the community, SLI made a contribution to the Disabled Peoples' International North America and the Caribbean Incorporated (DPINAC Inc.) in late 2012.

With seed financial support from SLI, The DPINAC Inc. will launch a Youth Internship Programme aimed at exposing young persons between the ages of 21 - 25 without disabilities, to the issues facing persons with disabilities. The objectives of the programme are to create a core of young persons without disabilities who:

- Are trained in and sensitised to the issues of disability
- Can become activists in mainstream society for and on behalf of persons with disabilities and the movement of persons with disabilities in general
- Are trained in research, communication and organisational management skills

- Are sensitised to the operations of Disabled Peoples' International (DPI) and its regions including DPINAC Inc., and the disability movement in general.

The first candidate of the Youth Internship Program is Miss Damisha Boyer, a 22-year-old female undergraduate student of the University of the West Indies, majoring in Economics and Management, who has already participated in a voluntary one-month orientation process from July 2, 2012.

The importance of leading healthy, active lifestyles cannot be overstated. Regular exercise and a healthy diet can help in the management and prevention of many chronic non-communicable diseases affecting the region today. It is fitting, therefore, that young people should lead the way. As a company that values and supports initiatives which promote healthy living, SLI has been pleased to lend its support, over the past twenty one years, as title sponsor of the Annual OECS Swimming Championships.

In 2012, the Championships were held in Antigua & Barbuda. During the weekend event, junior athletes from across the region were given a chance to hone their skills as they competed against their OECS counterparts. It is hoped that the OECS Championships will not only provide a training ground for future champions, but that the experience will also cultivate sportsmanship and regional integration.

Each year, the standard of the event has been raised as the number of talented swimmers qualifying increases. This is especially evident in Antigua & Barbuda, where there has been a proliferation in the number of swim clubs.

For the past seventeen years, SLI has continued its support of youth development initiatives in St. Vincent, through its work with the Coast Guard Youth Development Programme. Executed in partnership with the St. Vincent and the Grenadines Coast Guard, the programme is designed to cultivate well-rounded young people, between the ages of 14 and 18. The 2012 programme consisted of three phases and provided training for 125 participants to prepare them for the many challenges of life, as well as a greater appreciation for the role of the Coast Guard and the many skills it entails.

Sagicor Life Agency Manager, Stanley Browne, presenting a Certificate of Completion to a graduate of the St Vincent and the Grenadines Coast Guard Programme.

2012 was the fourteenth year of the Sigma Corporate Run organised by Sagicor Investments, the largest 5k road race in the region, with over 16,000 participants. Sagicor Investments, together with Sagicor Life Jamaica (SLJ), raised funds for Chain of Hope Jamaica, in support of the Bustamante Hospital for Children's Cardiac Unit, the 2012 beneficiary of the Sigma Corporate Run.

Sagicor Bank continued its support in the area of sports with sponsorship of three Tennis tournaments, the Davis Cup, the All Jamaica Junior Tennis Tournament and the Junior Classic Tournament. The tournaments have grown significantly since Sagicor Bank's alliance in 2009. Participants have gone on to represent themselves and Jamaica at both the regional and international levels.

Sagicor Bank and Investments continued its drive to assist students at the University Level with bursaries to both the University of Technology and the University of the West Indies. In addition, SLJ gave 14 scholarships to Grade Six Achievement Test (GSAT) students and 16 prizes to the Champion Boy and Girl from the Jamaica Teachers' Association/Sagicor Primary and Junior High Athletic Championships. On entering high school the latter will receive full scholarships.

GEM, an acronym for Greatness Exists in Me, is a local pantomime designed to develop both the confidence and talent of young people. This is in keeping with Sagicor's Vision and the reason why SLJ ensured that approximately 350 students from the inner-city and children's homes across the island were exposed to the GEM Pantomime.

At Sagicor, we believe that students develop overall performance skills, improve personal confidence and master the ability to focus on outcomes when they are actively involved in sports. One such event which has provided this kind of opportunity in Trinidad & Tobago is the 10th Sagicor Junior Tennis Tournament. The event attracted approximately 150 young tennis enthusiasts.

Corporate Initiatives

The Sagicor West Indies Cricket High Performance Centre (Sagicor HPC) continues to be the single largest investment by the Sagicor Group of Companies. Based at the 3Ws Oval of the Cave Hill Campus of the University of the West Indies, the Sagicor HPC provides a unique educational and training facility, designed to create well-rounded, multi-skilled young cricketers. It offers support in physical, technical, psychological and lifestyle areas of the game, and players follow a programme specifically tailored to their individual needs.

The results from the Sagicor HPC programme continue to be lauded as a step in the right direction for revitalising the performance of West Indies cricket.

In 2012, the Sagicor Visionaries' Challenge was conceptualised by Sagicor and the Caribbean Science Foundation (CSF), in partnership with the Caribbean Examinations Council (CXC).

The aim of both Sagicor and the CSF is to improve the lives of the people in the communities in which they are based. All three organisations share the belief that, through the integration and application of Science, Technology, Engineering and Maths (STEM), communities will facilitate nationwide education and foster the care needed to bring about sustainable Caribbean communities. This was the thinking behind the Sagicor Visionaries Challenge.

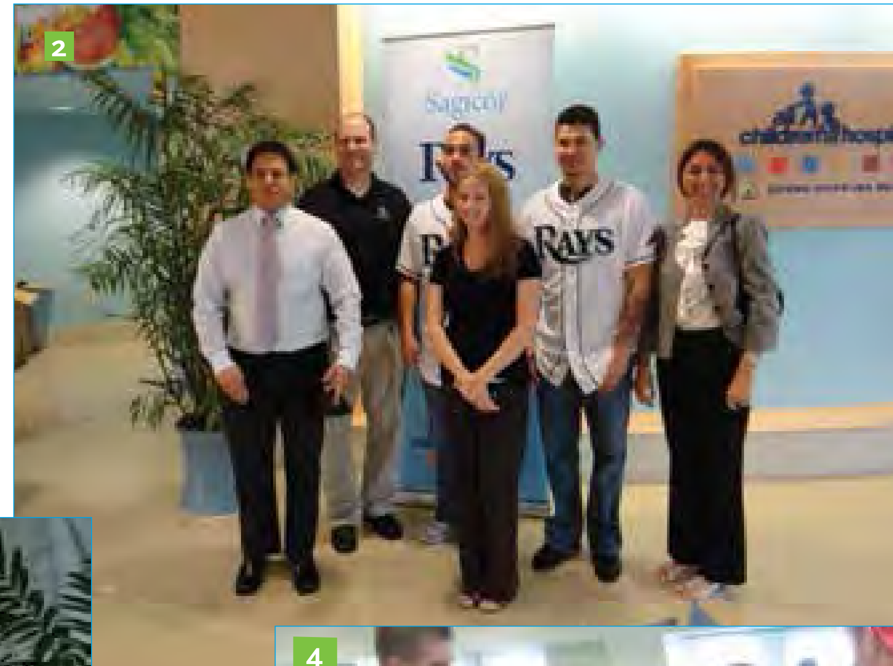
Following the decision by the Sagicor Group to partner with the CSF and the CXC, Trinidad and Tobago undertook a National STEM Awareness Campaign in the twin-island Republic. Its purpose was threefold - to stimulate excitement primarily in the education system and, by extension, the general public of Trinidad and Tobago and Sagicor's Staff, to the wonderful world of Science, Technology, Engineering and Mathematics; to make STEM, a common acronym in the vocabulary of youths, parents and teachers and to show how STEM will lead to sustainability by changing lives for the better. The campaign was a resounding success.

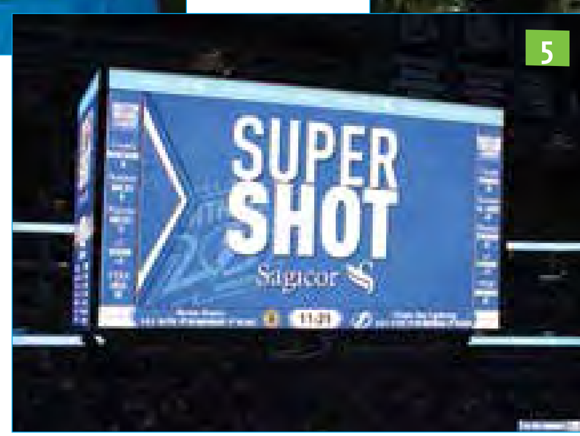
During 2012, the Sagicor Visionaries' Challenge engaged secondary school students and teachers in 12 countries; Anguilla, Antigua & Barbuda, Belize, Barbados, Dominica, Grenada, Guyana, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines and Trinidad & Tobago.

This competition was formally launched in January 2013 and over 170 projects were submitted. It required students to work with a teacher at their institution to identify a problem facing their school or community, and using STEM, develop effective, innovative and sustainable solutions to the problem identified. Participation in the Challenge is intended to:

- Ignite an interest in innovation among youth, through STEM, to help build and integrate sustainable communities throughout the Caribbean.
- Integrate knowledge gained from formal and informal education to enable tomorrow's leaders to build a more sustainable Caribbean.
- Encourage and boost institutional capacity in STEM in secondary schools within the region.

In addition to creating a forum within which secondary school children in the region can identify challenges in their community, and providing a solution using STEM subjects, we are, essentially, creating and nurturing innovative scientists for tomorrow's Caribbean. However, the ultimate goal is to assist with the diversification of the economies of the region by harnessing Science and Technology for economic development, and to help raise the standard of living.





1. *Sagicor Life's Chaguanas Branch Manager, Joel Martinez, and Sagicor Advisor/ Head Umpire, Colleen De Gannes, at the Opening of the 10th Tournament with Tournament officials and participants.*
2. *Sagicor staff and Tampa Bay Rays Players visiting the All Children's Hospital during the Rays Kids Spirits programme.*
3. *Sagicor Marketing Staff at the Divali Nagar Cultural Centre at the Divali Holy Hindu Festival celebrations.*
4. *Sagicor at Lloyd's staff participating in a fund-raising event.*
5. *Sagicor signage at the hockey arena for the Tampa Bay Lightning NHL team.*

6. *Sagicor Life Jamaica's Suzette Shaw-Reid, (back, 2nd from right) welcoming students, school representatives and parents of Faith Tabernacle, one of the schools of the Sagicor Adopt-a-School Programme.*

7. *(L-R) Robert Trestrail, EVP and GM, SLI, Trinidad and Tobago; Dr. Didacus Jules, CEO and Registrar, CXC; Mr. Richard Kellman, COO, Sagicor Financial Corporation; Dr. the Hon. Cardinal Warde, Interim Executive Director, CSF, and Prof. of Electrical Engineering, M.I.T. at the STEM National Awareness Campaign Launch.*

8. *Representatives from the winning Portland Team receiving the Champions Trophy at the JTA/Sagicor Athletic Championships, from Sagicor Life Jamaica's (l-r) Willard Brown, Vice President, and Dr. Adolph Cameron, General Secretary of the Jamaica Teacher's Association.*

9. *Participants at The Sagicor Shape Up Extravaganza, Barbados.*

HUMAN CAPITAL REPORT

Employee Engagement

The LOMA Employee Opinion Surveys regularly measure employee morale and obtain feedback on engagement, leadership, rewards and recognition along with quality of life issues. In the past year, Group companies reported overall improvements in survey results in spite of declines reported in international trend data. Participation rates increased across Group companies, indicating higher levels of trust in the administration of these surveys. Employee satisfaction scores across Group companies range from 70% to 76%. Sagicor Life Jamaica Limited reported 75.7% satisfaction, notably the highest satisfaction levels experienced by that company since the commencement of the survey in 2005. Year-on-year score improvements range from 0.8% to 2.5%. Sagicor Life Inc reported an average score of 72%, an overall improvement of 2.5%. Sagicor Bank and Sagicor Investments Jamaica Limited reported a result of 70.4%, an increase of 1.0% over 2011's rating. In Sagicor USA, there was 98% participation by administrative staff, and 57% by sales agents, with the survey showing overall morale levels for Sagicor USA to be very high, and employees indicating that they were empowered to make necessary decisions.

In 2012, Group companies maintained a focus on employee engagement and initiatives to improve productivity and the delivery of services to employee stakeholders. One of the key initiatives was the effort to improve the health of the staff populations, employee wellbeing, productivity, attendance at work, and the global initiative to manage the cost of providing health care. Projects in Group companies were multi-faceted and included:

1. Educational sessions for staff about the impact of lifestyle choices on the incidents of chronic non-communicable diseases (CNCDs).
2. Health screenings and monitoring of key indicators for CNCDs such as high blood pressure, cholesterol and BMI to encourage adoption of a healthy lifestyle.
3. A series of fun-based activity challenges that included a Million Step Competition in Barbados, during which 240 employees in 48 teams, each with the daily target of 10,000 steps. amassed over 153,000,000 steps.

The results of these programmes were quite remarkable, and in Barbados generated significant national interest and requests from both private and public sector stakeholders to share details of the programme and report on its success. In addition, the Company reported very high levels of staff motivation and engagement. The programme precipitated a new group of team leaders who took responsibility for co-ordinating team activities and data collection, as well as motivating team members to achieve astounding results. Biometric data was collected and analysed by an external company. Many participants saw improved blood sugar, cholesterol and blood pressure readings, and achieved weight loss. Other initiatives in this area included participation in local fitness competitions. Sagicor General Insurance staff teams achieved a second place ranking in a Fat Loss Challenge, and SLI earned a fourth place position for consistent use of and participation in programmes at a local gym.

Sagicor USA implemented a new wellness program to engage and educate staff on health and nutrition, introducing a number of themed events, the most significant of which was a 10-week online program aimed at decreasing the risk of developing metabolic syndrome, a combination of medical disorders that, when occurring together, increase the risk of developing cardiovascular disease and diabetes, and other chronic health conditions.

The Sagilympics staged by Sagicor Life Jamaica as part of a week of activities saw houses (teams) compete in an Olympics-styled Sports Day.

The annual calendars of employee events included:

1. Annual themed motivational seminars with local, regional and international speakers.
2. Annual awards functions that recognised outstanding achievements.
3. Preventative Health Educational Programmes, “epic walks”, hikes and competitions to encourage employees to be more active.
4. Retirement and other special functions, including Christmas functions, and the Sagicor Family Day, featuring a fun day at a Diamondback's Baseball Game in Scottsdale and an Employee Appreciation Week which included team-building events.

The Sagicor Group of Companies facilitated and supported staff who volunteered for charitable programs including the “Breakfast Club” in Barbados which provides breakfast for children from impoverished communities, a Christmas Angels Project providing gifts to children with special needs annually, and a Children's Christmas Party facilitated by the Employee Sports Club. In Jamaica, staff actively participated in the fundraising initiatives for victims of Hurricane Sandy and for the Sickle Cell Support Club in Jamaica.

In the USA, fundraisers are held each month, where employees make a U.S. $5.00 monthly donation for the privilege of wearing casual dress on Fridays. All donations are matched by the company, with proceeds donated to charity organisations in the community.

Recognition and Rewards

The outstanding performances of our Sales teams and Administrative Staff were celebrated at awards functions. In Barbados, Sagicor Life Inc celebrated the achievements of Janice Mullin-Sargeant, who won the President's Trophy for Top Producer. Eural Baptiste of Antigua, won this award in the Eastern Caribbean region, and Albert Lyon won the Sagicor Trophy for top producer at Sagicor Life Jamaica. Abel Simpson in Belize topped the sales team in the Sagicor Capital Life territories, and in Trinidad and Tobago, Denzil Supersad won Advisor of the Year. These awards are keenly competed for each year, generating tremendous interest and excitement across the sales teams in our Units, Agencies and Branches.

Sagicorians are employee and citizen role models who demonstrate sound knowledge of our business and wise judgment; they should be creative and pioneering, and accomplish a significant assignment during the calendar year. In addition, they must demonstrate good business ethics and community involvement. For the first time, the Sagicorian Award was presented in two categories – Most Outstanding Employee of the Year and Most Outstanding Manager of the Year. Six employees, recognised by Group companies in 2012 for their outstanding contributions, competed for the Sagicorian Award. They were Andrew Gutierrez, Employee of the Year, Sagicor Life Insurance Company - USA; Roslyn Ann Dennie, Employee of the Year, Sagicor General - Trinidad and Tobago; Fabian Broomes, Employee of the Year, Sagicor Life Inc – Barbados; Sheldon Watson, Employee of the Year, Sagicor Life Jamaica; Trisha Davis, Manager of the Year, Sagicor Life Inc – Trinidad and Tobago and Sandra Kellman, Manager of the Year, Sagicor Life Inc - Barbados.

In a historic first for this program, there was a tie for the coveted Sagicorian Award. Sheldon Watson, a Pre-Underwriter in our New Business Department at Sagicor Life Jamaica, and Fabian Broomes, a Systems Administrator in our Shared Services Information Technology Department in Sagicor Life Inc in Barbados, tied for this award for 2012.

Sandra Kellman - Manager in the Reinsurance and New Business Department, Sagicor Life Inc - Barbados was awarded the Sagicorian Award as the most outstanding Manager in the Sagicor Group for 2012.

Sheldon Watson

Fabian Broomes

Sandra Kellman

Tricia De Gannes

Tricia De Gannes - an employee in our Sagicor Life Inc operations in Trinidad and Tobago was recognized as the employee who made the most outstanding contribution in the Group for 2012.

Strategic Rewards and Benefits

Group Companies carefully monitored the competitive positioning and effectiveness of compensation and benefits for best practice, using survey data and benchmarking against local, regional and international data.

Equity Programs

On December 31, 2012, the Employee Share Ownership Plan, approved by Shareholders in December 2005, came of age. Twenty nine (29) employees (retirees and former employees) who left in good standing in Barbados, Trinidad and Tobago, Belize and St. Lucia were beneficiaries of the first awards. The ESOP is an Equity based incentive program for employees other than executives.

Pension Benefits

Sagicor Life Inc complied with the requirements of the New Occupational Pensions Benefits legislation in Barbados, and implemented the strategic decision to introduce a new Defined Contribution plan for all new administrative employees of SLI and subsidiary companies from January 1, 2013. The Defined Benefit Plan in Sagicor Life Inc, which provides pension benefits for employees of Sagicor Financial Corporation, Sagicor Life Inc and associated companies, is now closed to new entrants.

Service delivery

The Human Resources Departments across the Group continued to improve the delivery of services through the strategic implementation of technology solutions for compensation administration, with the roll-out of Payroll Web, a secure and confidential website to access pay slips. This system has reduced paper usage and decreased the payroll man hours associated with printing, batching and distributing pay slips, while improving the security associated with the distribution process. Group companies will fully implement the functions of Payroll Web system and Workforce – a time and attendance system that provides a desktop log in and portal for staff and management to manage time and attendance.

Sagicor USA implemented "Workforce Now", which merged the EZ Labor Timekeeping with Pay Expert Payroll Processing, enabling employees to access their time keeping, vacation and sick benefits, paystubs and W-2 forms all in one central location.

At Sagicor Life Jamaica, as the first step in the launch of a Human Resources Self-Service Portal to further improve HR's customer service levels, a new online system for administering leave benefits was launched in April 2012, significantly reducing costs and time spent on leave administration.

SLJ, having entered Sagicor Success for consideration in the Human Resource Management Association of Jamaica's 2012 HR Innovation Award Competition, was awarded 3rd Place for the most innovative initiative of 2012.

Janice Mullin-Sargeant

Albert Lyon

Denzil Supersad

The implementation of EASi Admin, an Equity Administration solution selected to enhance the administration of the Executive Long Term Incentive Program and the Employee Share Ownership Plan, will be completed in 2013.

Training and Development

Group Companies commissioned executive development programs tailored specifically for senior and emerging leaders in the financial services industry. In the USA, Sagicor USA completed an onsite management training session with Barry Deutsch, Co-Author of "You're Not the Person I Hired – A CEO's Survival Guide to Hiring Top Talent" with follow-up plans to implement this new approach using the Client Services Department as a pilot.

Anti-Money Laundering, Information Security and Code of Business Conduct and Ethics, Fraud Awareness, Sexual Harassment and Industrial Relations courses continued in 2012, using workshops and e-learning formats that provide 24-hour access to training materials. These programmes provided training to meet regulatory requirements in several countries; for international best practices for the security of client and company information; and to sensitise employees to their obligations under Sagicor's Code of Business Practice and Ethics.

The Company supports industry-specific programs leading to designations such as FLMI (Fellow, Life Management Institute), FFSI (Fellow, Financial Services Institute), FALU (Fellow, Academy of Life Underwriting) and FHIAS (Fellow, Health Insurance Advanced Studies). Programmes for other business skills such as Business Communications, Supervisory Management, Performance Management, Mentoring and Coaching, continue annually, using a blend of internal facilitators and external business and academic schools. Group Companies also provided significant support to employees pursuing professional accounting, actuarial and investment programmes as part of employee development and for succession planning.

Going Green

Sagicor Life Insurance Company USA continued efforts to support a "going green" initiative, by providing employees with Sagicor Bistro Mugs to eliminate and reduce the use of styrofoam cups. Tote Bags, with the Sagicor logo, were provided to staff to reduce the use of plastic and paper bags. In addition, all new-hire information kits are now paperless and provided on line.

Industrial Relations

Group Companies maintained harmonious relationships with trade unions in Barbados, St. Lucia and Jamaica during this period.

PROVIDE

Nothing brightens the present like knowing that we have provided for the future.

OPERATING AND FINANCIAL REVIEW

OVERVIEW

The Sagicor Group is a leading provider of insurance products and related services in the Caribbean region. It also provides insurance products in the USA and UK and banking services in some Caribbean countries.

The main insurance lines are life insurance, annuities and pension management, health insurance and property and casualty insurance. The customer base is predominately individuals but certain lines are marketed to employers to provide employee benefits and to commercial enterprises to provide property and casualty products.

EXTERNAL ENVIRONMENT

The external environment impacts the operating and financial performance of the Sagicor Group.

Economic factors, such as economic growth, employment levels and disposable income impact the levels of new and of renewal of life insurance and annuity products offered by the Group. Interest rates and investment yields affect the level of savings and investment returns offered within life insurance, annuities and banking products, and ultimately the profit margins that the Group can generate from these product lines.

The health and mortality of insured customers and beneficiaries impact the levels of death, disability and health benefits the Group is required to meet.

Property and casualty insurance products offer policyholders financial protection against loss of or damage to property, against accidents, and against liability to third parties.

The Group's operating units are all regulated by insurance, banking and securities regulations. The Group therefore has to meet certain statutory and reporting requirements to governments and government agencies.

Economic environment

The major developed economies of the world continued to experience economic challenges during 2012. In the United States of America (USA), annual economic growth for 2012 was estimated at 2.2%. Unemployment remained relatively high ending the year at 7.8% and interest rates continued to be held at very low levels. In Europe, annual economic growth for 2012 was very marginal or negative, with the German economy achieving an estimated 0.7% growth and the United Kingdom an estimated -0.1% growth. Countries with commodity driven or export led economies such as the 'BRICS' continued to generate positive economic growth, albeit at lower rates than in the preceding two years.

In the Caribbean region, the performance of economies has been generally weak with very low real GDP growth being experienced in Barbados, Jamaica and Trinidad & Tobago. Unemployment levels remain relatively high. Most governments face fiscal challenges and the Government of Jamaica has been seeking to conclude an agreement with the International Monetary Fund (IMF) for support and to facilitate new investment by international lenders.

Interest rates in Trinidad & Tobago have declined to near historic levels. The long-term yield on Government of Trinidad & Tobago debt instruments was approximately 4.2% as of December 31, 2012, falling from approximately 5.4% one year earlier. Currency exchange rates have remained stable except for the Jamaica dollar which declined by 7.4% during 2012 when compared to the US dollar.

Insurance Regulation

While there has been no significant legislative change in the insurance sphere in the Caribbean, governments and regulators either have initiated or are contemplating enhancements to insurance regulation as a response to the recent failure of insurance subsidiaries of CL Financial in the region.

In the United Kingdom, the deadline for Solvency II has been moved to January 1, 2015. However, Lloyd's of London has proceeded with a programme of implementation, with significant milestones achieved during 2012.

GROUP RESULTS

Revenues in 2012 surpassed US$ 1 billion by US$ 64 million and also surpassed the 2011 total by US$ 119 million.

Commensurate with the growth in revenue, insurance and other benefits also increased in 2012 to a total of US$ 639 million as compared to a total of US$ 542 million in 2011. Expenses and taxes also increased and reached US$ 351 million in 2012 as compared to a total of US$ 327 million in 2011.

Net income from continuing operations totalled US$ 74 million in 2012 and US$ 76 million in 2011.

CONSOLIDATED INCOME [1] - $ millions	2012	2011
Revenue	1,064	945
Benefits	(639)	(542)
Expenses & taxes	(351)	(327)
Net income	**74**	**76**
Other comprehensive income	(16)	(1)
Total comprehensive income	**58**	**75**

[1] *from continuing operations*

Other comprehensive income recorded a net loss of US$ 16 million in 2012 as compared to a loss of US$ 1 million in 2011.

In December 2012, the Board and Management made a decision to dispose of Sagicor Europe, which owns the Sagicor at Lloyd's operations. Since the future value of these operations would be realised through sale and not through trading, in accordance with International Financial Reporting Standards, the results of Sagicor Europe have been separated from the Group's continuing operations and presented as a discontinued operation.

The results of the Group's continuing operations are further analysed under the next several sub-headings. The results of the discontinued operation are discussed and analysed in the penultimate section.

Shareholder returns

The Group's net income and comprehensive income are allocated to the equity owners of the respective Group companies in accordance with their results. As some Group companies have minority shareholders, particularly in the Sagicor Jamaica operating segment, the Group's net income is allocated accordingly between holders of Sagicor's common shares and the minority interest shareholders. There is also an allocation to Sagicor Life Inc policyholders who hold participating policies, an arrangement which was established on the demutualisation of Sagicor Life Inc.

For 2012, US$ 52 million of net income from continuing operations was allocated to the holders of common shares of Sagicor Financial Corporation, which corresponded to earnings per share of US 16.8 cents. The comparative amounts for 2011 were US$ 45 million of net income and US 15.1 cents per share. The respective annual returns on shareholders' equity were 9.5% for 2012 and 8.2% for 2011.

Dividends declared to shareholders in respect of 2012 totalled US$ 12 million and represented US 4 cents per share. The same amounts were declared for 2011.

COMMON SHAREHOLDER RETURNS [1]	2012	2011
Net income - $ millions	52	45
Dividends - $ millions	12	12
Earnings per share - cents	16.8	15.1
Dividends per share - cents	4.0	4.0
Return on equity - %	9.5	8.2

[1] *from continuing operations except for dividends.*

Revenue

The sources of the Group's revenue are insurance premiums from customers, investment income arising from investments held, fee income and other revenues. The following table summarises the main items of revenue.

REVENUE - $ millions	2012	2011
Net insurance premiums:		
Life and annuity	511	459
Health	136	129
Property & casualty	18	17
	665	605
Net investment income	295	278
Fees and other revenues	104	62
	1,064	**945**

Premium revenue from life insurance and annuity was US$ 511 million and represented 77% of total premium revenue. The comparative amounts for 2011 were US$ 459 million and 76%. The Group markets a range of life and annuity products, most of which are long-term contracts for which a monthly premium is paid by the customer. For some long-term contracts a single premium (usually a lump sum) is paid at the beginning of the contract. There are also annual renewable contracts which are marketed largely to employers to provide coverage to their employees on a group basis.

The Group markets annual renewable health insurance contracts to employers and associations. These provide benefits against medical costs incurred by insured persons. Premium revenue from health insurance totalled US$ 136 million, an increase of US$ 7 million over the 2011 total.

The Group also markets property and casualty insurance contracts in the Caribbean region. These are marketed to individuals and commercial enterprises. Premium revenue from these classes of insurance totalled US$ 18 million, a modest increase of US$ 1 million when compared to 2011.

Income is generated from the investments made by the Group. The annual yields achieved on financial investments were as follows.

INTEREST YIELDS	2012	2011
Debt securities	7.1%	7.6%
Mortgage loans	7.6%	8.1%
Policy loans	8.1%	8.1%
Finance loans & finance leases	10.2%	11.5%
Securities purchased for resale	5.1%	6.2%
Deposits	2.4%	2.9%

Income from fees and other revenues totalled US$ 104 million. Compared to 2011, this was an increase of US$ 42 million, of which US$ 34 million related to non-recurring transactions and US$ 8 million related to transactions of a recurring nature. The non-recurring transactions include a gain of US$ 32 million on the recapture of a reinsurance contract (a gain of US$ 21 million after income tax is deducted). The gain arose due to a difference in methods for valuation of the insurance liabilities which were reinsured.

Benefits

The following table summarises the expense incurred by the Group in providing benefits.

BENEFITS - $ millions	2012	2011
Net insurance benefits:		
Life and annuity	457	365
Health	106	97
Property and casualty	8	9
	571	471
Interest expense	68	71
	639	**542**

Insurance benefits comprise amounts payable to policyholders and beneficiaries in accordance with the contract terms of insurance policies issued or assumed by the Group. Interest payable to investment contract-holders or financial institutions which have placed funds with the Group are treated as interest benefits.

Current life insurance and annuity benefits are recognised on the notification of death, disability or critical illness of an insured person, on the maturity or surrender of a policy, on the declaration of a policy bonus or dividend, or an annuity payment date. Future life insurance and annuity benefits are recognised in the financial statements on in-force long-term insurance contracts based on reserving methodologies adopted by the Group in accordance with established actuarial practice.

Life and annuity benefits totalled US$ 457 million in 2012, of which US$ 278 million related to current benefits and US$ 179 million related to future benefits. The corresponding amounts for 2011 were a total of US$ 365 million, of which US$ 248 million were for current benefits and US$ 117 million were in respect of future benefits.

The amount of future benefits recorded in the statement of income is a function of the policy contracts in-force and of the appropriate actuarial assumptions which are made to value them. For 2012, the growth and maturing of policy contracts was the principal reason for the increase but the continued low interest rates in the USA also contributed to the need to increase the future benefits.

Health, property and casualty insurance benefits are recognised either on the notification or settlement (for short notification periods) of a claim from policyholders. In addition, incurred but not reported (IBNR) benefits are recognised in accordance with established or expected trends for claims incurred.

Total health insurance benefits were US$ 106 million representing an overall claims to premium ratio of 78%. The comparative 2011 amounts were US$ 97 million and an overall claims to premium ratio of 75%. Property and casualty claims amounted to US$ 8 million in 2012, a reduction of US$ 1 million from the 2011 comparative figure.

The interest returns the Group has provided to investment contract-holders and financial institutions which have advanced funds are summarised in the following table.

INTEREST YIELDS	2012	2011
Investment contracts	7.2%	8.3%
Other funding instruments	2.6%	2.8%
Customer deposits	3.8%	4.2%
Securities sold for repurchase	5.4%	5.3%

Expenses and taxes

Expenses and taxes totalled US$ 351 million for 2012 and US$ 327 million for 2011.

Expenses of administration represent the largest expense category and totalled US$ 192 million in 2012 and US$ 178 million in 2011. The expense for commissions represents compensation and benefits payable to insurance agents and brokers who generate new and renewal premium revenue for the Group. Commissions totalled US$ 89 million for 2012 and US$ 84 million for 2011.

EXPENSES & TAXES - $ millions	2012	2011
Administrative expenses	192	178
Commissions	89	84
Finance costs, depreciation and amortisation	34	34
Premium, asset and income taxes	36	31
	351	327

The Group is subject to a variety of direct taxes, with premium and income taxes comprising the main types of tax. Taxes are incurred in the jurisdiction in which the income is generated. Premium tax is customarily a percentage of gross premium revenue, while income tax is usually either a percentage of investment income or a percentage of profits.

Comprehensive income

Gains and losses recorded within other comprehensive income arise from fair value changes of certain classes of assets and from the retranslation of foreign currency operations.

For 2012, fair value changes in assets accounted for a net gain of US$ 2 million and the retranslation of foreign currency operations accounted for a loss of US$ 18 million. The latter arose entirely from the depreciation of the Jamaica dollar. The corresponding amounts for 2011 were a gain of US$ 3 million arising from fair value changes in assets and a loss of US$ 4 million from the retranslation of foreign currency operations.

Combining net income and other comprehensive income, the result is total comprehensive income. Summarising the Group's results from continuing operations, total comprehensive income was US$ 58 million for 2012 and US$ 75 million for 2011.

GROUP FINANCIAL POSITION

Sagicor's activities of issuing insurance contracts, of accepting funds from depositors, of banking and securities dealing, result in the Group receiving significant funds which are held as liabilities and are invested in a variety of assets.

The Group's sources of capital are equity contributions from shareholders, retained earnings and reserves, and borrowings.

The table below summarises the consolidated financial position of Sagicor as of December 31, 2012 and 2011.

STATEMENT OF FINANCIAL POSITION - $ millions	2012	2011
Assets	5,549	5,364
Liabilities arising from operations	4,489	4,334
Borrowings	241	232
Equity	819	798
	5,549	5,364

Assets

Invested assets and cash balances as of December 31 are summarised in the table below.

INVESTMENTS & CASH - $ millions	2012[1]	2011
Debt securities	3,124	3,107
Mortgage loans	264	273
Policy loans	125	125
Finance loans and finance leases	155	158
Securities purchased for re-sale	20	12
Deposits	136	295
Cash	184	185
Investment property and other items	369	277
	4,377	**4,432**

[1] *continuing operations*

Debt securities are the largest class of invested assets, and represented 71% of total investments and cash as of December 31, 2012 (70% as of December 31, 2011). These securities are very suitable instruments to back long-term insurance liabilities because of their medium to long term duration, the regular interest payments received, and the relatively lower credit risk.

Debt instruments are issued primarily by Governments, state sponsored agencies and corporate entities. The Group acquires and holds these instruments usually in the country where the funding arose. The Group also invests in debt instruments of short duration as a way of earning investment returns with minimal risk and of providing opportunities for investment contract-holders to earn safe returns.

Other invested assets are spread across various assets classes such as mortgages, loans, deposits and property.

In conducting its operations, the Group acquires or holds other assets such as property, plant and equipment, and insurance related and other receivables and balances.

As of December 31, the Group held US$ 706 million in assets classified as discontinued. The majority of these assets will be disposed of on the completion of sale of the Sagicor at Lloyd's operations.

Liabilities arising from operations

The Group issues life insurance and annuity contracts either to individuals or to employers in respect of their employees (groups). Insurance liabilities are summarised in the table below.

INSURANCE LIABILITIES - $ millions	2012 [1]	2011
Future benefits - individual contracts	1,657	1,525
Future benefits - group contracts	384	352
Current benefits and other payables	219	881
	2,260	**2,758**

[1] *continuing operations*

Future benefits represents amounts recognised at the date of the financial statements for liabilities not yet due. These liabilities may become due in the near, medium or long-term and are estimated using established actuarial techniques.

Current benefits and other payables represent amounts which are currently due and are in the course of settlement. These include benefits in respect of all classes of insurance written - life, annuity, health, property and casualty.

The Group's liabilities which arise from issuing investment contracts, accepting deposits and funding are in the next table.

FINANCIAL LIABILITIES - $ millions	2012	2011
Investment contracts	346	316
Securities sold for re-purchase	591	613
Customer deposits	207	197
Other funding instruments and other items	294	273
	1,438	1,399

Investment contracts are issued to pension funds and as savings vehicles to provide returns to contract holders. Securities sold for re-purchase provide specific security to depositors who place funds with the Group for investment return. Deposits and other funding provide monies to the Group to invest in loans and related securities.

Other liabilities include general provisions, accruals and payables which arise in the ordinary course of business.

As of December 31, the Group held US$ 631 million in liabilities classified as discontinued. These will either be transferred or settled on the completion of sale of the Sagicor at Lloyd's operations.

Capital

The Group has issued equity and debt instruments to provide capital for its operations. These instruments are common shares, preference shares and notes payable.

301 million common shares of Sagicor Financial Corporation are outstanding and are tradable on the Barbados, Trinidad & Tobago and London stock exchanges. 120 million convertible redeemable 5 year 6.5% preference shares were issued by the Company in 2011 and these are also tradable on the Barbados and Trinidad & Tobago stock exchanges.

Common shares of certain subsidiaries are held by minority interests primarily in Jamaica where those shares are tradable on the local stock exchange. In 2006, a subsidiary issued 150 million 10 year 7.5% notes payable.

The amounts recognised in the statement of financial position in respect of these instruments are summarised in the next table.

EQUITY & BORROWINGS - $ millions	2012	2011
Common shareholders' equity	578	578
Preference shareholders' balances	117	117
Minority interest shareholders' balances	227	188
7.5% senior notes due 2016	146	145
Participating accounts & other	(8)	2
	1,060	1,030
Classified as:		
Equity	819	798
Borrowings	241	232
	1,060	1,030

Participating accounts were established by a subsidiary to provide additional policyholder protection on participating policies which pay policy bonuses and dividends.

A measure of financial stability is the debt (borrowings) to equity ratio which for the Sagicor Group was 29.5% as of December 31, 2012 and 29.1% as of December 31, 2011.

A measure used to determine the capital adequacy of a life insurance Group, which is the predominant activity within Sagicor, is the Canadian Minimum Continuing Capital and Surplus Requirement (MCCSR). The consolidated MCCSR ratio for the Sagicor Group was 253% as of December 31, 2012 and 229%, as of December 31, 2011, both of which are significantly in excess of the minimum recommended ratio of 150%. These ratios include risk factors for the potential credit default of debt instruments of Caribbean Governments held by life insurance subsidiaries.

SAGICOR GROUP
SUMMARY ORGANISATIONAL CHART

SAGICOR FINANCIAL CORPORATION
- HOLDING COMPANY & GROUP FINANCING

SAGICOR LIFE - LIFE & HEALTH INSURANCE
- BARBADOS, EASTERN CARIBBEAN & DUTCH ISLANDS, CENTRAL AMERICA
- TRINIDAD & TOBAGO

SAGICOR JAMAICA
- SAGICOR LIFE - LIFE & HEALTH INSURANCE
  - JAMAICA & CAYMAN ISLANDS
- SAGICOR INVESTMENTS JAMAICA - INVESTMENT & BANKING
  - JAMAICA

SAGICOR USA
- SAGICOR LIFE - LIFE INSURANCE
  - U.S.A.

OTHER OPERATING COMPANIES
- SAGICOR GENERAL - P&C INSURANCE
  - BARBADOS, TRINIDAD & TOBAGO, EASTERN CARIBBEAN
- INVESTMENT, FINANCE & REAL ESTATE ENTITIES
  - BARBADOS, TRINIDAD & TOBAGO, EASTERN CARIBBEAN

SAGICOR EUROPE (discontinued operation)
- SAGICOR AT LLOYD'S - P&C INSURANCE
  - U.K. & WORLDWIDE

OPERATING SEGMENTS

The Group's principal reportable operating segments, as defined by International Financial Reporting Standards, are Sagicor Life Inc, Sagicor Jamaica, Sagicor USA, and Sagicor Europe. The performance of these segments in 2012 is discussed under the following sub-headings and under discontinued operation.

Sagicor Life Inc Segment

The Sagicor Life Inc segment consists of the life insurance subsidiaries which conduct business in Barbados, Trinidad and Tobago, the Eastern and Dutch Caribbean islands, Belize, Bahamas and Panama. The main activities of this segment are the provision of life insurance, annuities, health insurance, pension investment and pension administration services.

In 2012, this segment generated revenue of US$ 340 million. This was an increase of US$ 12 million over the previous year. The main revenue component was premium income which totalled US$ 239 million. Investment income totalled US$ 82 million while other items totalled US$ 19 million.

Benefits totalled US$ 212 million, increasing by US$ 21 million over the previous year's total. Current insurance benefits were US$ 156 million while amounts recognised for future insurance benefits were US$ 41 million. The latter amount represented an increase of US$ 18 million over the 2011 total and consequently was mainly of normal increases arising from the growth and maturing of in-force policy contracts.

Total expenses and taxes in 2012 were marginally above that recorded in 2011.

SAGICOR LIFE INC

INCOME - $ millions	2012	2011
Revenue	340	328
Benefits	(212)	(191)
Expenses and taxes	(108)	(106)
Segment income	20	31
Segment income attributable to shareholders	33	33
FINANCIAL POSITION - $ millions	**2012**	**2011**
Assets	1,610	1,488
Liabilities	(1,219)	(1,146)
Net assets	391	342

Net segment income for the year was US$ 20 million as compared to US$ 31 million for the prior year. The increase recorded for future benefits adversely affected the performance of the participating accounts which recorded a net loss of US$ 13 million in 2012 (net loss of US$ 2 million in 2011). Consequently, the net income attributable to shareholders for the segment totalled US$ 33 million in both 2012 and 2011.

Financial investments comprised 71% of segment assets and policy liabilities comprised 92% of segment liabilities at the end of 2012.

Sagicor Jamaica Segment

This segment comprises subsidiaries in Jamaica and Cayman Islands conducting insurance, banking and investment management. Prior to its rebranding to Sagicor in December 2012, the banking and investment management subsidiaries operated under the Pan Caribbean Financial Services brand. The principal products of the segment are the provision of life, critical illness and health insurance, annuities, pension administration, investment management, securities dealing and commercial banking.

This segment generated revenue of US$ 448 million in 2012, an increase of US$ 15 million over the 2011 total. The main revenue component was premium income which totalled US$ 260 million in 2012 and increased by US$ 7 million over the prior year. Investment income totalled US$ 153 million while other revenues increased by US$ 10 million from the previous year. Foreign exchange gains in 2012 contributed to this increase.

Benefits totalled US$ 247 million. Sagicor Jamaica experienced an increase of US$ 15 million in current insurance benefits while future insurance benefits and interest benefits declined.

Expenses and taxes incurred totalled US$ 133 million in 2012, increasing by US$ 7 million over the prior year. The increase is attributed mainly to expenses of administration.

SAGICOR JAMAICA		
INCOME - $ millions	**2012**	**2011**
Revenue	448	433
Benefits	(247)	(240)
Expenses and taxes	(133)	(126)
Segment income	68	67
Segment income attributable to shareholders	36	38
FINANCIAL POSITION - $ millions	**2012**	**2011**
Assets	1,893	1,488
Liabilities	(1,515)	(1,146)
Net assets	378	342

Net segment income for the year was US$ 68 million, marginally above the total of US$ 67 million recorded for 2011. As the Sagicor Jamaica segment is owned 51% by the Group (59% up to July 2012), the resulting net income attributable to shareholders was US$ 36 million in 2012 and US$ 38 million in 2011.

Financial investments comprised 86% of the segment's assets at the end of 2012. The liabilities of this segment were distributed 37% to policy liabilities and 58% to deposit and security liabilities at the end of 2012.

Sagicor USA Segment

This segment consists of the USA operations of Sagicor which market life insurance and annuity products to individuals.

Segment revenue totalled US$ 236 million in 2012, increasing by US$ 93 million over the 2011 total. Premium revenue recorded in 2012 was US$ 147 million and exceeded the 2011 total by US$ 45 million. New premium written in this segment is predominately single premium annuities and life contracts. Investment income for 2012 totalled US$ 52 million, a significant increase over the US$ 39 million recorded in 2011. This increase is a result of investment gains of US$ 8 million recorded in 2012.

Other revenues included one-time gains on the recapture of insurance liabilities previously reinsured and on the acquisition of the PEMCO life insurance business based in Washington State. These gains arose from the difference between the Group's actuarial measurement basis and the USA statutory measurement basis which was used for both the recapture and the acquisition. The gain on the recapture was US$ 32 million which was subject to income tax at 35%, and the acquisition gain was an after tax US$ 2 million.

SAGICOR USA		
INCOME - $ millions	**2012**	**2011**
Revenue	236	143
Benefits	(170)	(98)
Expenses and taxes	(48)	(39)
Segment income	18	6
Segment income attributable to shareholders	18	6
FINANCIAL POSITION - $ millions	**2012**	**2011**
Assets	1,219	1,102
Liabilities	(1,031)	(931)
Net assets	188	171

Commensurate with the growth in premium revenue, total benefits increased to US$ 170 million in 2012 from US$ 98 million in 2011.

Current insurance benefits totalled US$ 80 million in 2012, increasing from US$ 59 million in 2011. The expense for future insurance benefits in 2012 totalled US$ 84 million, increasing from US$ 34 million in 2011. The 2012 expense for future insurance benefits reflects both the growth and maturing of in-force contracts and the continued lower interest rates in the USA.

Expenses and taxes totalled US$ 48 million in 2012 as compared to US$39 million in 2011. An increase in income taxes US$ 5 million was the main contributor with the income tax on the recapture gain being the major source of the tax increase. Administrative and commissions expenses also increased in 2012, commensurate with the growth in premium revenue.

Net income of the segment for 2012 was US$ 18 million, well above the US$ 6 million recorded for 2011.

As of December 31, 2012, financial investments comprised 94% of the segment assets and policy liabilities comprised 81% of the segment liabilities.

DISCONTINUED OPERATION

The discontinued operation comprises the Sagicor at Lloyd's business and consists primarily of property and casualty insurance business written through Lloyd's of London Syndicate 1206. The Lloyd's of London franchise enables the syndicate to write international business outside of the United Kingdom.

As stated in a foregoing section, the Group has made a decision to dispose of these operations. Disposal is expected during 2013. In accordance with International Financial Reporting Standards, the discontinued operation is defined as the Sagicor Europe operating segment plus all directly associated Head Office balances. In addition, as a discontinued operation, the overall carrying value of the net assets in the statement of financial position has been reduced to the estimated amount recoverable on disposal.

Compared to 2011, the Sagicor at Lloyd's operating results in 2012 improved considerably with a reduction in the operating loss by US$ 27 million. The 2011 results included significant amounts of catastrophe and non-catastrophe claims losses.

The operating loss in 2012 of US$ 16 million reflected the tail effects from the international treaty property and motor insurance lines which were being wound down. In our 2011 Performance Review, we indicated that these insurance lines were the cause of the 2011 operating loss and that they had been placed in run off.

The tail effects, attributable to the run off lines, consisted of some shortfall in expected premium income and some adverse claims development.

With respect to the active lines of insurance, the property and personal accident lines performed well, while the liability lines under-performed as a number of large claims were recorded.

In the statement of income, revenues, benefits and expenses have all declined from 2011 levels due to the decision to place certain lines in run-off.

DISCONTINUED OPERATION		
INCOME - $ millions	**2012**	**2011**
Revenue	323	411
Benefits	(200)	(287)
Expenses	(139)	(167)
Net operating loss	(16)	(43)
Non-operating charges and expenses	(26)	(1)
Net loss	(42)	(44)
FINANCIAL POSITION - $ millions	**2012**	
Assets	706	
Liabilities	(631)	
Net assets	75	

The main components of non-operating charges and expenses were income tax expense (US$ 5 million) , finance costs (US$ 10 million) and a provision for loss on disposal of the discontinued operation (US$ 10 million).

The income tax expense included a charge of US$ 8 million to adjust the deferred tax asset to its deemed recoverable amount. Finance costs primarily consisted of the costs of providing reinsurance financing for capital purposes. The loss on disposal was an estimate based on the status of the bid offers received at the issue date of the financial statements. It recognised the costs of disposal and the indication from the bids received that compensation would exclude certain items recognised within the assets and liabilities being sold.

The overall loss from the discontinued operation was therefore US$ 42 million in 2012. The comparative loss for 2011 was US$ 44 million.

The assets of the discontinued operation totalled US$ 706 million, and comprised principally of financial investments, reinsurance recoveries and premium receivables. The liabilities of the discontinued operation totalled US$ 631 million and comprised principally of claims outstanding, claims incurred but not reported and the provision for unearned premium.

LOOKING FORWARD

The near-term outlook is for modest world economic growth. Growth in the major developed economies of North America, Europe and Japan will be fairly low and in some instances there will be further setback from recent years' performance. The 'BRICS' and other commodity driven economies should continue to experience moderate to good growth not dissimilar to that experienced in 2012. In the Caribbean region, no significant improvement in economic performance is expected and governments will continue to face fiscal challenges. The Government of Jamaica has introduced a National Debt Exchange (NDX) programme and is expected to secure an IMF agreement and new international funding for development.

At Sagicor, our focus in 2013 is to complete the sale of the Sagicor at Lloyd's business, to integrate further and to be more productive with our expense structures. Sagicor will experience some initial downside from the NDX, but this should have no lasting impact as the programme is part of a package to strengthen the Jamaica economy. We will continue with our business development strategies which call for further penetration of our markets and providing customers with superior financial solutions. The results from continuing operations in 2011 and 2012 have been reasonably good and provide us with the strong platform to take Sagicor forward.

ADVISE

The wisest person is the one who knows to take good advice.

BOARD OF DIRECTORS

STEPHEN MCNAMARA, 62, was appointed Non-Executive Chairman on January 1, 2010, having formerly served as Vice-Chairman since June 2007. He has been an independent Director since December 2002, and is a citizen of St Lucia and Ireland. He is a British-trained Attorney-at-law, and is the Senior Partner of McNamara & Company, Attorneys-at-Law of St Lucia. Mr McNamara was elected to the Board of Sagicor Life Inc in 1997. He is Chairman of the Group's main operating subsidiary, Sagicor Life Inc, and also of Sagicor Capital Life Insurance Company Limited, Sagicor USA, and Sagicor Finance Inc. He serves as a Director of a number of other subsidiaries within the Group.

ANDREW ALEONG, 52, has been an independent Director since June 2005, and is a citizen of Trinidad and Tobago. He holds an MBA from the Richard Ivey School of Business, University of Western Ontario, Canada. Mr Aleong is Group Managing Director of the Albrosco Group of Companies, Trinidad and Tobago, and has served the Trinidad and Tobago manufacturing industry for over 20 years. He is a former President of the Trinidad and Tobago Manufacturers' Association. Mr Aleong also serves as a Director of a number of private companies. He was elected a Director of Sagicor Life Inc in 2005, and is also a Director of Sagicor Capital Life and a number of other subsidiaries within the Group.

PROFESSOR SIR HILARY BECKLES, K.A, 57, has been an independent Director since June 2005, and is a citizen of Barbados. Sir Hilary earned his PhD from Hull University, United Kingdom, and received an Honorary Doctorate of Letters from the same University in 2003. He has served as the Head of the History Department and Dean of the Faculty of Humanities, University of the West Indies. In 1998, he was appointed Pro-Vice-Chancellor for Undergraduate Studies and, in 2002, the Principal of Cave Hill Campus. Sir Hilary has published widely on Caribbean economic history, cricket history and culture and higher education, and serves on the Editorial Boards of several academic journals. He has lectured in Africa, Asia, Europe and the Americas. He was elected a Director of Sagicor Life Inc in 2005, and is also a Director of Sagicor Life Jamaica and a number of other subsidiaries within the Group.

PETER CLARKE, 58, has been an independent Director since June 2010, and is a citizen of Trinidad and Tobago. He obtained a Bachelor of Arts degree from Yale University and a Law degree from Downing College, Cambridge University. He was called to the Bar as a member of Grays Inn, London, in 1979 and to the Bar of Trinidad and Tobago in 1980. Mr Clarke is a Financial Consultant, who formerly practised as a Barrister-at-Law before embarking on a 22-year career in stockbroking. From 1984 to 2000, he was the Managing Director of Money Managers Limited, and Chief Executive of West Indies Stockbrokers Limited from 2001 until his retirement in 2005. Mr Clarke is a Director of a number of companies in Trinidad and Tobago, including the Trinidad and Tobago Stock Exchange. He is also a member of the University of the West Indies Development and Endowment Fund, and the Finance Council of the Roman Catholic Archdiocese of Port of Spain. From 2002 to 2005, he was a Director of the Trinidad and Tobago Chamber of Industry and Commerce. Mr Clarke also serves as a Director of Sagicor Life Inc, Sagicor Life Jamaica Limited, Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services) and Sagicor Bank Jamaica Limited (formerly Pan Caribbean Bank).

DR JEANNINE COMMA, 62, has been an independent Director since June 2007, and is Chairman of the Human Resources Committee. She is a citizen of Trinidad and Tobago. She holds a PhD from George Washington University, Washington, DC, USA, and is also a graduate of the University of the Virgin Islands. Dr Comma is CEO/ Director of the Cave Hill School of Business of the University of the West Indies, where she specialises in organisational development, strategy and leadership development. She has made significant contributions to the sustainable development of human capital within the regional business community. Dr Comma has extensive experience in Leadership Development, Organisational Strategic Planning and Change Management. She has also taught at the undergraduate and graduate levels at George Washington University, Howard University, Washington, DC, and the University of the West Indies. She is a member of The American Society for Training and Development and the Commonwealth Association of Public Administration and Management (CAPAM). Dr Comma was elected a Director of Sagicor Life Inc in 2006, and is also a Director of Sagicor Capital Life.

JOYCE DEAR, 69, has been an independent Director since August 2006, and is a citizen of Barbados. She is a Fellow of the Association of Chartered Certified Accountants of the United Kingdom, and holds an MBA from the University of Warwick. She is also a Member of the Hospitality Financial and Technology Professionals. She was, until 2004, a Partner in the Assurance and Business Advisory Services Division of PricewaterhouseCoopers in Barbados. Mrs Dear has over 31 years' experience in rendering audit and financial services to a wide variety of industries, including public companies, tourism and hospitality entities, manufacturing companies, statutory corporations and international funding agencies/government-financed programmes and projects. Mrs Dear was the PricewaterhouseCoopers Industry Lead Partner for the public service assignments, and is a past President of the Institute of Chartered Accountants of Barbados. She is a former Director of a general insurance company in Barbados. Mrs Dear was elected a Director of Sagicor Life Inc in 2010, and is also a Director of a number of other subsidiaries within the Group, including Globe Finance Inc, where she serves as Vice-Chair of the Board.

MONISH DUTT, 54, is a citizen of India and a permanent resident of the United States of America. He holds an MBA with a concentration in Finance from the London Business School, London University, and a BA in Economics from the University of Delhi. He is a Fellow of the Institute of Chartered Accountants, London, England. Currently a Consultant on Emerging Markets, Mr Dutt is a seasoned investment professional who, for the 25 years preceding 2011, was employed with the International Finance Corporation (IFC), a member of the World Bank Group. While at IFC, he held various positions, the most recent of which was Chief Credit Officer for Global Financial Institutions & Private Equity Funds. He was formerly the Head of IFC's Private Equity Advisory Group, the Head of the Baltics, Central Europe, Turkey and Balkans Group, Principal Investment Officer for Asia, Senior Investment Officer for Central & Eastern Europe, and an Investment Officer for Africa, Latin America and Asia. Mr Dutt has extensive experience evaluating investment proposals in financial institutions and private equity funds globally, structuring investments, tracking global investment portfolios, and providing quality control guidance to private equity fund investments. Mr Dutt has also represented IFC on boards of investee companies.

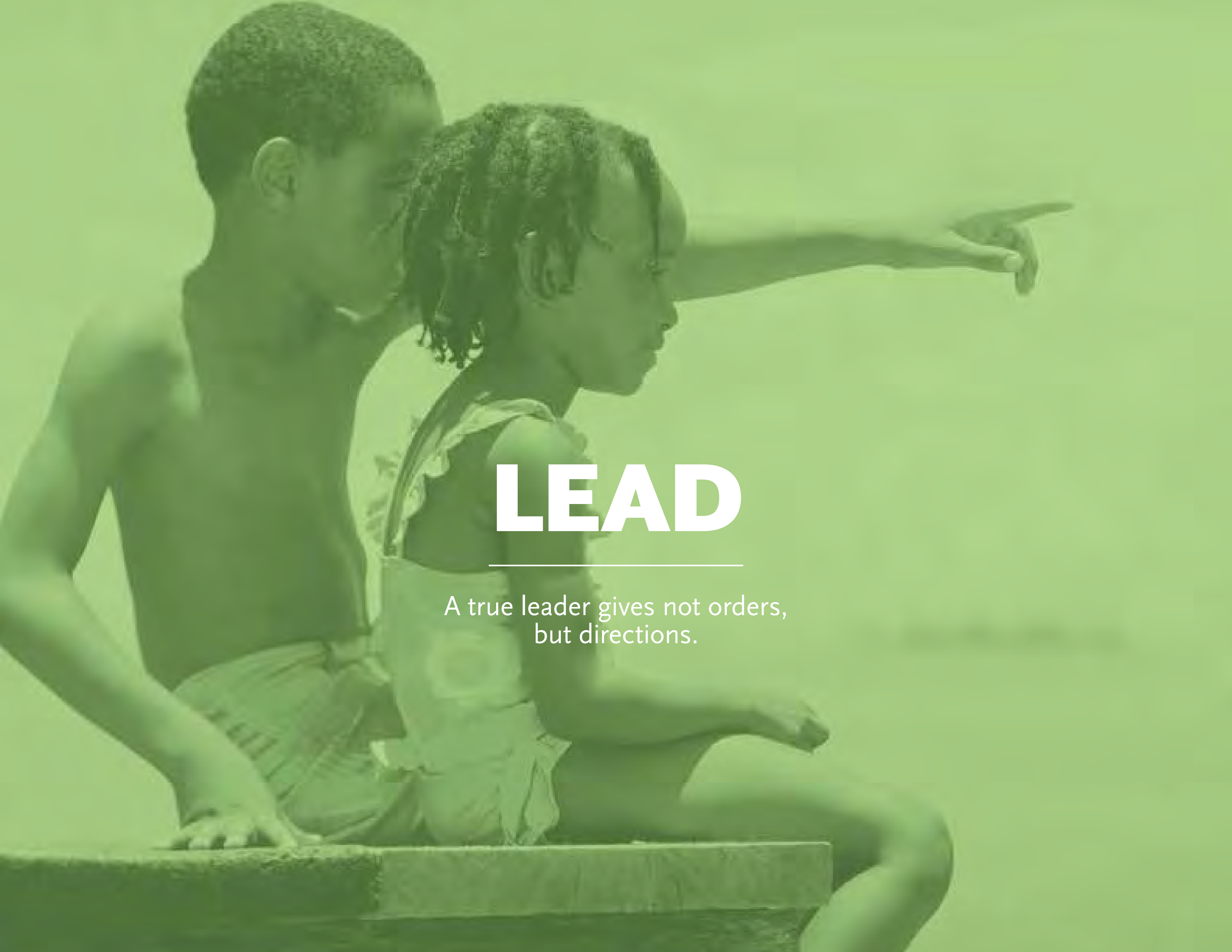
MARJORIE FYFFE-CAMPBELL, 61, has been an independent Director since June 2005, and is a citizen of Jamaica. She holds an MSc in Accounting from the University of the West Indies, and is a Member of the Institute of Chartered Accountants of Jamaica and of the Hospitality, Financial and Technology Professionals. She is a former President and Chief Executive Officer of the Urban Development Corporation, Jamaica, a large property-owning company that manages several entities such as hotels, attractions, a maintenance company, a water supply company, a shopping centre, a conference centre and a golf course. Mrs Fyffe-Campbell is a part-time Lecturer in Financial and Management Accounting at the Mona School of Business of the University of the West Indies, where she is also pursuing a Doctorate in Business Administration with emphasis on corporate governance. She was elected a Director of Sagicor Life Jamaica in 2002, and is also a Director of other subsidiaries within the Group.

RICHARD KELLMAN, 61, was elected as a Director in June 2009, and was appointed Group Chief Operating Officer on November 1, 2009. He is a citizen of Guyana and of the United Kingdom. He holds a BSc in Statistics from University College, London University, and is a Fellow of the Institute of Actuaries and an Associate of the Society of Actuaries. He has also attended training programmes at Harvard Business School and has completed other financial, investment and management training courses. Mr Kellman is a financial services professional with wide knowledge regionally in the areas of finance, pensions, insurance and investments. He has business experience at Board level, and is a former CEO of a quoted diversified Group with interests in insurance, banking and real estate. He has also held senior actuarial positions and served on several boards.

WILLIAM LUCIE-SMITH, 61, has been an independent Director since June 2005, and is a citizen of Trinidad and Tobago. He holds an MA from Oxford University and is a Chartered Accountant. He is a retired Senior Partner of PricewaterhouseCoopers, Trinidad and Tobago, where he headed the Corporate Finance and Recoveries Divisions, specialising in all aspects of business valuations, privatisation, mergers and acquisitions and corporate taxation. Mr Lucie-Smith has been a Special Advisor to the Trinidad and Tobago Government and Central Bank on divestment, and has served on several national committees, such as the Rampersad Committee to Review the Reorganisation and Rationalisation of State Enterprises of Trinidad and Tobago, and the Daly Committee on Corporate Insolvency and Company Law with Special Reference to Severance Pay. He was elected a Director of Sagicor Life Inc in 2005, and is also a Director of Sagicor USA, Sagicor at Lloyd's and a number of other subsidiaries within the Group.

DODRIDGE MILLER, 55, was appointed Group President and Chief Executive Officer in July 2002, and has been a Director since December 2002. A citizen of Barbados, Mr Miller is a Fellow of the Association of Chartered Certified Accountants (ACCA), and obtained his MBA from the University of Wales and Manchester Business School. He holds an LLM in Corporate and Commercial Law from the University of the West Indies and, in October 2008, he was conferred with an Honorary Doctor of Laws degree by the University of the West Indies. He has more than 30 years' experience in the banking, insurance and financial services industries. Prior to his appointment as Group President and Chief Executive Officer, he held the positions of Treasurer and Vice President – Finance and Investments, Deputy Chief Executive Officer and Chief Operating Officer. Mr Miller joined the Group in 1989. He is the Chairman of Sagicor at Lloyd's, and is also a Director of Sagicor Life Inc, Sagicor USA, Sagicor Life Jamaica, Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services) and a number of other subsidiaries within the Group.

JOHN SHETTLE, JR, 58, has been an independent Director since June 2008, and is a citizen of the United States of America. He received his undergraduate degree from Washington & Lee University, and holds an MBA from the Sellinger School of Business at Loyola College, Maryland. Mr Shettle is an Operating Partner of Stone Point Capital, a private equity firm in the global financial services industry. He has over 20 years' experience in senior management positions in the property/casualty, health and insurance-related services industry. More recently, he served as Senior Advisor to Lightyear Capital, a private equity firm, and President and Chief Executive Officer of the Victor O Schinnerer Company. Prior to that, he was the Chief Executive Officer of Tred Avon Capital Advisors, Inc, a firm providing advisory services to companies and private equity firms focused on the insurance sector. He has held senior management positions at Securitas Capital, Swiss Reinsurance Company and Frederick, the Maryland-based AVEMCO Corporation (NYSE). Mr Shettle is also a Director of Sagicor USA and a number of subsidiaries within the Group.



LEAD

A true leader gives not orders,
but directions.

CORPORATE GOVERNANCE

Directors' Interests

Directors' interests as at December 31, 2012 and as at the record date, May 2, 2013, are as follows:

	Shares as at 31-Dec-12				Shares as at 2-May-13			
	Common Shares		Preference Shares		Common Shares		Preference Shares	
	Beneficial	Non-Beneficial	Beneficial	Non-Beneficial	Beneficial	Non-Beneficial	Beneficial	Non-Beneficial
Stephen McNamara	21,500	0	0	0	21,500	0	0	0
Andrew Aleong	518,358	0	50,000	0	518,358	0	55,000	0
Professor Sir Hilary Beckles	9,579	0	0	0	9,579	0	0	0
Peter Clarke	10,000	0	50,000	0	10,000	0	50,000	0
Dr Jeannine Comma	11,523	0	5,000	0	11,523	0	5,000	0
Joyce Dear	26,000	0	100,000	0	26,000	0	100,000	0
Monish Dutt	1,000	0	0	0	1,000	0	0	0
Marjorie Fyffe-Campbell	25,643	0	0	0	32,604	0	0	0
Richard Kellman	12,921	0	150,000	0	12,921	0	150,000	0
William Lucie-Smith	80,000	0	200,000	0	80,000	0	200,000	0
Dodridge Miller	1,097,704	0	15,000	0	1,097,704	0	15,000	0
John Shettle, Jr	1,000	0	0	0	1,000	0	0	0

	Restricted Stock Grants				Stock Options					
	As at 31-Dec-12		As at 2-May-13		As at 31-Dec-12			As at 2-May-13		
	Vested	Unvested	Vested	Unvested	Vested	Exercised	Unvested	Vested	Exercised	Unvested
Richard Kellman	17,034	167,213	17,034	167,213	35,065	0	199,772	35,065	0	199,772
Dodridge Miller	502,595	705,745	502,595	705,745	1,052,764	0	858,149	1,052,764	0	858,149

Corporate Governance Report

1 Board Composition and Structure

The maximum number of Directors permitted by the Restated Articles of Incorporation of the Company is 12, and the minimum is 7. The Board of Directors presently consists of 12 Members, 10 of whom are independent Non-Executive Directors. The remaining 2 are the Group President and Chief Executive Officer, and the Group Chief Operating Officer. Biographical information on the Directors and details of their interests in the Company as at December 31, 2012 and as at the record date, May 2, 2013, are set out earlier in this Report. Non-Executive Directors do not participate in performance-based incentive plans, and their remuneration consists solely of cash. The Board Chairman and Directors are paid fees, and Committee Chairmen and Members are paid an additional fee for each Committee on which they serve. Executives who are Directors are not paid fees. All fees have been approved by Shareholders.

The Board of Directors considers that the quality, skills and experience of Directors enhances the Board's effectiveness and the collective Board is required to have the core set of skills identified in the Board Core Competency Matrix below.

Directors' Skills and Experience	Stephen McNamara	Andrew Aleong	Prof Sir Hilary Beckles	Dr Jeannine Comma	Peter Clarke	Joyce Dear	Monish Dutt	Marjorie Fyffe-Campbell	Richard Kellman	William Lucie-Smith	Dodridge Miller	John Shettle, Jr.
General Management		■	■	■	■	■		■	■	■	■	■
International Business							■				■	■
Finance/Accounting		■				■	■	■	■	■	■	
Corporate Finance, Mergers & Acquisitions					■		■	■	■	■	■	■
Strategic Marketing		■										
Corporate Law	■				■						■	
Banking											■	
Asset Management					■			■	■		■	■
Insurance							■	■	■		■	■
Human Resource Management				■								
Property Management and Development	■	■						■	■			
Regulatory					■							
Risk Management												■
Information Technology											■	
Other: Education			■	■								

In addition, individual Directors must also possess specific knowledge and experience commensurate with the business requirements of the Company and are also expected to have a style of operation which comprises:

(a) high personal standards consistent with the Company's Code of Business Conduct and Ethics
(b) commitment to business leadership
(c) courage to express and defend a position
(d) decisiveness and willingness to be held accountable
(e) effective intervention and decision-making style
(f) willingness to contribute to team synergy
(g) mature and thoughtful perspective on business.

The Company is also mindful that the Board must reflect the business, social, economic and cultural jurisdictions from which the Company draws customer patronage, and that Directors must have sufficient time available to devote to performance of their Board duties. Finally, Directors are required to undergo annually a rigorous self assessment of their independence to ensure that they do not put themselves in positions where their personal interests conflict or may be perceived to conflict with the interests of the Company. All Directors have satisfied the 2012 independence self assessment.

2 Rotation and Re-election of Directors

The Company's Bylaws provide that at least one-third, or the number nearest thereto, of the Directors must retire every year, but a Director shall not be required to retire unless he has been in office for three years.

Peter E Clarke, Dr L Jeannine Comma, Joyce E Dear and Dodridge D Miller will retire at the Tenth Annual Meeting, and all being qualified, have offered themselves for re-election. Profiles of the nominees are contained in the Management Proxy Circular accompanying the Notice of the Meeting. The Board recommends that all the nominees be re-elected. In making this recommendation, the Board has been guided by the nomination process overseen by the Corporate Governance and Ethics Committee which requires a review of the core competency requirements of the Board as a whole; the skills and experience of each nominee; their independence as defined by our Corporate Governance Policy; and their performance as Directors, including their willingness and ability to devote the time necessary to fulfil their role as Directors.

3 Board Responsibilities

3.1 Board of Directors

The Board of Directors is collectively responsible for providing entrepreneurial leadership, guidance and oversight to the Company within a framework of prudent and effective controls that enable risk to be assessed and managed, with a view to maximising shareholder wealth within the bounds of law and community standards of ethical behaviour. The Board's six main responsibilities, which it executes through decision-making and oversight, are strategic planning, enterprise risk management, executive succession planning and performance evaluation, Shareholder communications and public disclosures, internal controls, and Corporate Governance.

The respective roles of the Chairman of the Board, the Board, Committee Chairmen, Committees and Management are clearly defined. The Group CEO and the Executive Committee (Excom) are responsible for the day-to-day management of the Group. Their role is to formulate and implement strategy, operational plans, policies, procedures and budgets, monitor operating and financial performance, assess and control risk, prioritise and allocate resources and monitor competitive and environmental forces in each area of operation. The roles of functional Group Executives, who form part of Excom, are also specifically defined.

3.2 Board Committees

The four Committees of the Board - Audit, Corporate Governance and Ethics, Human Resources, and Investment and Risk - play an integral role in the governance process, in that they assist the Board with the proper discharge of its functions by providing an opportunity for more in-depth discussions on areas not reserved specifically for the Board. The mandates of all the Committees comply with best practice.

The mandate of the **Audit Committee** is to oversee the external audit process, and manage all aspects of the relationship with the External Auditors. The Committee is also required to review the annual audit plan, interim and audited financial statements, and international financial reporting standards having a significant impact on the financial statements. It also reviews actuarial reports and recommendations. The Committee oversees the Internal Audit function, reviewing Internal Audit's assessment of the adequacy and effectiveness of the Group's internal controls, compliance with legal, statutory, regulatory and other requirements, and management of risk. The Committee's composition meets the independence and skill requirements of the Group's Corporate Governance Policy and remained unchanged in 2012. The majority of the Members are financially literate, and three Members, William Lucie-Smith, Joyce Dear and Marjorie Fyffe-Campbell, all Chartered Accountants, have recent and relevant accounting expertise. The current Members are William Lucie-Smith (appointed a Member on August 24, 2005 and Chairman on June 28, 2006), Andrew Aleong (appointed a Member on June 28, 2006), Joyce Dear (appointed a Member on August 11, 2006), Marjorie Fyffe-Campbell (appointed a Member on September 11, 2008) and Dr Jeannine Comma (appointed a Member on September 11, 2008).

The role of the **Corporate Governance and Ethics Committee** is principally to develop and recommend to the Board policies and procedures to establish and maintain best practice standards of Corporate Governance and Corporate Ethics. It also manages the process for Director succession, Director performance, the operation of the President, the composition of Board and Committees, Shareholder communications, and corporate image. The Committee's composition meets the independence requirements of the Group's Corporate Governance Policy and remained unchanged in 2012. The current Members are Stephen McNamara (appointed a Member on March 9, 2004 and Chairman on February 17, 2010), Professor Sir Hilary Beckles (appointed a Member on March 18, 2009), Marjorie Fyffe-Campbell (appointed a Member on March 18, 2009) and John Shettle, Jr (appointed a Member on August 18, 2010).

The mandate of the **Human Resources Committee** is to advise the Board with respect to compensation policies, programs and plans, human resources policies and practices to attain the Company's strategic goals, executive management recruitment, succession plans, performance evaluation and compensation. The Committee's composition meets the independence requirements of the Group's Corporate Governance Policy. The current Members are Dr Jeannine Comma (appointed a Member on September 18, 2007, and Chairman on August 24, 2011), Stephen McNamara (appointed a Member on August 18, 2010), and Andrew Aleong (appointed a Member on March 23, 2012). Professor Sir Hilary Beckles demitted office as a Committee Member during the year.

The **Investment and Risk Committee** is charged with ensuring generally that the Group manages risk within its defined philosophy and appetite, and in compliance with policy risk parameters. Its specific mandate is to ensure that an appropriate enterprise risk management framework is implemented throughout the Group, approve risk policies and risk undertakings and exposures reserved for Board decision. It continually monitors exposures relating to certain risks. Committee Members are required to understand the enterprise's significant inherent risks and the policies and controls used by Management to assess, manage and report these risks. The Committee regularly reviews the Group risk profile, and assesses Management's plans for ensuring financial stability and capital soundness. The Committee's composition meets the independence requirements of the Group's Corporate Governance Policy and remained unchanged in 2012. The current Members are Stephen McNamara (appointed a Member on November 26, 2003 and Chairman on February 17, 2010), Andrew Aleong (appointed a Member on March 18, 2009), John Shettle, Jr (appointed a Member on March 18, 2009), and Peter Clarke (appointed a Member on August 18, 2010).

4 Board Evaluation

In 2012, the Board undertook its annual performance evaluation to assess the effectiveness of the Board's performance as a whole. The evaluation took the form of a self-assessment and peer review questionnaire, and an evaluation of the Corporate Governance system as a whole. Findings continue to reveal ongoing opportunities for the enhancement of our Corporate Governance practices. The Corporate Governance and Ethics Committee continued to manage Director independence and potential conflicts of interest, and the Committee concluded that Directors continued to meet the independence requirements under our Corporate Governance Policy.

5 Director Orientation and On-going Director Education

New Director, Monish Dutt, was given an orientation to the Company which took the form of a documentation package for reference and various interviews. During the year, on-going Director education was planned in the areas of incentive-based compensation but was postponed and will now form part of the 2013 program. The Board is committed to continuing these sessions to ensure Director effectiveness by enhancing Director knowledge.

6 Board Operations

During 2012, Management engaged the Board of Directors (BOD) 9 times, either in formal meetings or by requests for round-robin decisions in between meetings. The Audit Committee (AC) met 5 times; the Corporate Governance and Ethics Committee (CGC) met 4 times; the Human Resources Committee (HRC) met 4 times; and the Investment and Risk Committee (IRC) met 3 times. Directors' record of attendance was as follows:

	BOD	AC	CGC	HRC	IRC	Total	%
Stephen McNamara	9 of 9		4 of 4	4 of 4	3 of 3	20 of 20	100
Andrew Aleong	9 of 9	5 of 5		3 of 3	2 of 3	19 of 20	95
Prof Sir Hilary Beckles	9 of 9		4 of 4	2 of 2		15 of 15	100
Peter Clarke	9 of 9				3 of 3	12 of 12	100
Dr Jeannine Comma	9 of 9	4 of 5		4 of 4		17 of 18	94
Joyce Dear	9 of 9	5 of 5				14 of 14	100
Monish Dutt	5 of 5					5 of 5	100
Marjorie Fyffe- Campbell	9 of 9	5 of 5	3 of 4			17 of 18	94
Richard Kellman	9 of 9					9 of 9	100
William Lucie-Smith	9 of 9	5 of 5				14 of 14	100
Dodridge Miller	9 of 9					9 of 9	100

The Board manages an annual schedule of critical agenda items designed to ensure that it fulfils its recurring obligations, and that Board-reserved items are routinely considered. The principal business at Board meetings in 2012 was to:

- consider and approve the Group strategic plan, capital plan and projections for the period 2013 to 2015;
- review periodically the Group capital and liquidity plan, strategic and business development initiatives forming part of the Strategic Plan, and other key initiatives;
- receive and consider periodic reports and presentations from Management on the performance of various subsidiaries within the Group and the Group on a consolidated basis;
- review and approve unaudited interim and audited annual consolidated financial statements;
- approve interim and final dividends;
- review and approve actuarial reports of the Appointed Actuary; and
- receive reports on work being carried out by Board Committees, and consider and approve their recommendations as required.

7 Committee Operations

Audit Committee Report:
The 2012 activities of the Audit Committee included:

- reviewing and approving the external audit plan and timetable;
- evaluating the performance of the External Auditors for Group entities and approving their audit fees;
- reviewing the External Auditors' 2011 Management Letter and Report on the 2011 audit;
- approving the 2012 Audit Engagement Letter;
- generally reviewing the circumstances and conditions under which a rotation of External Auditors should be considered;
- reviewing and recommending for approval by the Board interim and annual audited financial statements;
- making dividend recommendations to the Board;
- reviewing actuarial reports of the Appointed Actuary;
- reviewing reports of the External Auditors on key audit issues;
- reviewing the financial performance of the Group and key subsidiaries;
- examining the implications of changes to International Financial Reporting Standards;
- approving the 2012 Internal Audit Plan, reviewing Internal Audit reports and monitoring Management action on open Internal Audit items;
- reviewing compliance with various financial covenants;
- reviewing reports on pending material litigation and claims, and pending regulatory issues;
- reviewing regulatory compliance and other compliance reports;
- assessing the adequacy of the Committee's mandate and evaluating its effectiveness in fulfilling the same.

Corporate Governance and Ethics Committee Report:
The Committee's principal business during 2012 included:

- reviewing Board and Director core competencies and identifying gaps to inform the nomination process;
- overseeing Director nominations, Board Committee, subsidiary and outside Board appointments;
- overseeing the management of independence requirements and conflicts of interest;
- reviewing the adequacy of Director and Officer liability insurance cover;
- overseeing the Director self and peer performance evaluation process;
- monitoring Director attendance;
- reviewing investor relations plans and programs;
- conducting its annual review of the adequacy of the Code of Business Conduct and Ethics;
- generally monitoring the operation of Corporate Governance policies and practices; and
- assessing the adequacy of the Committee's mandate and evaluating its effectiveness in fulfilling the same.

Human Resources Committee Report:
During 2012, the Human Resources Committee:

- reviewed executive performance, compensation and terms of engagement;
- monitored succession planning and leadership and development plans at the executive level;

- granted awards to qualified participants under the annual cash incentive plan, long-term incentive plan (LTI) and employee share ownership plan (ESOP) based on performance against established benchmarks;
- reviewed aspects of the rules of the Company's annual long-term incentive plans;
- reviewed ESOP financial statements;
- reviewed plans for corporate re-structuring and reorganisation; and
- assessed the adequacy of the Committee's mandate and evaluated its effectiveness in fulfilling the same.

Investment and Risk Committee Report:
In 2012, the Investment and Risk Committee's work included monitoring key risks to which the Group is exposed, including:

- reviewing in detail interest rate, credit, liquidity and foreign exchange risk dashboards for the Company as a whole, and for its major subsidiaries;
- monitoring of risk exposures and reviewing mitigation strategies designed to manage risk, and generally overseeing the enterprise risk management process;
- reviewing investment performance as required; and
- assessment of the adequacy of the Committee's mandate and an evaluation of its effectiveness in fulfilling the same.

8 Enterprise Risk Management

The Group's enterprise risk management framework comprises articulation of risk philosophy and appetite, risk structures and processes, risk policies and a regime of monitoring risk exposures, both at the enterprise and subsidiary levels. The Group's activities of issuing insurance contracts, accepting funds from depositors, and investing insurance premium and deposit receipts in a variety of financial and other assets expose the Group to various insurance, financial and operational risks. Insurance risks include pricing, claims and lapse risks. Financial risks include credit, liquidity, interest rate and market risks. Operational risks include fraud, damage to physical assets, improper business practices, improper employment practices, business interruption and system failures, and execution and process errors. Exposure and sensitivity to financial and insurance risks are disclosed in Notes 41 and 42 respectively to the 2012 audited financial statements contained in this Annual Report.

9 Internal Audit

The mission of Group Internal Audit is to provide independent, objective assurance and consulting services designed to add value and improve the organisation's operations by utilising an appropriate risk-based audit methodology across the Group. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of risk management, control, and governance processes. The scope of work of Internal Audit is to determine whether the organisation's network of risk management, controls, and governance processes, as designed and represented by Management, is adequate and functioning in a manner to ensure, among other things, that risks are appropriately identified and managed, and that employees' actions are in compliance with policies, standards, procedures, applicable laws and regulations. The work of Internal Audit also seeks to give assurance that resources are acquired economically, used efficiently, and adequately protected, and that quality and continuous improvement are fostered in the organisation's control process, and significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately.

10 Compliance

Sagicor continues to strengthen and streamline its compliance function in response to the increasing complexity of regulatory and other risks, with the Audit Committee continuing to exercise oversight of all aspects of compliance.

The Group Compliance Committee's mandate is to ensure that compliance is managed on a formal and proactive basis as opposed to an ad hoc and reactive basis, is governed by appropriate policy, and is implemented and administered in accordance with policy. The Committee is also charged with ensuring that risk management practices are developed, implemented and administered for identifying, assessing, managing, reporting and monitoring compliance risk, and with lending value-added support for the administration of and compliance with Sagicor's Code of Business Conduct and Ethics. The Committee, whose membership includes the Group Chief Compliance Officer as Chair, and the Chief Compliance Officer of each major operating subsidiary, the Group Chief Risk Officer and Group General Counsel, continued to be active in 2012.

11 Code of Business Conduct and Ethics

Sagicor's Code of Business Conduct and Ethics (which codifies our corporate value system embracing legal, moral and ethical conduct, accountability, corporate social responsibility and leadership) requires Directors, Management, Staff and Advisors to acknowledge, on an annual basis, that they have read the Code, and whether or not they are in compliance. Mechanisms through which code violations can be reported and channelled to the appropriate parties operated satisfactorily, including widely available anonymous whistle-blowing facilities. These enabled Management to take timely corrective action. The Corporate Governance and Ethics Committee carried out its annual review of the Code to ensure its adequacy.

12 Investor Relations and Communications

During 2012, the Company continued to execute its investor relations communications program with quarterly briefings to the Media, Analysts and Brokers. The Company continues to ensure that price-sensitive information is released across markets at the same time, and to manage its Insider Trading Policy as an integral part of the Code of Business Conduct and Ethics. The annual Shareholders' briefing was held in Trinidad, where the majority of Shareholders reside, for the benefit of Shareholders who are unable to travel to Barbados for the Annual Meeting of Shareholders.

By Order of the Board of Directors.

Sandra Osborne, QC
Corporate Secretary

May 24, 2013.

ACCOMPLISH

Perhaps the greatest part of reaching a goal is choosing the next one.

EXECUTIVE MANAGEMENT

DODRIDGE D. MILLER

FCCA, MBA, LLM, LLD (Hon)

Group President and Chief Executive Officer

Dodridge Miller was appointed Group President and Chief Executive Officer in July 2002, and has been a Director since December 2002. A citizen of Barbados, Mr Miller is a Fellow of the Association of Chartered Certified Accountants (ACCA), and obtained his MBA from the University of Wales and Manchester Business School. He holds an LLM in Corporate and Commercial Law from the University of the West Indies and, in October 2008, he was conferred with an Honorary Doctor of Laws degree by the University of the West Indies. He has more than 30 years' experience in the banking, insurance and financial services industries. Prior to his appointment as Group President and Chief Executive Officer, he held the positions of Treasurer and Vice President – Finance and Investments, Deputy Chief Executive Officer and Chief Operating Officer. Mr Miller joined the Group in 1989. He is the Chairman of Sagicor at Lloyd's, and is also a Director of Sagicor Life Inc, Sagicor USA, Sagicor Life Jamaica, Sagicor Investments Jamaica Limited (formerly PanCaribbean Financial Services) and a number of other subsidiaries within the Group.

RICHARD M. KELLMAN

BSc, FIA, ASA

Group Chief Operating Officer

Richard Kellman was elected as a Director in June 2009, and was appointed Group Chief Operating Officer on November 1, 2009. He is a citizen of Guyana and of the United Kingdom. He holds a BSc in Statistics from University College, London University, and is a Fellow of the Institute of Actuaries and an Associate of the Society of Actuaries. He has also attended training programmes at Harvard Business School and has completed other financial, investment and management training courses. Mr Kellman is a financial services professional with wide knowledge regionally in the areas of finance, pensions, insurance and investments. He has business experience at Board level, and is a former CEO of a quoted diversified Group with interests in insurance, banking and real estate. He has also held senior actuarial positions and served on several boards.

RICHARD BYLES

BSc, MSc

President and Chief Executive Officer, Sagicor Life Jamaica Limited

Richard Byles was appointed President and CEO of Sagicor Life Jamaica Limited, a member of the Sagicor Group, in March 2004. He is Chairman of the Board of Sagicor Investments Jamaica Limited (formerly PanCaribbean Financial Services), Sagicor Property Services Limited, Sagicor Reinsurance Limited (Cayman), Sagicor Insurance Managers (Cayman) and Desnoes and Geddes. He also serves on the boards of several subsidiary and associated companies as well as Air Jamaica and RBA Limited. He has earned valuable experience within the financial sector, spanning the areas of Life, Health and General Insurance, Asset and Investment Management, Banking, Pension Administration, Property Development and Reinsurance Management. Mr Byles holds a BSc in Economics from the University of the West Indies and an MSc in National Development from the University of Bradford, England.

DR. M. PATRICIA DOWNES-GRANT

BA, MA ,MBA, DBA

President and Chief Executive Officer, Sagicor Life Inc

Dr Patricia Downes-Grant was appointed President and Chief Executive Officer of Sagicor Life Inc on January 1, 2006, having served as Group Chief Operating Officer since July 1, 2002. She joined Sagicor in 1991, and held several senior positions, including those of Vice President, (Investments), and Treasurer and Executive Vice President (Finance and Investments) before being appointed Chief Executive Officer. She holds an MBA in Finance, an MA in Economics, and a Doctorate in Business Administration Finance. Prior to joining Sagicor, Dr Downes-Grant was a Senior Manager in the Management Consulting and Insolvency Division of Coopers & Lybrand (now PricewaterhouseCoopers). Dr Downes-Grant has also had significant work experience in Development Banking. She is a former Chairman of the Barbados Stock Exchange and Barbados Central Securities Depository, and a Director of several companies within the Sagicor Group and within the private sector of Barbados.

J. ANDREW GALLAGHER

FSA, FCIA

Chief Risk Officer

Andrew Gallagher was appointed to the position of Chief Risk Officer for the Group in 2007. He joined Sagicor in August 1997, and previously held the position of Resident Actuary. He holds a Bachelor of Mathematics degree from the University of Waterloo, is both a Fellow of the Canadian Institute of Actuaries and a Fellow of the Society of Actuaries, and is a Chartered Enterprise Risk Analyst. Prior to joining Sagicor, Mr Gallagher worked with Eckler Partners in Toronto in their financial institutions practice. He has over 25 years of experience in the industry.

MAXINE MACLURE

BSc, MEd, MBA

Executive Vice President, Corporate Services and Chief Compliance Officer

Maxine MacLure was appointed Executive Vice President, Corporate Services, Sagicor Financial Corporation in February 2007. Prior to this, she served as President and CEO, Sagicor USA, from March 2004. Ms MacLure joined Sagicor in December 2001 as President and CEO of Life of Jamaica (LOJ). Before joining Sagicor, Ms MacLure was General Manager of Insurance for FINSAC in Jamaica, where she ran a 2-year insurance reform project sponsored by the Inter-American Development Bank and the Jamaican Government. She also spent 7 years as a senior Financial Sector Regulator in Canada, and 11 years in banking in Canada & the UK. Ms MacLure has an MBA from the Richard Ivey School of Business at the University of Western Ontario, Canada, a Masters degree in Education from Western Washington University in the United States, and a BSc from the University of Manitoba, Canada, with a major in Mathematics.

PHILIP N.W. OSBORNE

BSc, ACA, FCA

Chief Financial Officer

Mr Osborne was appointed Chief Financial Officer in 2003. He has held senior finance positions in the life insurance sector for over 20 years, having joined Life of Barbados Limited (then a Barbados-based life insurer) in 1989. Subsequently in 1996, he was appointed a Director of Life of Barbados and remained so through its acquisition by and its eventual amalgamation with Sagicor Life Inc. He is currently a Director of Globe Finance Inc., Barbados Farms Ltd, and Sagicor at Lloyd's Ltd and its affiliates, which are all subsidiaries in the Sagicor Group, and of Almond Resorts Inc. and TD Reinsurance (Barbados) Inc. Mr Osborne is a UK-trained chartered accountant, and has worked in professional accounting firms in London and Barbados over a ten-year period. He also holds a BSc in Mathematics with Computer Science from the University of London. Mr Osborne is a citizen of Barbados.

SANDRA OSBORNE

SCM, QC, BSc, LLB, FCIS

Executive Vice President, General Counsel and Secretary

Sandra Osborne was appointed General Counsel and Secretary for the Sagicor Group in April 1989. An Attorney- at-Law and Chartered Secretary, Ms Osborne has 30 years' experience in the legal field, having previously practiced as a Crown Counsel and at the private Bar in civil practice in Barbados. For the last 20 years, her focus has been in the corporate area, both as Corporate Counsel and Corporate Secretary. She has also contributed to legislative reform in Barbados in the area of securities. Ms Osborne holds a BSc (Hons) in Political Science and an LLB (Hons), both from the University of the West Indies, and a Certificate in Legal Education from the Hugh Wooding Law School, Council of Legal Education, Trinidad. She is also a Fellow of the Institute of Chartered Secretaries and Administrators in Canada and has completed an Executive Development Programme at Kellogg Graduate School of Management, Northwestern University, United States. She was appointed a Queen's Counsel of Barbados in 2007.

RAVI RAMBARRAN

BSc, MSc, FIA

President and Chief Executive Officer, Sagicor International

Ravi Rambarran joined Sagicor in 2006, and he is President and Chief Executive Officer of Sagicor International. His work experience includes Pensions Actuary of Life of Jamaica (LOJ), Appointed Actuary of Global Life Bahamas and Global Life Cayman, Chief Financial and Chief Investment Officer of LOJ, Managing Director of NCB Capital Markets and West Indian Trust Company, part-time Lecturer in Actuarial Science at the University of the West Indies, and running his own actuarial practice. Prior to joining LOJ, Mr Rambarran was a Consulting Actuary with Aon Group and the HSBC Group in the United Kingdom. Mr Rambarran has a BSc(Hons) in Actuarial Science from City University, London, and an MSc in Finance from the University of London. Mr Rambarran was awarded an Open Mathematics Scholarship by the Government of Trinidad and Tobago, and is also a Fellow of the Institute of Actuaries.

MELBA SMITH

BA

Vice President, Corporate Communications

Melba Smith was appointed Vice President, Corporate Communications, for the Sagicor Group in January 2002. Prior to joining Sagicor, she was the General Manager of the Caribbean Broadcasting Corporation. During her 7-year tenure, she managed television, radio and cable services. She was also a Board member of the Caribbean Broadcasting Union and became that Institution's first female President in 2000. She was elected Caribbean Representative on the Board of the Commonwealth Broadcasters Association. Mrs Smith, a graduate of the University of the West Indies, holds a BA (Hons), and a Post-Graduate diploma in Mass Communications, and is a member of the International Association of Business Communicators. Over the last 25 years, Mrs Smith has worked in all areas of Mass Communication and, in addition, has gained valuable experience and expertise in the areas of Communication, Public Relations and Management.

PROTECT

In order to achieve what we want,
we must first protect what we have.

INDEX TO THE FINANCIAL STATEMENTS AND NOTES

AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Sagicor Financial Corporation

We have audited the accompanying consolidated financial statements of Sagicor Financial Corporation and its subsidiaries as shown on pages 72 to 179, which comprise the consolidated statement of financial position as of December 31, 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

PricewaterhouseCoopers SRL, The Financial Services Centre, Bishop's Court Hill, P.O. Box 111, St. Michael, BB14004, Barbados, West Indies
T: +246-626-6700, F: +246-436-1275, www.pwc.com/bb

pwc

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sagicor Financial Corporation and its subsidiaries as of December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SRL

April 2, 2013
Bridgetown, Barbados

ACTUARY'S REPORT

Eckler

Sagicor

SAGICOR FINANCIAL CORPORATION

APPOINTED ACTUARY'S

2012 REPORT TO THE SHAREHOLDERS AND POLICYHOLDERS

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

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

for the balance sheet, at 31st December 2012, and their change in the consolidated statement of operations, for the year then ended, for each organization and on a consolidated basis in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

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

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

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

Appointed Actuary for Sagicor Financial Corporation
2 April 2013

Amounts expressed in US $000

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2012

	Note	2012	2011
ASSETS			
Investment property	5	115,224	122,185
Property, plant and equipment	7	145,818	137,017
Investment in associated companies	6	36,559	33,683
Intangible assets	8	79,612	120,787
Financial investments	9	4,041,326	4,092,166
Reinsurance assets	10	102,686	331,309
Income tax assets	11	33,073	41,706
Miscellaneous assets and receivables	12	105,329	300,558
Cash resources		183,996	184,662
Assets of discontinued operation	38	705,732	-
Total assets		**5,549,355**	**5,364,073**

These financial statements have been approved for issue by the Board of Directors on April 2, 2013.

Director **Director**

	Note	2012	2011
LIABILITIES			
Actuarial liabilities	13	2,040,907	1,876,477
Other insurance liabilities	14	187,199	788,680
Investment contract liabilities	15	346,196	315,559
Total policy liabilities		2,574,302	2,980,716
Notes and loans payable	16	241,556	232,530
Deposit and security liabilities	17	1,092,429	1,083,565
Provisions	18	43,413	44,172
Income tax liabilities	19	33,613	31,170
Accounts payable and accrued liabilities	20	114,425	194,387
Liabilities of discontinued operation	38	630,977	-
Total liabilities		**4,730,715**	**4,566,540**
EQUITY			
Share capital	21	296,058	296,048
Reserves	22	16,411	20,865
Retained earnings		289,136	290,222
Total shareholders' equity		601,605	607,135
Participating accounts	23	(10,333)	2,201
Minority interest in subsidiaries		227,368	188,197
Total equity		**818,640**	**797,533**
Total equity and liabilities		**5,549,355**	**5,364,073**

CONSOLIDATED STATEMENT OF INCOME
Year ended December 31, 2012

Sagicor Financial Corporation
Amounts expressed in US $000

	Note	2012	2011 (1)
REVENUE			
Premium revenue	24	757,223	691,208
Reinsurance premium expense	24	(92,220)	(86,658)
Net premium revenue		665,003	604,550
Net investment income	25	295,148	277,696
Fees and other revenue	26	104,253	62,247
Total revenue		1,064,404	944,493
BENEFITS			
Policy benefits and change in actuarial liabilities	27	599,758	503,100
Policy benefits and change in actuarial liabilities reinsured	27	(28,840)	(32,332)
Net policy benefits and change in actuarial liabilities		570,918	470,768
Interest expense	28	68,465	70,995
Total benefits		639,383	541,763
EXPENSES			
Administrative expenses		192,131	177,874
Commissions and related compensation		88,626	84,232
Premium and asset taxes		11,956	9,448
Finance costs		17,897	15,930
Depreciation and amortisation		15,901	17,694
Total expenses		326,511	305,178
INCOME BEFORE TAXES		98,510	97,552
Income taxes	32	(24,450)	(21,837)
NET INCOME FROM CONTINUING OPERATIONS		**74,060**	**75,715**

	Note	2012	2011 (1)
Net income from continuing operations		74,060	75,715
Net loss from discontinued operation	38	(42,034)	(43,872)
NET INCOME FOR THE YEAR		32,026	31,843
Net income/(loss) is attributable to:			
Common shareholders:			
From continuing operations		52,408	44,845
From discontinued operation		(42,034)	(43,872)
		10,374	973
Participating policyholders		(12,525)	(1,878)
Minority interests		34,177	32,748
		32,026	31,843
Basic earnings per common share:	34		
From continuing operations		16.8 cents	15.1 cents
From discontinued operation		(13.9) cents	(14.9) cents
		2.9 cents	0.2 cents
Fully diluted earnings per common share:	34		
From continuing operations		16.8 cents	15.1 cents
From discontinued operation		(13.9) cents	(14.9) cents
		2.9 cents	0.2 cents

(1) Restated to reflect Sagicor Europe as discontinued.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2012

Sagicor Financial Corporation
Amounts expressed in US $000

OTHER COMPREHENSIVE INCOME	Note	2012	2011 (1)
Items net of tax that may be reclassified subsequently to income:	35		
Available for sale assets:			
Unrealised gains arising on revaluation		38,023	16,313
Gains transferred to income		(13,128)	(5,015)
Net change in actuarial liabilities		(22,278)	(11,459)
Retranslation of foreign currency operations		(18,121)	(3,435)
Other items		(19)	-
		(15,523)	(3,596)
Items net of tax that will not be reclassified subsequently to income:	35		
Unrealised (losses) / gains arising on revaluation of owner occupied property		(156)	3,009
OTHER COMPREHENSIVE INCOME FROM CONTINUING OPERATIONS		(15,679)	(587)
Other comprehensive income from discontinued operation	38	144	2,282
OTHER COMPREHENSIVE INCOME FOR THE YEAR		(15,535)	1,695

TOTAL COMPREHENSIVE INCOME	Note	2012	2011 (1)
Net income		32,026	31,843
Other comprehensive income		(15,535)	1,695
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		16,491	33,538
Total comprehensive income is attributable to:			
Common shareholders:			
From continuing operations		45,676	45,275
From discontinued operation		(41,890)	(41,590)
		3,786	3,685
Participating policyholders		(12,286)	(1,893)
Minority interests		24,991	31,746
		16,491	33,538
Basic total comprehensive earnings per common share from continuing operations	34	14.6 cents	15.2 cents

(1) Restated to reflect Sagicor Europe as discontinued.

Amounts expressed in US $000

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2012

	Share Capital (note 21)	Reserves (note 22)	Retained Earnings	Total Shareholders' Equity	Participating Accounts (note 23)	Minority Interests	Total Equity
Year ended December 31, 2012	296,048	20,865	290,222	607,135	2,201	188,197	797,533
Balance, beginning of year							
Total comprehensive income from continuing operations	-	(6,713)	52,389	45,676	(12,286)	24,991	58,381
Total comprehensive income from discontinued operation	-	144	(42,034)	(41,890)	-	-	(41,890)
Transactions with holders of equity instruments:							
Movements in treasury shares	10	-	-	10	-	-	10
Changes in reserve for equity compensation benefits	-	4,494	-	4,494	-	(41)	4,453
Changes in ownership of subsidiaries (note 37)	-	1,028	4,862	5,890	-	27,351	33,241
Dividends declared (note 21.3)	-	-	(19,835)	(19,835)	-	(13,264)	(33,099)
Transfers and other movements	-	(3,407)	3,532	125	(248)	134	11
Balance, end of year	296,058	16,411	289,136	601,605	(10,333)	227,368	818,640
Year ended December 31, 2011							
Balance, beginning of year	277,172	(14,406)	302,786	565,552	4,347	168,942	738,841
Total comprehensive income from continuing operations	-	430	44,845	45,275	(1,893)	31,746	75,128
Total comprehensive income from discontinued operation	-	2,282	(43,872)	(41,590)	-	-	(41,590)
Transactions with holders of equity instruments:							
Allotments of common shares	19,799	-	-	19,799	-	-	19,799
Movements in treasury shares	(923)	-	-	(923)	-	-	(923)
Allocation to preference share reserve	-	31,309	-	31,309	-	-	31,309
Changes in reserve for equity compensation benefits	-	2,047	-	2,047	-	(50)	1,997
Dividends declared (note 21.3)	-	-	(14,328)	(14,328)	-	(13,489)	(27,817)
Transfers and other movements	-	(797)	791	(6)	(253)	1,048	789
Balance, end of year	296,048	20,865	290,222	607,135	2,201	188,197	797,533

Amounts expressed in US $000

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2012

	Note	2012	2011 (1)
OPERATING ACTIVITIES			
Income before taxes		98,510	97,552
Adjustments for non-cash items, interest and dividends	36.1	(46,444)	(48,646)
Interest and dividends received		256,676	241,919
Interest paid		(81,080)	(83,326)
Income taxes paid		(20,130)	(19,823)
Net increase in investments and operating assets	36.1	(198,930)	(293,604)
Net increase in operating liabilities	36.1	13,984	109,568
Recapture of reinsurance contract held	13.2	3,826	-
Net cash flows - operating activities		26,412	3,640
INVESTING ACTIVITIES			
Property, plant and equipment, net	36.2	(19,843)	(12,470)
Investment in associated companies, net		1,005	1,655
Intangible assets, net		(2,025)	(3,394)
Acquisition of subsidiary, net of cash and cash equivalents	37	(9,461)	-
Net cash flows - investing activities		(30,324)	(14,209)

	Note	2012	2011 (1)
FINANCING ACTIVITIES			
Allotment of common shares		-	19,799
Movement in treasury shares		(249)	(1,358)
Allotment of preference shares	21.2	-	115,906
Shares issued to minority interests		(38)	197
Change in ownership of subsidiaries	37	35,416	-
Other notes and loans payable, net	36.3	2,055	(32,797)
Dividends paid to common shareholders		(11,846)	(11,589)
Dividends paid to preference shareholders		(7,790)	(2,544)
Dividends paid to minority interests		(12,130)	(13,489)
Net cash flows - financing activities		5,418	74,125
Effects of exchange rate changes		(593)	(5,032)
NET CHANGE IN CASH AND CASH EQUIVALENTS - CONTINUING OPERATIONS		913	58,524
Net change in cash and cash equivalents - discontinued operation	38	(52,008)	(72,933)
Cash and cash equivalents, beginning of year		264,659	279,068
CASH AND CASH EQUIVALENTS, END OF YEAR	36.4	213,564	264,659

(1) Restated to reflect Sagicor Europe as discontinued

1 INCORPORATION AND PRINCIPAL ACTIVITIES

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

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

The principal activities of the Sagicor Group are as follows:

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

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

2 ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

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

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

2.1 Basis of preparation (continued)

(a) Amendments to IFRS

There are no new or amended standards which are effective for the 2012 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 2012 financial year that have no significant impact on the Group's financial statements are listed in the following table.

IFRS	Subject of amendment
IFRS 7 – Financial Instruments: Disclosures	Disclosures - Transfers of Financial Assets The amendments will assist users of financial statements to evaluate the risk exposures relating to transfers of assets and the effect of those risks on an entity's financial position. Disclosure requirements are set out respectively for transferred assets that are not de-recognised entirely or that are de-recognised entirely.

The Group has voluntarily adopted the following amendment ahead of the required date for adoption.

IFRS	Subject of amendment	Adopted by the Group from
IAS 1 – Presentation of Financial Statements	Presentation of Items of Other Comprehensive Income	2011

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.

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

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

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

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

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

2.2 Basis of consolidation (continued)

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

(b) Discontinued operation

The Group has agreed to sell Sagicor Europe Limited including its subsidiary Sagicor at Lloyd's Limited and its interest in Lloyd's of London syndicate 1206. The sale will result in the closure of the Sagicor Europe operating segment and therefore meets the criteria of a discontinued operation. Consequently, the associated assets and liabilities have been classified separately in the statement of financial position and the income, comprehensive income and cash flows have been classified as discontinued operations with the 2011 comparatives restated accordingly.

The net assets of the discontinued operation are carried in balance sheet at the lower of carrying value and fair value less costs to sell. If the latter is less than the former, an impairment is recorded in the consolidated financial statements and is applied to the goodwill and intangible assets which form part of the discontinued operation's assets.

(c) 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.

2.2 Basis of consolidation (continued)

(d) Divestitures

On the disposal of or loss of control of a subsidiary, the Group de-recognises the related assets, 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.

(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.

(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:

	2012 closing	2012 average	2011 closing	2011 average
Barbados dollar	2.0000	2.0000	2.0000	2.0000
Eastern Caribbean dollar	2.7000	2.7000	2.7000	2.7000
Jamaica dollar	92.6766	88.4376	86.3356	85.8396
Trinidad & Tobago dollar	6.3814	6.4030	6.4094	6.4018
Pound sterling	0.61850	0.63056	0.6468	0.62112

2.3 Foreign currency translation (continued)

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

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

(c) Transactions and balances

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

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

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

2.4 Segments

Reportable operating segments have been defined on the basis of performance and resource allocation decisions of the Group's Chief Executive Officer.

2.5 Investment property

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

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

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

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

Rental income is recognised on an accruals basis.

2.6 Property, plant and equipment

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

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

2.6 Property, plant and equipment (continued)

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

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

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

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

Lands are not depreciated.

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

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

2.7 Intangible assets

(a) Goodwill

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

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

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

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

(b) Other intangible assets

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

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

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

2.7 Intangible assets (continued)

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

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

2.8 Financial assets

a) Classification

The Group classifies its financial assets into four categories:
- held to maturity financial assets;
- available for sale financial assets;
- financial assets at fair value through income;
- loans and receivables.

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

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

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

2.8 Financial assets (continued)

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

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

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

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

(b) Recognition and measurement

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

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

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

2.8 Financial assets (continued)

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

(c) Fair value

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

(d) Impaired financial assets

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

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

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

2.8 Financial assets (continued)

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

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

(e) Securities purchased for re-sale

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

(f) Finance leases

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

2.8 Financial assets (continued)

(g) Derivative financial instruments and hedging activities

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

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

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

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

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

2.8 Financial assets (continued)

(h) Embedded derivatives

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

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

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

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

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

2.9 Real estate developed or held for resale

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

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

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

2.10 Impairment of non-financial assets

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

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

2.11 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.

2.11 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 2.21).

(b) Recognition and measurement

(i) Property and casualty insurance contracts

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

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

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

2.11 Policy contracts (continued)

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

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

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

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

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

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

2.11 Policy contracts (continued)

(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.

(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.

2.11 Policy contracts (continued)

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 2.12.

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.

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

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

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

2.11 Policy contracts (continued)

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

Policy benefits are recognised on the notification of death, disability or critical illness, on the receipt of a withdrawal request, on the termination or maturity date of the contract, or on the annuity payment date. Reserves for future policy liabilities are recorded as described in note 2.12.

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.

(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.

2.11 Policy contracts (continued)

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

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

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

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

(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.

2.11 Policy contracts (continued)

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 2.12.

(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.

2.12 Actuarial liabilities

(a) Life insurance and annuity contracts

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

2.12 Actuarial liabilities (continued)

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

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

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

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

(b) Health insurance contracts

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

2.13 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 2.11(b) (vii) and in the following paragraphs.

(a) Securities sold for re-purchase

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

(b) Deposit liabilities

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

(c) Loans and other debt obligations

Loans and other debt obligations are recognised initially at fair value, being their issue proceeds, net of transaction costs incurred. Subsequently, 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.

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.

2.13 Financial liabilities (continued)

(d) Fair value

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

2.14 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.

2.15 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.

2.16 Interest income and expenses

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

2.17 Fees and other revenue

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

2.18 Employee benefits

(a) Pension benefits

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

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

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

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.

2.18 Employee benefits (continued)

(c) Profit sharing and bonus plans

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

(d) Equity compensation benefits

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

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

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

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

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

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

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

2.18 Employee benefits (continued)

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

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

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

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

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

(e) Termination benefits

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

2.19 Taxes

(a) Premium taxes

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

Premium tax rates	**Life insurance and non-registered annuities**	**Health insurance**	**Property and casualty insurance**
Barbados	3% - 6%	4%	3% - 5%
Jamaica	3%	Nil	Nil
Trinidad and Tobago	15%	25%	25%
United States of America	0.75% - 3.5%	Nil	Nil

(b) Asset tax

During 2012, the Government of Jamaica introduced an asset tax on the total assets of financial institutions and securities dealers in Jamaica.

(c) 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 2012 are set out in the next table.

Amounts expressed in US $000

2.19 Taxes (continued)

Income tax rates	Life insurance and non-registered annuities	Registered annuities	Other lines of business
Barbados	5% of gross investment income	Nil	25% of net income
Jamaica	15% of investment income	Nil	15% - 33.33% of net income
Trinidad and Tobago	15% - 25% of investment income	Nil	25% of net income
United Kingdom	24.5% of net income	n/a	24.5% of net income
United States of America	34% - 35% of net income	34% - 35% of net income	35% of net income

(i) *Current income taxes*

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

(ii) *Deferred income taxes*

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

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

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

2.20 Common and preference shares (continued)

(a) Common shares

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

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

(b) Preference shares

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

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

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

Incremental costs directly attributable to the issue of the preference shares are allocated between the liability for the redemption value and the equity reserve in proportion to their initial carrying amounts. After initial recognition, the liability component is accreted to its ultimate redemption value using the effective interest yield method, with the accretion being recorded as a finance cost in the statement of income. After initial recognition, the preference share reserve is transferred to retained earnings pro-rata to the dividends declared over the period to redemption.

2.20 Common and preference shares (continued)

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

(c) Dividends

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

2.21 Participating accounts

(a) "Closed" participating account

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

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

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

2.21 Participating accounts (continued)

(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.

(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.

2.21 Participating accounts (continued)

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

2.22 Statutory reserves

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

2.23 Cash Flows

The following classifications apply to the cash flow statement.

Cash flows from operating activities consist of cash flows arising from revenues, benefits, expenses, taxes, operating assets and operating liabilities. Cash flows from investing activities consist of cash flows arising from long-term assets to be utilised in the business and in respect of changes in subsidiary holdings, insurance business and associated company investments. Cash flows from financing activities consist of cash flows arising from the issue, redemption and exchange of equity instruments and notes and loans payable and from equity dividends payable to holders of such instruments.

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.

2.24 Future accounting developments and reporting changes

Certain new standards and amendments to existing standards have been issued but are not effective for the periods covered by these financial statements. The changes in standards and interpretations which may have a significant effect on future presentation, measurement or disclosure of the Group's Financial Statements are summarised in the following tables.

IFRS (Effective Date)	Subject / Comments
IFRS 7 – Financial Instruments: Disclosures IAS 32 - Financial Instruments Presentation (January 1, 2014)	<u>Offsetting Financial Assets and Financial Liabilities</u> These amendments clarify the presentation of certain offsetting requirements and amend the disclosure to include information on the effect of netting arrangements.
IFRS 9 – Financial Instruments (January 1, 2015)	<u>Classification and measurement of financial instruments</u> IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. The determination is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. IFRS 9 has amended the treatment, applicable to financial liabilities designated at fair value, of changes in own credit risk. Such changes are to be recorded in other comprehensive income unless part of a hedging relationship. This standard does not address changes contemplated by the International Accounting Standards Board with respect to: • impairment methodology for financial assets • hedge accounting

Amounts expressed in US $000

2.24 Future accounting developments and reporting changes (continued)

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

2.24 Future accounting developments and reporting changes (continued)

IFRS (Effective Date)	Subject / Comments
IAS 19 – Employee Benefits (January 1, 2013)	Measurement The option which allows the deferral of actuarial gains and losses within the 10% corridor is withdrawn. On adoption of the revised standard, unrecognised actuarial losses and gains will be taken to retained earnings. Service costs and net interest on the net defined benefit balance are to be included in income, while re-measurements of the net defined benefit balance are to be included in other comprehensive income.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Impairment of financial assets

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

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

3.2 Recognition and measurement of intangible assets

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

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

3.3 Impairment of intangible assets

(a) Goodwill

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

The Group updates its business unit financial projections annually and applies discounted cash flow or earnings multiple models to these projections to determine if there is any impairment of goodwill. The assessment of whether goodwill is impaired can be highly sensitive to the inputs of cash flows, income after tax, discount rate, growth rate or capital multiple, which are used in the computation. Further details of the inputs used are set out in note 8.2.

(b) Other intangible assets

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

3.4 Valuation of actuarial liabilities

(a) Canadian asset liability method (CALM)

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

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

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.

3.4 Valuation of 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. Reserving for claims payable, involves the use of statistical techniques of estimation. These techniques generally involve projecting from past experience, the development of claims over time to form a view of the likely ultimate claims to be experienced, having regard to variations in business written and the underlying terms and conditions.

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

3.5 Estimation of property and casualty claim liabilities (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.

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

(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, claims expense 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, claims expense and commissions.

3.6 Carrying value of the net assets of discontinued operation

The assessment of fair value less costs to sell of the discontinued operation is subject to uncertainty. the discontinued operation is a Lloyd's of London property and casualty insurance syndicate including the distribution capability, the renewal rights of the existing insurance business, and the managing agency platform. The Group has initiated an auction process, inviting interested and credible bidders. The auction process is at an advanced stage and bidders have submitted non-binding indicative offers to acquire the business. The fair value less costs to sell of the discontinued operation has been determined based on the terms of sale offered and from the outstanding bids received. It is however possible that the ultimate sale may result in a quantum of consideration which is significantly different from the current assessment.

Amounts expressed in US $000

4 SEGMENTS

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

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

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

(a) Sagicor Life Inc

These comprise Group subsidiaries conducting life, health and annuity insurance business, and pension administration services in (i) Barbados, Eastern Caribbean, Dutch Caribbean, Bahamas and Central America and (ii) Trinidad and Tobago. As these two segments are broadly similar in products, services, distribution, administrative and regulatory environment, they are presented on an aggregated basis in these financial statements. The companies are set out in the following two tables.

4 SEGMENTS (continued)

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 [1]	Life and health insurance, annuities and pension administration services	Barbados	100%
Sagicor Life Aruba NV	Life and health insurance, annuities and pension administration services	Aruba	100%
Capital Life Insurance Company Bahamas Limited	Life insurance	The Bahamas	100%
Sagicor Panamá, SA	Life and health insurance	Panamá	100%
Nationwide Insurance Company Limited	Life insurance	Trinidad & Tobago	100%
Associated Companies			
RGM Limited	Property ownership and management	Trinidad & Tobago	33%
FamGuard Corporation Limited	Investment holding company	Bahamas	20%
Principal operating company: Family Guardian Insurance Company Limited	Life and health insurance and annuities	Bahamas	20%
Primo Holding Limited	Property investment	Barbados	38%

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

Amounts expressed in US $000

4 SEGMENTS (continued)

(b) Sagicor Life Jamaica

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

Sagicor Life Jamaica Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Jamaica Limited	Life and health insurance and annuities	Jamaica	51% (1)
Sagicor Life of the Cayman Islands Limited	Life insurance	The Cayman Islands	51% (1)
Sagicor Pooled Investment Funds Limited	Pension fund management	Jamaica	51% (1)
Employee Benefits Administrator Limited	Pension administration services	Jamaica	51% (1)
Sagicor Re Insurance Limited	Property and casualty insurance	The Cayman Islands	51% (1)
Sagicor Insurance Brokers Limited	Insurance brokerage	Jamaica	51% (1)
Sagicor International Administrators Limited	Insurance brokerage	Jamaica	51% (1)
Sagicor Insurance Managers Limited	Captive insurance management services	The Cayman Islands	51% (1)
Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited)	Investment banking	Jamaica	44% (2)

4 SEGMENTS (continued)

Sagicor Life Jamaica Segment Companies (continued)	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Bank Jamaica Limited (formerly PanCaribbeanBank Limited)	Commercial banking	Jamaica	44% (2)
Sagicor Property Services Limited	Property management	Jamaica	51% (1)
LOJ Holdings Limited	Insurance holding company	Jamaica	100%

(1) 59% prior to July 13, 2012.

(2) 51% prior to July 13, 2012. Through majority ownership of Sagicor Life Jamaica, the Group exercises control over these subsidiaries.

(c) Sagicor Life USA

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

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

Amounts expressed in US $000

4 SEGMENTS (continued)

(d) Sagicor Europe

This segment comprises the Sagicor at Lloyd's insurance operations in the UK. As of December 31, 2012, this segment has been classified as a discontinued operation (see note 38).

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

[1] Effective voting interest is 93% (2011 - 86%). Refer to note 38.
[2] Lloyd's of London corporate underwriting member participating in Syndicate 1206
[3] Lloyd's of London corporate underwriting member participating in Syndicate 44

4 SEGMENTS (continued)

(e) Head office function and other operating companies

These comprise the following:

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

Amounts expressed in US $000

4.1 Statement of income by segment

2012	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor USA	Head office and other	Adjustments	Total
Net premium revenue	239,444	259,630	147,435	18,494	-	665,003
Interest income	69,022	132,095	44,654	8,807	-	254,578
Other investment income	12,851	20,703	7,353	(313)	(24)	40,570
Fees and other revenues	11,116	34,117	36,099	22,952	(31)	104,253
Inter-segment revenues	7,344	1,267	-	23,172	(31,783)	-
	339,777	447,812	235,541	73,112	(31,838)	1,064,404
Net policy benefits	155,863	148,032	80,457	8,025	-	392,377
Net change in actuarial liabilities	41,519	52,872	84,150	-	-	178,541
Interest expense	13,610	46,369	5,182	3,304	-	68,465
Administrative expenses	61,265	74,555	24,647	30,858	806	192,131
Commissions and premium and asset taxes	37,298	42,494	12,429	8,361	-	100,582
Finance costs	-	-	-	(243)	18,140	17,897
Depreciation and amortisation	5,081	5,475	1,544	3,801	-	15,901
Inter-segment expenses	345	770	756	8,809	(10,680)	-
	314,981	370,567	209,165	62,915	8,266	965,894
Segment income / (loss) before taxes	24,796	77,245	26,376	10,197	(40,104)	98,510
Income taxes	(4,716)	(9,670)	(8,420)	(1,644)	-	(24,450)
Segment income before undernoted items	20,080	67,575	17,956	8,553	(40,104)	74,060
Group finance costs [1]	-	-	-	(18,158)	18,158	-
Net income/(loss) from continuing operations	20,080	67,575	17,956	(9,605)	(21,946)	74,060
Net income/(loss) attributable to shareholders from continuing operations	32,605	35,736	17,956	(11,943)	(21,946)	52,408
Total comprehensive income/(loss) attributable to shareholders from continuing operations	35,659	27,340	16,489	(11,811)	(22,001)	45,676

Amounts expressed in US $000

4.1 Statement of income by segment (continued)

2011	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor USA	Head office & Other	Adjustments	Total
Net premium revenue	232,938	252,353	102,059	17,200	-	604,550
Interest income	67,302	132,054	41,182	8,772	-	249,310
Other investment income	6,595	22,685	(2,494)	1,525	75	28,386
Fees and other revenues	12,053	24,211	1,876	24,082	25	62,247
Inter segment revenues	8,907	1,284	-	23,517	(33,708)	-
	327,795	432,587	142,623	75,096	(33,608)	944,493
Net policy benefits	152,903	133,518	58,646	9,166	-	354,233
Net change in actuarial liabilities	23,526	58,920	34,089	-	-	116,535
Interest expense	14,827	47,004	5,638	3,526	-	70,995
Administrative expenses	55,719	68,201	22,860	31,431	(337)	177,874
Commissions and premium taxes	36,928	37,760	10,947	8,045	-	93,680
Finance costs	-	896	-	(164)	15,198	15,930
Depreciation and amortisation	7,093	5,406	1,329	3,866	-	17,694
Inter segment expenses	1,857	971	546	9,892	(13,266)	-
	292,853	352,676	134,055	65,762	1,595	846,941
Segment income / (loss) before taxes	34,942	79,911	8,568	9,334	(35,203)	97,552
Income taxes	(3,888)	(13,009)	(2,999)	(1,542)	(399)	(21,837)
Segment income before undernoted items	31,054	66,902	5,569	7,792	(35,602)	75,715
Group finance costs (1)	-	-	-	(15,165)	15,165	-
Net income/(loss) from continuing operations	31,054	66,902	5,569	(7,373)	(20,437)	75,715
Net income/(loss) attributable to shareholders from continuing operations	32,932	38,005	5,569	(10,660)	(21,001)	44,845
Total comprehensive income/(loss) attributable to shareholders from continuing operations	28,855	37,125	10,036	(9,024)	(21,717)	45,275

4.1 Statement of income by segment (continued)

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

4.2 Variations in segment income

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

(i) Investment gains

Fair value investment gains are recognised on:

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

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

(ii) Allowances for impairment of financial investments

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

(iii) Gain on recapture of reinsurance contract held

Insurers within the Group may cede certain insurance risks and supporting assets to reinsurers. On the recapture of the risks ceded under a reinsurance contract, the associated assets and liabilities recaptured are measured in accordance with the Group's accounting policies and any difference arising is recorded in income. The resulting gain or loss can be significant.

4.2 Variations in segment income (continued)

(iv) Foreign exchange gains and losses

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

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

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

Amounts expressed in US $000

4.2 Variations in segment income (continued)

The table below summarises by segment the individual line items within income from continuing operations which are impacted by the foregoing factors

	Variations in income by segment				
	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor USA	Head Office and Other	Total
2012					
Investment gains / (losses)	6,112	20,118	8,421	(145)	34,506
Allowances for impairment of financial investments	184	381	1,162	337	2,064
Gain on recapture of reinsurance contract held	-	-	32,155	-	32,155
Foreign exchange gains / (losses)	(228)	6,940	-	(34)	6,678
(Decrease) / increase in actuarial liabilities arising from changes in assumptions	(6,535)	(2,377)	15,224	-	6,312
2011					
Investment gains / (losses)	4,689	30,614	(2,160)	1,790	34,933
Allowances for impairment of financial investments	4,714	10,033	188	558	15,493
Foreign exchange gains / (losses)	152	930	-	-	1,082
(Decrease) / increase in actuarial liabilities arising from changes in assumptions	(12,508)	(4,304)	5,373	-	(11,439)

Amounts expressed in US $000

4.3 Other comprehensive income

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

(i) Unrealised investment gains

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

(ii) Changes in actuarial liabilities

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

(iii) Foreign exchange gains and losses

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

The table below summarises by segment the individual line items within other comprehensive income from continuing operations which are impacted by the foregoing factors.

	Variations in other comprehensive income by segment					
	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor USA	Head Office and other	Adjustments	Total
2012						
Unrealised investment gains / (losses)	6,893	9,574	21,414	142	-	38,023
Changes in actuarial liabilities	(1,786)	-	(20,492)	-	-	(22,278)
Retranslation of foreign currency operations	84	(18,158)	-	8	(55)	(18,121)
2011						
Unrealised investment gains / (losses)	(197)	663	16,119	(272)	-	16,313
Changes in actuarial liabilities	1,691	-	(13,150)	-	-	(11,459)
Retranslation of foreign currency operations	(422)	(2,258)	-	(38)	(717)	(3,435)

Amounts expressed in US $000

4.4 Statement of financial position by segment

	Sagicor Life Inc	Sagicor Life Jamaica	Sagicor Europe	Sagicor USA	Head office and other	Adjustments	Total
2012							
Financial investments	1,149,739	1,631,731	-	1,139,525	120,331	-	4,041,326
Other external assets	323,482	231,277	-	78,982	168,556	-	802,297
Assets of discontinued operation	-	-	658,784	-	46,948	-	705,732
Inter-segment assets	136,586	29,596	-	433	147,545	(314,160)	-
Total assets	1,609,807	1,892,604	658,784	1,218,940	483,380	(314,160)	5,,549,355
Policy liabilities	1,119,326	566,860	-	834,241	53,875	-	2,574,302
Other external liabilities	72,346	936,461	-	166,941	349,688	-	1,525,436
Liabilities of discontinued operation	-	-	630,977	-	-	-	630,977
Inter-segment liabilities	27,025	10,930	109,369	29,847	136,989	(314,160)	-
Total liabilities	1,218,697	1,514,251	740,346	1,031,029	540,552	(314,160)	4,730,715
Net assets	391,110	378,353	(81,562)	187,911	(57,172)	-	818,640
2011							
Financial investments	1,079,329	1,633,074	288,202	921,943	169,618	-	4,092,166
Other external assets	301,164	209,136	416,528	179,688	165,391	-	1,271,907
Inter-segment assets	107,196	21,457	-	386	126,760	(255,799)	-
Total assets	1,487,689	1,863,667	704,730	1,102,017	461,769	(255,799)	5,364,073
Policy liabilities	1,058,866	550,552	608,388	708,520	54,390	-	2,980,716
Other external liabilities	68,938	952,602	30,014	194,808	339,462	-	1,585,824
Inter-segment liabilities	17,912	9,636	92,001	27,549	108,701	(255,799)	-
Total liabilities	1,145,716	1,512,790	730,403	930,877	502,553	(255,799)	4,566,540
Net assets	341,973	350,877	(25,673)	171,140	(40,784)	-	797,533

Amounts expressed in US $000

4.5 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:

	2012	2011 [(1)]
Sagicor Life Inc	9,153	10,996
Sagicor Life Jamaica	6,162	4,068
Sagicor USA	1,259	1,788
Head office and other	7,398	5,511
	23,972	22,363

(1) Excludes asset additions totalling $3,154 in respect of the operation classified as discontinued in 2012.

4.6 Products and services

Total external revenues relating to the Group's products and services are summarised as follows:

	2012	2011
Life, health and annuity insurance contracts issued to individuals	653,619	545,511
Life, health and annuity insurance and pension administration contracts issued to groups	257,691	253,627
Property and casualty insurance	32,380	36,444
Banking, investment management and other financial services	101,368	99,251
Farming and unallocated revenues	19,346	9,660
	1,064,404	944,493

4.7 Geographical areas

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

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

Total external revenues and non-current assets by geographical area are summarised in the following table.

	External revenue		Non-current assets	
	2012	2011	2012	2011 [(1)]
Barbados	138,593	141,760	190,765	180,325
Jamaica	407,110	410,413	81,715	90,861
Trinidad & Tobago	132,967	120,370	72,471	62,933
Other Caribbean	150,092	129,310	29,132	42,318
USA	235,642	142,640	3,130	3,434
	1,064,404	944,493	377,213	379,871

(1) Excludes assets totalling 33,801 in respect of the operation classified as discontinued in 2012.

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:

	2012	2011
Balance, beginning of year	122,185	119,169
Additions at cost	356	4,344
Transfer to property, plant and equipment	(1,500)	-
Disposals and divestitures	(1,630)	(251)
Change in fair values	(2,536)	(796)
Effects of exchange rate changes	(1,651)	(281)
Balance, end of year	115,224	122,185

Investment property includes $27,159 (2011 - $16,206) which represents the Group's proportionate interest in joint ventures summarised in the following table.

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

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

6 INVESTMENT IN ASSOCIATED COMPANIES

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

	2012	2011
Movement during the year:		
Investment, beginning of year	33,683	32,929
Dividends received	(1,005)	(1,655)
Share of:		
Income before taxes	3,808	2,997
Amortisation of intangible assets identified on acquisition	(177)	(177)
Income taxes	(271)	(176)
Other comprehensive income / (loss)	417	(121)
Effects of exchange rate changes	104	(114)
Investment, end of year	36,559	33,683
Aggregate balances and results of associates:		
Total assets	484,996	370,164
Total liabilities	335,540	241,895
Total revenue	135,126	132,562
Net income for the year	13,945	10,314

Amounts expressed in US $000

7 PROPERTY, PLANT AND EQUIPMENT

	2012					2011				
	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	38,504	62,886	26,268	9,359	137,017	35,694	62,459	24,339	8,915	131,407
Additions at cost	-	2,440	14,677	4,736	21,853	-	664	10,202	4,081	14,947
Transfer from investment property	-	1,500	-	-	1,500	-	-	-	-	-
Transfer to intangible assets (note 8)	-	-	(504)	-	(504)	-	-	(1,189)	-	(1,189)
Other transfers	-	-	19	-	19	-	237	(237)	-	-
Transfers (to) real estate developed or held for sale	(76)	-	-	-	(76)	-	-	-	-	-
Disposals and divestitures	-	-	(207)	(1,396)	(1,603)	(21)	(3)	(99)	(1,210)	(1,333)
(Depreciation) / appreciation in fair values	-	(196)	-	-	(196)	2,831	521	-	-	3,352
Depreciation charge	-	(891)	(7,174)	(2,413)	(10,478)	-	(835)	(6,683)	(2,427)	(9,945)
Effects of exchange rate changes	-	(615)	(557)	2	(1,170)	-	(157)	(65)	-	(222)
Transfer to assets of discontinued operation	-	-	(544)	-	(544)	-	-	-	-	-
Net book value, end of year	38,428	65,124	31,978	10,288	145,818	38,504	62,886	26,268	9,359	137,017
Represented by:										
Cost or valuation	38,428	66,327	96,981	15,607	217,343	38,504	63,606	85,897	15,734	203,741
Accumulated depreciation	-	(1,203)	(65,003)	(5,319)	(71,525)	-	(720)	(59,629)	(6,375)	(66,724)
	38,428	65,124	31,978	10,288	145,818	38,504	62,886	26,268	9,359	137,017

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

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

Land and buildings consist largely of occupied office buildings.

Amounts expressed in US $000

8 INTANGIBLE ASSETS

8.1 Analysis of intangible assets and changes for the year

	2012					2011				
	Goodwill	Customer & broker relationships	Syndicate capacity & licences	Software	Total	Goodwill	Customer & broker relationships	Syndicate capacity & licences	Software	Total
Net book value, beginning of year	57,743	29,203	20,034	13,807	120,787	57,948	32,569	20,331	12,531	123,379
Additions at cost	-	-	-	3,584	3,584	-	-	-	6,226	6,226
Transfer from property, plant and equipment (note 7)	-	-	-	504	504	-	-	-	1,189	1,189
Amortisation and impairment	-	(3,040)	(46)	(3,810)	(6,896)	-	(3,130)	(49)	(6,006)	(9,185)
Disposals and divestitures	(1,473)	-	-	(33)	(1,506)	-	-	-	-	-
Effects of exchange rate changes	(1,502)	(1,392)	916	89	(1,889)	(205)	(236)	(248)	(133)	(822)
Transfer to assets of discontinued operation	(4,430)	(3,970)	(20,904)	(5,668)	(34,972)	-	-	-	-	-
Net book value, end of year	50,338	20,801	-	8,473	79,612	57,743	29,203	20,034	13,807	120,787
Represented by:										
Cost or valuation	52,151	37,237	-	33,685	123,073	59,556	46,567	20,231	39,169	165,523
Accumulated depreciation	(1,813)	(16,436)	-	(25,212)	(43,461)	(1,813)	(17,364)	(197)	(25,362)	(44,736)
	50,338	20,801	-	8,473	79,612	57,743	29,203	20,034	13,807	120,787

8.2 Impairment of intangible assets

Goodwill arises from past acquisitions and is allocated to cash generating units (CGUs). Syndicate capacity is the only other intangible asset with an indefinite useful life. Goodwill and syndicate capacity are tested annually for impairment. The recoverable amount of a CGU or an intangible asset with an indefinite useful life is determined as the higher of its value in use or its fair value less costs to sell. Annually, the management of each operating segment or other operating company prepares financial projections for the next three years. Cash flows are extracted from these projections and are extrapolated to a terminal value. For those CGU's where the fair value less costs to sell methodology is used, the financial projections are used as inputs to determine maintainable earnings over time. The Group uses external data or obtains independent professional advice in order to select the relevant discount factors, growth factors and earnings multiples which are to be applied to the relevant cash flows and earnings.

Amounts expressed in US $000

8.2 Impairment of intangible assets (continued)

The Group initially determines after tax earnings multiples and discount rates to assess impairment, and then determines the pre-tax factors using an iterative method. The carrying values of goodwill and syndicate capacity and the impairment test factors used were as follows:

	2012						2011					
	Goodwill						Goodwill & syndicate capacity					
	Carrying value	After tax earnings multiple	Pre tax earnings multiple	After tax discount factor	Pre tax discount factor	Residual growth rate	Carrying value	After tax earnings multiple	Pre tax earnings multiple	After tax discount factor	Pre tax discount factor	Residual growth rate
Segment:												
Sagicor Life Inc	27,120	10.7, 17.3	8.91, 14.05	n/a	n/a	n/a	27,077	10.1, 14.5	8.69, 12.34	n/a	n/a	n/a
Sagicor Life Jamaica	18,349	7.40	6.28	n/a	n/a	n/a	21,561	7.40	6.25	n/a	n/a	n/a
Sagicor Europe	-	n/a	n/a	n/a	n/a	n/a	23,774	n/a	n/a	11.8%	12.3%	2.5%
Other companies	4,869	n/a	n/a	13.5%, 11.3%	15.4%, 13.2%	4.9%, 4.2%	4,869	n/a	n/a	13.5%, 11.3%	15.2%, 13.2%	4.9%, 4.2%
	50,338						77,281					

Sensitivity

In recent years, the professional advisors have indicated a range of capital multiples in their report and the Group has selected the mid-point of the range. From 2012, the Group has moved from this practice and adopted the highest multiple in the range for the Sagicor Life Inc segment as management believes that this choice better represents the requirements of investors who are located in the countries where the operating segment conducts its business. The results are set out for the Sagicor Life Inc segment in the table below.

For the Sagicor Life Jamaica segment, the Group maintained the selection of the mid-point of the range and the sensitivity to changes in multiples and after tax earnings is set out in the table below.

	Sagicor Life Inc segment		
	Range of applicable multiples		
After tax earnings multiples	10.7, 17.3	9.9, 16.3	9.3, 15.3
Excess of recoverable amount	40,509	9,972	580
Impairment	n/a	(680)	(17,031)

	Sagicor Life Jamaica segment		
After tax earnings multiples	7.4	5.93	5.50
Reduction in forecast earnings	n/a	10%	10%
Excess of recoverable amount (of 51% interest)	62,473	nil	n/a
Impairment (of 51% interest)	n/a	nil	(13,256)

Amounts expressed in US $000

9 FINANCIAL INVESTMENTS

9.1 Analysis of financial investments

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
Held to maturity securities:				
Debt securities	20,004	21,835	19,874	21,776
Available for sale securities:				
Debt securities	2,020,084	2,020,084	2,056,457	2,056,457
Equity securities	80,361	80,361	77,532	77,532
	2,100,445	2,100,445	2,133,989	2,133,989
Financial assets at fair value through income:				
Debt securities	116,941	116,941	113,732	113,732
Equity securities	85,193	85,193	28,980	28,980
Derivative financial instruments (note 41.6)	52,081	52,081	15,201	15,201
Mortgage loans	40,212	40,212	40,674	40,674
Securities purchased for re-sale	177	177	492	492
	294,604	294,604	199,079	199,079
Loans and receivables:				
Debt securities	966,893	996,087	916,877	962,761
Mortgage loans	224,140	224,673	232,306	232,832
Policy loans	125,297	137,324	124,626	134,856
Finance loans and finance leases	154,708	163,270	158,450	160,558
Securities purchased for re-sale	19,357	19,357	11,590	11,590
Deposits	135,878	135,878	295,375	295,375
	1,626,273	1,676,589	1,739,224	1,797,972
Total financial investments	4,041,326	4,093,473	4,092,166	4,152,816

9.1 Analysis of financial investments (continued)

	2012	2011
Non-derivative financial assets at fair value through income comprise:		
Assets designated at fair value upon initial recognition	242,523	183,878
Debt securities comprise:		
Government and government-guaranteed debt securities	1,622,960	1,808,509
Collateralised mortgage obligations	196,103	161,999
Corporate debt securities	1,237,510	1,072,238
Other securities	67,349	64,194
	3,123,922	3,106,940

Debt securities include $8,417 (2011 - $7,818) that contain options to convert to common shares of the issuer.

Corporate debt securities include $17,977 (2011 - $20,451) in bonds issued by an associated company.

Equity securities include $6,688 (2011 - $6,311) in mutual funds managed by the Group.

9.2 Pledged assets

Debt securities include $nil (2011 - $20,040) and policy loans include $nil (2011 - $20,671) in assets held in trust for a reinsurer (note 20). The income from these assets accrued to the reinsurer.

Debt and equity securities include $100,261 (2011 - $111,891) as collateral for loans payable and other funding instruments.

Amounts expressed in US $000

9.2 Pledged assets (continued)

Collateral for the obligation to the Federal Home Loan Bank of Dallas (FHLB) which is included in other funding instruments (note 17), consists of an equity holding in the FHLB with a market value of $6,353 (2011 - $5,984), and mortgages and mortgage backed securities having a total market value of $146,733 (2011 - $131,258).

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, 2012, these pledged assets totalled $679,872 (2011 - $682,479). Of these assets pledged as security, $42,551 (2011 – $90,705) 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.

As of December 31, 2011, deposits include $46,624 pledged as collateral for a letter of credit facility (note 39).

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.

	2012	2011
Debt securities	72,414	106,058
Equity securities	77,045	25,576
Mortgage loans	40,212	40,674
Securities purchased for re-sale	177	492
	189,848	172,800

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.

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
Government debt securities maturing after September 2018	53,033	53,642	56,403	50,642
Other debt securities	6,357	6,898	11,755	12,663
	59,390	60,540	68,158	63,305

	2012	2011
Cumulative net fair value loss, beginning of year	(11,449)	(4,885)
Net fair value gains / (losses) subsequent to restatement	6,984	(7,555)
Disposals	(42)	945
Effect of exchange rate changes	(276)	46
Cumulative net fair value loss, end of year	(4,783)	(11,449)

Amounts expressed in US $000

9.4 Reclassification of financial investments (continued)

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

10 REINSURANCE ASSETS

	2012	2011
Reinsurers' share of:		
Actuarial liabilities (note 13.1)	56,683	169,159
Policy benefits payable (note 14.2)	25,080	115,801
Provision for unearned premiums (note 14.3)	20,323	41,608
Other items	600	4,741
	102,686	331,309

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

11 INCOME TAX ASSETS

	2012	2011
Deferred income tax assets (note 33)	1,674	17,803
Income and withholding taxes recoverable	31,399	23,903
	33,073	41,706

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

12 MISCELLANEOUS ASSETS AND RECEIVABLES

	2012	2011
Pension plan assets (note 31)	2,615	3,356
Real estate developed or held for resale	17,234	15,468
Deferred policy acquisition costs	6,025	62,115
Prepaid and deferred expenses	8,663	29,733
Premiums receivable	35,712	150,225
Other assets and accounts receivable	35,080	39,661
	105,329	300,558

Other accounts receivable include $9,315 (2011 – $4,705) due from managed funds.

(a) Real estate developed or held for resale

Real estate developed for resale includes $8,418 (2011 - $7,703) which is expected to be realised within one year of the financial statements date.

(b) Deferred policy acquisition costs

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

Gross amount	2012	2011
Balance, beginning of year	62,115	60,486
Expensed	(108,554)	(131,726)
Additions	93,889	134,070
Effect of exchange rate changes	2,276	(715)
Transfer to assets of discontinued operation	(43,701)	-
Balance, end of year	6,025	62,115

Amounts expressed in US $000

13 ACTUARIAL LIABILITIES

13.1 Analysis of actuarial liabilities

	Gross liability		Reinsurers' share	
	2012	2011	2012	2011
Contracts issued to individuals:				
Life insurance - participating policies	319,266	312,428	37	1,348
Life insurance and annuity - non-participating policies	1,182,192	1,063,021	30,237	137,003
Health insurance	2,345	2,147	626	647
Unit linked funds	132,798	130,082	-	-
Reinsurance contracts held	20,365	17,125	-	-
	1,656,966	1,524,803	30,900	138,998
Contracts issued to groups:				
Life insurance	42,524	33,158	1,518	3,586
Annuities	306,020	281,902	24,189	26,428
Health insurance	35,397	36,614	76	147
	383,941	351,674	25,783	30,161
Total actuarial liabilities	2,040,907	1,876,477	56,683	169,159

The following notes are in respect of the foregoing table:

- Life insurance includes coverage for disability and critical illness.
- Actuarial liabilities include $109,344 (2011 - $113,542) in assumed reinsurance.
- The liability for reinsurance contracts held occurs because the reinsurance premium costs exceed the mortality costs assumed in determining the gross liability of a policy contract.

13.2 Movement in actuarial liabilities

	Gross liability		Reinsurers' share	
	2012	2011	2012	2011
Balance, beginning of year	1,876,477	1,753,712	169,159	178,078
Amounts assumed on acquisition	(2,360)	-	-	-
Changes in actuarial liabilities:				
Recorded in income	171,803	108,152	(9,984)	(8,862)
Recorded in other comprehensive income	33,313	18,539	-	-
Recapture of reinsurance contract held (note 13.2(a))	-	-	(101,105)	-
Other movements	(9,907)	-	-	-
Effect of exchange rate changes	(21,023)	(3,926)	59	(57)
Transfers to discontinued operation	(7,396)	-	(1,446)	-
Balance, end of year	2,040,907	1,876,477	56,683	169,159
Analysis of changes in actuarial liabilities				
Arising from increments and decrements of inforce policies and from the issuance of new policies	197,670	149,277	(9,984)	(8,862)
Arising from changes in assumptions for mortality, lapse, expenses, investment yields and asset default	6,312	(11,439)	-	-
Other changes:				
Actuarial modelling, refinements, improvements and corrections	7,265	(5,321)	-	-
Margins for adverse deviations	-	(4,277)	-	-
Other items	(6,131)	(1,549)	-	-
Total	205,116	126,691	(9,984)	(8,862)

Amounts expressed in US $000

13.2 Movement in actuarial liabilities (continued)

(a) Recapture of reinsurance contract held

During the year, Sagicor Life Insurance Company recaptured the 62.5% share of a block of life insurance and annuity contracts it had previously ceded to ScottishRe Life Corporation. In return for the recapture of insurance liabilities, SLIC received assets which included financial investments held in trust under the terms of the reinsurance contract. The effects of this transaction in the financial statements are set out below.

	2012
Assets acquired on recapture of reinsurance contract	
Cash and cash equivalents	3,826
Financial investments	94,231
	98,057
Adjustments to net insurance assets on recognition of the recapture:	
Reinsurers' share of actuarial liabilities	(101,105)
Amounts due to reinsurers	38,226
Other liabilities	(3,023)
	(65,902)
Gain on recapture of reinsurance contract (note 26)	32,155
Income tax expense	(11,254)
Gain on recapture of reinsurance contract, net of income tax	20,901

The gain on recapture reflects the difference in the pricing of the reinsurance contract on a USA statutory insurance basis and the measurement of reinsured liabilities in accordance with note 2.12. As a result, the assets transferred on the recapture exceeded carrying value of the reinsured liabilities.

13.3 Assumptions – life insurance and annuity contracts

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

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

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

(b) Assumptions for mortality and morbidity

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

Annually, insurers update studies of recent mortality experience. The resulting experience is compared to external mortality studies including the Canadian Institute of Actuaries (CIA) 1997 - 2004 tables. Appropriate modification factors are selected and applied to underwritten and non-underwritten business respectively. Annuitant mortality is determined by reference to CIA tables or to other established scales.

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

(c) Assumptions for lapse

Policyholders may allow their policies to lapse prior to the maturity date either by choosing not to pay premiums or by surrendering their policy for its cash value. Lapse studies are updated annually by insurers to determine the persistency of the most recent period. Assumptions for lapse experience are generally based on five-year averages.

Amounts expressed in US $000

13.3 Assumptions – life insurance and annuity contracts

(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 long-term government bonds. It is established for each geographic area and is summarised in the following table.

Ultimate rate of return	2012	2011
Barbados	5.25%	5.25%
Jamaica	5.0%	7.0%
Trinidad & Tobago	5.0%	5.0%
Other Caribbean	4.5% - 5.5%	5.0% - 5.5%
USA	2.95%	4.0%

(e) Assumptions for operating expenses and taxes

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

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

13.3 Assumptions – life insurance and annuity contracts (continued)

(f) Asset defaults

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

(g) Margins for adverse deviations

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

Provisions for adverse deviations	2012	2011
Mortality and morbidity	79,456	67,813
Lapse	55,994	48,553
Investment yields and asset default	76,613	67,814
Operating expenses and taxes	19,005	18,511
Other	3,472	-
	234,540	202,691

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.

Amounts expressed in US $000

14 OTHER INSURANCE LIABILITIES

14.1 Analysis of other insurance liabilities

	2012	2011
Dividends on deposit and other policy balances	70,032	69,726
Policy benefits payable	83,814	494,198
Provision for unearned premiums	33,353	224,756
	187,199	788,680

14.2 Policy benefits payable

	Gross liability		Reinsurers' share	
	2012	2011	2012	2011
Analysis of policy benefits payable:				
Life insurance and annuity benefits	58,450	55,396	9,744	9,930
Health claims	2,632	3,021	3,257	2,025
Property and casualty claims:				
Notified outstanding claims	14,698	262,506	8,321	66,500
Claims incurred but not reported	8,034	173,275	3,758	37,346
	83,814	494,198	25,080	115,801
Claims discount included in property and casualty claims payable	-	16,154	-	2,089
Discount rate percentages (1)	-	0.1 – 3.7	-	0.1 – 3.7

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

14.2 Policy benefits payable (continued)

	Gross liability		Reinsurers' share	
	2012	2011	2012	2011
Movement for the year:				
Balance, beginning of year	494,198	355,395	115,801	57,907
Policy benefits assumed on acquisition	39	-	-	-
Policy benefits incurred	654,443	764,429	68,053	121,966
Policy benefits paid	(629,362)	(620,742)	(64,140)	(61,549)
Recapture of reinsurance contract held	-	-	(932)	-
Effect of exchange rate changes	5,448	(4,884)	2,473	(2,523)
Transfers to discontinued operation	(440,952)	-	(96,175)	-
Balance, end of year	83,814	494,198	25,080	115,801

14.3 Provision for unearned premiums

	Gross liability		Reinsurers' share	
	2012	2011	2012	2011
Analysis of the provision:				
Property and casualty insurance	32,378	223,889	20,323	41,608
Health insurance	975	867	-	-
	33,353	224,756	20,323	41,608

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

Amounts expressed in US $000

14.3 Provision for unearned premiums (continued)

	Gross liability		Reinsurers' share	
	2012	2011	2012	2011
Movement for the year:				
Balance, beginning of year	224,756	240,138	41,608	40,909
Premiums written	377,410	519,399	105,014	119,478
Premium revenue	(421,261)	(532,787)	(108,176)	(118,486)
Effect of exchange rate changes	7,907	(1,994)	909	(293)
Transfers to discontinued operation	(155,459)	-	(19,032)	-
Balance, end of year	33,353	224,756	20,323	41,608

15 INVESTMENT CONTRACT LIABILITIES

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Deposit administration liabilities	119,589	119,589	113,434	113,434
Other investment contracts	122,523	128,079	109,125	111,744
	242,112	247,668	222,559	225,178
At fair value through income:				
Unit linked deposit administration liabilities	104,084	104,084	93,000	93,000
	346,196	351,752	315,559	318,178

16 NOTES AND LOANS PAYABLE

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
7.5% senior notes due 2016	145,865	156,245	145,217	156,017
6.5% convertible redeemable preference shares due 2016	93,636	99,696	87,313	90,072
Finance lease payable	2,055	2,055	-	-
	241,556	257,996	232,530	246,089

The Group issued ten year $150,000 senior notes which are repayable in 2016. The notes carry a 7.5% rate of interest fixed for the period and interest is payable semi-annually. The notes are traded and are listed on the Luxembourg Euro MTF Market. Financial covenants in respect of these notes are summarised in note 46.3(b).

Details of the 6.5% convertible redeemable preference shares due 2016 are set out in note 21.2. The initial liability for their redemption value was $87,586 and issue costs were $2,989. The initial fair value of the subscription proceeds was determined by discounting the ultimate redemption value ($120,000), at a rate of 6.5% for 5 years. The discount rate was determined as the estimated interest rate of 5.71% for 5 year borrowings, plus a premium of 0.79% attributable to the non-contractual nature of the dividends. The subsequent finance cost recognised is the amortisation of the difference between the ultimate redemption value and the initial carrying value, calculated on an effective interest method for the 5 years to maturity.

Amounts expressed in US $000

17 DEPOSIT AND SECURITY LIABILITIES

	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Other funding instruments	245,675	250,822	261,524	268,825
Customer deposits	198,008	210,228	194,104	187,871
Securities sold for re-purchase	591,064	591,654	612,981	602,735
Bank overdrafts	1,954	1,954	3,657	3,657
	1,036,701	1,054,658	1,072,266	1,063,088
At fair value through income:				
Structured products	9,216	9,216	3,184	3,184
Derivative financial instruments (note 41.6)	46,512	46,512	8,115	8,115
	55,728	55,728	11,299	11,299
	1,092,429	1,110,386	1,083,565	1,074,387

Other funding instruments consist of loans from banks and other financial institutions and include balances of $131,009 (2011 - $130,307) 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 capitalize 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

	2012	2011
Pension plans and other retirement benefits (note 31)	43,168	37,429
Cash-settled compensation benefits	-	6,677
Other provisions	245	66
	43,413	44,172

19 INCOME TAX LIABILITIES

	2012	2011
Deferred income tax liabilities (note 33)	26,373	22,705
Income taxes payable	7,240	8,465
	33,613	31,170

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

Amounts expressed in US $000

20 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2012	2011
Amounts due to policyholders	16,191	25,537
Amounts due to reinsurers [1]	15,995	66,975
Amounts due to managed funds	1,349	875
Other accounts payable and accrued liabilities	80,890	101,000
	114,425	194,387

[1] Includes $nil (2011 - $40,711) in respect of assets held in trust (see note 9.2).

21 COMMON AND PREFERENCE SHARES

The Company is authorised to issue:

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

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

21.1 Common shares

	2012		2011	
	Number in 000's	Share capital	Number in 000's	Share capital
Issued and fully paid:				
Balance, beginning of year	303,917	301,600	291,341	281,801
Allotments arising from:				
Share issue [1]	-	-	12,576	19,799
Balance, end of year	303,917	301,600	303,917	301,600
Treasury shares:				
Shares held for LTI and ESOP, end of year (note 30.1)	(3,028)	(5,542)	(2,966)	(5,552)
Total	300,889	296,058	300,951	296,048

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

[1] Share issue at US $1.63 or Barbados $3.26 per share on July 18, 2011. Price protection rights in relation to the new share issue are disclosed in note 46.3(c).

Amounts expressed in US $000

21.2 Convertible redeemable preference shares

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

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

The subscription consideration was $120,000 and after deducting issue costs, the net consideration totalled $115,906. The preference shares are accounted for as a compound financial instrument (see note 2.20(b)) and at issue date were recognised in the statement of financial position as a financial liability of $84,597 (note 16) and as equity of $31,309 (note 22).

The preference shares are listed on the Barbados and Trinidad & Tobago stock exchanges. Put option rights in respect of the preference shares are disclosed in note 46.3(c).

21.3 Dividends

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

	2012		2011	
	Per share	Total	Per share	Total
Dividends declared and paid:				
Preference shares	6.50 ¢	7,800	2.12 ¢ [1]	2,544
Common shares	4.0 ¢	12,035	4.0 ¢	11,784
		19,835		14,328

[1] Prorated amount from issue date to November 15.

21.3 Dividends (continued)

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

	2012		2011	
	Per share	Total	Per share	Total
Dividends proposed:				
Preference shares - May 15	3.25 ¢	3,900	3.25 ¢	3,900
Common shares - final for current year	2.0 ¢	6,018	2.0 ¢	6,019
		9,918		9,919

21.4 Restrictions on common share dividends

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

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

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

Amounts expressed in US $000

22 RESERVES

	Fair value reserves							
	Owner occupied property	Available for sale assets	Actuarial liabilities	Cash flow hedges	Currency translation reserves	Preference share reserve	Other reserves	Total reserves
2012								
Balance, beginning of year	23,419	36,389	(26,197)	-	(72,590)	29,267	30,577	20,865
Other comprehensive income from continuing operations	163	23,832	(21,027)	-	(9,681)	-	-	(6,713)
Other comprehensive income from discontinued operation	-	(399)	-	-	543	-	-	144
Transactions with holders of equity instruments:								
Allocated to reserve for equity compensation benefits	-	-	-	-	-	-	5,369	5,369
Eliminated from reserve for equity compensation benefits	-	-	-	-	-	-	(875)	(875)
Change in ownership of subsidiaries (note 37)	(604)	124	-	-	3,864	-	(2,356)	1,028
Transfers to retained earnings and other movements	-	-	-	-	-	(6,262)	2,855	(3,407)
Balance, end of year	22,978	59,946	(47,224)	-	(77,864)	23,005	35,570	16,411
2011								
Balance, beginning of year	21,137	24,237	(15,268)	-	(71,797)	-	27,285	(14,406)
Other comprehensive income from continuing operations	2,282	11,502	(10,929)	-	(2,425)	-	-	430
Other comprehensive income from discontinued operation	-	650	-	-	1,632	-	-	2,282
Transactions with holders of equity instruments:								
Allocated to preference share reserve	-	-	-	-	-	31,309	-	31,309
Allocated to reserve for equity compensation benefits	-	-	-	-	-	-	3,533	3,533
Eliminated from reserve for equity compensation benefits	-	-	-	-	-	-	(1,486)	(1,486)
Transfers to retained earnings and other movements	-	-	-	-	-	(2,042)	1,245	(797)
Balance, end of year	23,419	36,389	(26,197)	-	(72,590)	29,267	30,577	20,865

Other reserves comprise reserves for equity compensation benefits of $14,410 (2011– $10,031) and statutory reserves of $21,160 (2011- $20,546).

Amounts expressed in US $000

23 PARTICIPATING ACCOUNTS

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

	Closed participating account		Open participating account	
	2012	2011	2012	2011
Movement for the year:				
Balance, beginning of year	4,147	6,585	(1,946)	(2,238)
Total comprehensive income / (loss)	(1,874)	(2,438)	(10,412)	545
Return of transfer to support profit distribution to shareholders	-	-	(248)	(253)
Balance, end of year	2,273	4,147	(12,606)	(1,946)
Financial statement amounts:				
Assets	101,164	100,520	241,414	246,167
Liabilities	98,891	96,373	254,020	248,113
Revenues	13,263	9,380	31,343	30,007
Benefits	13,180	10,179	36,005	22,927
Expenses	1,766	1,477	5,288	5,948
Income taxes	258	154	634	580

24 PREMIUM REVENUE

	Gross premium		Ceded to reinsurers	
	2012	2011	2012	2011
Life insurance	362,563	353,467	38,910	36,897
Annuity	187,684	142,043	361	322
Health insurance	140,819	132,471	5,164	3,369
Property and casualty insurance	66,157	63,227	47,785	46,070
	757,223	691,208	92,220	86,658

Amounts expressed in US $000

25 NET INVESTMENT INCOME

	2012	2011
Investment income:		
Interest income	254,578	249,310
Dividend income	2,297	3,071
Rental income from investment property	5,437	5,380
Net investment gains	34,506	34,933
Share of operating income of associated companies	3,808	2,997
Other investment income	128	727
	300,754	296,418
Investment expenses:		
Allowances for impairment losses	2,064	15,493
Direct operating expenses of investment property	1,607	1,702
Other direct investment expenses	1,935	1,527
	5,606	18,722
Net investment income	295,148	277,696

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

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

25 NET INVESTMENT INCOME (continued)

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

	2012	2011
Interest income:		
Debt securities [(1)]	206,502	195,752
Mortgage loans	19,611	22,302
Policy loans	8,878	7,998
Finance loans and finance leases	15,145	16,494
Securities purchased for re-sale	781	1,228
Deposits	3,670	5,452
Other balances	(9)	84
	254,578	249,310
Net investment gains / (losses):		
Debt securities	29,471	26,322
Equity securities	5,871	13,824
Investment property	(2,489)	(839)
Other financial instruments	1,653	(4,374)
	34,506	34,933

[(1)] Includes $1,922 (2011 - $1,750) from an associated company.

Amounts expressed in US $000

26 FEES AND OTHER REVENUE

	2012	2011
Fee income – assets under administration	14,590	15,838
Fee income – deposit administration and policy funds	1,090	1,282
Commission income on insurance and reinsurance contracts	14,086	15,627
Gain on recapture of reinsurance contract held (note 13.2(a))	32,155	-
Other fees and commission income	15,813	15,011
Foreign exchange gains	6,678	1,082
Other operating and miscellaneous income	17,472	13,407
Gain arising on acquisition of insurance business (note 37)	2,369	-
	104,253	62,247

27 POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

	Gross benefit		Ceded to reinsurers	
	2012	2011	2012	2011
Life insurance benefits	180,560	163,664	17,717	17,893
Annuity benefits	124,207	111,810	9,363	9,894
Health insurance claims	109,740	99,877	3,076	2,480
Property and casualty claims	16,218	20,612	8,192	11,463
Total policy benefits	430,725	395,963	38,348	41,730
Change in actuarial liabilities	169,033	107,137	(9,508)	(9,398)
Total policy benefits and change in actuarial liabilities	599,758	503,100	28,840	32,332

28 INTEREST EXPENSE

	2012	2011
Insurance contracts	2,810	3,934
Investment contracts	17,992	19,262
Other funding instruments	6,513	6,822
Customer deposits	7,297	7,366
Securities sold for re-purchase	31,774	30,803
Other items	2,079	2,808
	68,465	70,995

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

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

29 EMPLOYEE COSTS

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

	2012	2011
Administrative staff salaries, directors' fees and short-term benefits	82,101	77,021
Employer contributions to social security schemes	6,345	5,789
Equity-settled compensation benefits (note 30.1 to 30.3)	5,783	4,045
Employer contribution to defined contribution pension schemes	662	537
Costs – defined retirement benefits (note 31 (b))	10,589	9,208
	105,480	96,600

30 EQUITY COMPENSATION BENEFITS

30.1 The Company

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

(a) LTI plan – restricted share grants

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

30.1 The Company (continued)

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

	2012		2011	
	Number of grants '000	Weighted average price	Number of grants '000	Weighted Average price
Balance, beginning of year	1,413	US$1.44	752	US$1.45
Grants issued	1,521	US$1.09	1,101	US$1.44
Grants vested	(316)	US$1.27	(440)	US$1.45
Balance, end of year	2,618	US$1.25	1,413	US$1.44

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

	2012		2011	
	Number in 000's	$000	Number in 000's	$000
Balance, beginning of year	16	24	-	-
Shares acquired	300	249	317	459
Shares distributed	(204)	(181)	(301)	(435)
Balance, end of year	112	92	16	24

30.1 The Company (continued)

(b) LTI plan – share options

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

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

	2012		2011	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	9,899	US $1.92	7,342	US $2.07
Options granted	1,538	US $1.53	2,557	US $1.48
Options lapsed/forfeited	(182)	US $1.94	-	-
Balance, end of year	11,255	US $1.86	9,899	US $1.92
Exercisable at the end of the year	6,419	US $2.06	4,658	US $2.13
Share price at grant date	US $1.48 – 2.50		US $1.48 – 2.50	
Fair value of options at grant date	US $0.39 – 0.69		US $0.39 – 0.69	
Expected volatility	19.3% - 35.8%		19.3% - 35.8%	
Expected life	7.0 years		7.0 years	
Expected dividend yield	2.6% - 3.1%		2.8% - 3.1%	
Risk-free interest rate	4.8% – 6.8%		4.8% – 6.8%	

30.1 The Company (continued)

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

(c) ESOP

From 2006, the Company approved awards under the ESOP in respect of permanent administrative employees and sales agents of the Company and certain subsidiaries. The ESOP is administered by Trustees under a discretionary trust. The amount awarded is used by the Trustees to acquire company shares. Administrative employees and sales agents are required to serve a qualifying period of five years from the award date in order to qualify as a beneficiary. Shares are distributed to beneficiaries upon their retirement or termination of employment. During 2012, the rules were amended so that vesting will take place in four equal annual instalments commencing one year after the award. The change will come into effect during 2013.

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

	2012		2011	
	Number in 000's	$000	Number in 000's	$000
Balance, beginning of year	2,950	5,528	2,381	4,629
Shares acquired	-	-	569	899
Shares distributed	(34)	(78)	-	-
Balance, end of year	2,916	5,450	2,950	5,528

30.2 Sagicor Life Jamaica Limited

(a) Long-term incentive plan

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

Amounts expressed in US $000

30.2 Sagicor Life Jamaica Limited (continued)

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

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

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

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

	2012		2011	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	48,122	J$6.18	40,917	J$6.23
Options granted	7,968	J$7.52	17,393	J$6.51
Options exercised	(8,165)	J$5.98	(6,937)	J$6.44
Options lapsed/forfeited	(3,335)	J$6.99	(3,251)	J$8.10
Balance, end of year	44,590	J$6.39	48,122	J$6.18
Exercisable at the end of the year	25,821	J$6.49	25,494	J$6.56

30.2 Sagicor Life Jamaica Limited (continued)

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

	2012	2011
Fair value of options outstanding	J$44,590,000	J$48,122,000
Share price at grant date	J$4.20 – 7.92	J$4.20 – 9.00
Exercise price	J$4.20 – 7.92	J$4.20 – 9.00
Standard deviation of expected share price returns	25.0%	39.0%
Remaining contractual term	1 - 6 years	1 - 6 years
Risk-free interest rate	7.65%	12.6%

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

(b) Employee share purchase plan

Sagicor Life Jamaica 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 $748 (2011 – $719).

30.3 Sagicor Investments Jamaica Limited

Sagicor Investments Jamaica 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 Sagicor Investments Jamaica before the options vest. Options vest over four years at 25% on each anniversary date of the grant.

Amounts expressed in US $000

30.3 Sagicor Investments Jamaica Limited (continued)

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

	2012		2011	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	12,956	J$16.54	11,393	J$16.01
Options granted	3,808	J$21.44	3,138	J$18.00
Options exercised	(1,605)	J$15.68	(1,275)	J$14.68
Options lapsed / forfeited	(680)	J$17.92	(300)	J$21.75
Balance, end of year	14,479	J$17.76	12,956	J$16.54
Exercisable at the end of the year	8,384	J$17.36	6,935	J$17.41

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

	2012	2011
Fair value of options outstanding	J$ 14,479,000	J$ 12,956,000
Share price at grant date	J$ 12.20 – 26.48	J$ 13.00 – 21.05
Exercise price	J$ 12.20 – 26.48	J$ 12.20 – 20.50
Standard deviation of expected share price returns	39.7%	30.0%
Weighted average remaining contractual term	3 years	3 years
Risk-free interest rate	7.73% - 13.24%	11.54% - 13.24%

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

31 EMPLOYEE RETIREMENT BENEFITS

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

(a) Amounts recognised in the financial statements

	2012	2011
Fair value of retirement plan assets	108,240	105,127
Present value of funded retirement obligations	(123,460)	(109,083)
	(15,220)	(3,956)
Present value of unfunded retirement obligations	(40,839)	(38,635)
Unrecognised actuarial losses	16,178	8,518
Other	(672)	-
Amounts recognised in the financial statements	(40,553)	(34,073)
Represented by:		
Amounts held on deposit by the Group as deposit administration contracts	(28,075)	(25,101)
Other recognised liabilities	(15,093)	(12,328)
Total recognised liabilities (note 18)	(43,168)	(37,429)
Recognised assets (note 12)	2,615	3,356
	(40,553)	(34,073)

Amounts expressed in US $000

31 EMPLOYEE RETIREMENT BENEFITS (continued)

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

	2012	2011	2010	2009	2008
Present value of retirement obligations	(164,299)	(147,718)	(134,913)	(110,952)	(107,289)
Fair value of plan assets	108,240	105,127	94,059	81,062	75,883
Net obligation	(56,059)	(42,591)	(40,854)	(29,890)	(31,406)
Experience adjustment on:					
Plan liabilities	555	3,216	2,394	(2,238)	(9,565)
Plan assets	257	(1,252)	(759)	(811)	9,952

(b) Amounts recognised in the income statement

	2012	2011
Current service cost	5,689	5,492
Interest cost	12,102	11,705
Net actuarial (gains) / losses recognised during the year	457	247
Past service cost	1,718	1,703
Curtailment gain	474	39
Expected return on retirement plan assets	(9,851)	(9,978)
Total cost	10,589	9,208

The actual return on retirement plan assets was $8,439 (2011 – $11,835).

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(c) Retirement plan assets

Movement in retirement plan assets	2012	2011
Plan assets, beginning of year	105,127	94,059
Expected return on plan assets	9,851	9,978
Actuarial gains and losses	(1,431)	439
Contributions made by the Group	5,296	3,981
Contributions made by plan participants	3,050	3,625
Benefits paid	(6,256)	(5,969)
Other	(1,412)	(370)
Effects of exchange rate changes	(5,985)	(616)
Plan assets, end of year	108,240	105,127

For the next financial year, the total employer contributions are estimated at $5,832 (2011 - $5,231).

Distribution of the plan assets	2012	2011
Equity unit linked pension funds under management	102,246	97,977
Other assets	5,994	7,150
Total plan assets	108,240	105,127

Amounts expressed in US $000

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(d) Movement in retirement obligations

	2012	2011
Retirement obligations, beginning of year	147,718	134,913
Current service cost	7,168	6,912
Interest cost	12,102	11,705
Contributions made by employees	3,037	2,814
Actuarial gains and losses	6,135	(3,457)
Benefits paid	(7,340)	(7,048)
Past service cost	1,718	1,703
Curtailments	474	39
Other	(157)	845
Effects of exchange rate changes	(6,556)	(708)
Retirement obligations, end of year	164,299	147,718

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

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(e) Principal assumptions

The principal actuarial assumptions by geographic area used for 2012 were as follows:

Pension benefits	Barbados	Jamaica	Trinidad	Other Caribbean
Discount rate	7.75% - 7.80%	10.50%	5.50%	4.25% - 7.80%
Expected return on plan assets	7.75% - 7.80%	9.50%	5.50%	4.25% - 7.80%
Future salary increases	3.00% - 6.50%	7.00%	4.00%	2.00% - 5.50%
Future pension increases	2.50%	2.00%	1.00%	0.25%-2.50%
Future changes in National Insurance Scheme Ceilings	3.50%	-	4.00%	3.50%

Other retirement benefits	Barbados	Jamaica
Discount rate	7.75%	10.50%
Expected return on plan assets	-	9.50%
Future salary increases	-	7.00%
Long term increase in health costs	4.25%	8.00%

The effect of a change of 1% in the assumption for long-term increase in health costs as of December 31, 2012 is estimated as follows:

	Effect of 1% decrease	Effect of 1% increase
Revised service cost	435	676
Revised interest cost	854	1,169
Revised accumulated retirement benefit	8,986	12,052

Amounts expressed in US $000

32 INCOME TAXES

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

	2012	2011
Income tax expense:		
Current tax	16,015	19,451
Deferred tax	8,164	2,210
Share of tax of associated companies	271	176
	24,450	21,837
Sources of income subject to tax:		
Investment income subject to direct taxation	106,764	112,831
Net income subject to direct taxation	72,877	58,540
Total income subject to taxation	179,641	171,371

32 INCOME TAXES (continued)

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

	2012	2011
Total income subject to taxation	179,641	171,371
Taxation at the applicable rates on income subject to tax	38,428	35,689
Adjustments to current tax for items not subject to / allowed for tax	(21,399)	(19,791)
Other current tax adjustments	(255)	68
Adjustments for current tax of prior periods	(275)	23
Movement in unrecognised deferred tax asset	5,464	6,185
Deferred tax relating to the origination of temporary differences	(16)	377
Deferred tax relating to changes in tax rates or new taxes	(15)	(5)
Deferred tax that arises from the write down / (reversal of a write down) of a tax asset	(277)	(1,300)
Other taxes	2,795	591
	24,450	21,837

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

Amounts expressed in US $000

33 DEFERRED INCOME TAXES

	2012	2011
Analysis of deferred income tax assets:		
Pensions and other retirement benefits	490	1,093
Unrealised losses on financial investments	-	522
Unused tax losses	1,453	16,238
Off-settable tax liabilities in respect of policy liability timing differences and other items	(953)	(1,101)
Other items	684	1,051
Total deferred income tax assets (note 11)	1,674	17,803
Deferred income tax assets to be recovered within one year	1,473	1,533

	2012	2011
Unrecognised tax balances:		
Tax losses	169,366	150,481
Potential deferred income tax assets	43,174	38,440

	2012	2011
Expiry period for unrecognised tax losses:		
2012	-	1,262
2013	2,601	2,592
2014	9,181	9,178
2015	14,370	14,382
2016	18,807	18,836
2017	21,078	19,496
After 2017	94,324	75,743
No specified expiry date	9,005	8,992
	169,366	150,481

33 DEFERRED INCOME TAXES (continued)

Analysis of deferred income tax liabilities	2012	2011
Accelerated tax depreciation	2,370	1,549
Policy liabilities taxable in the future	28,923	28,306
Pensions and other retirement benefits	33	-
Accrued interest	1,293	1,707
Unrealised gains on financial investments	23,558	23,265
Off-settable tax assets in respect of unused tax losses and other items	(31,130)	(35,264)
Other items	1,326	3,142
Total (note 19)	26,373	22,705
Deferred income tax liabilities to be settled within one year	9,978	9,223

34 EARNINGS PER COMMON SHARE

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

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

	2012	2011
Net income attributable to common shareholders	10,374	973
Finance costs attributable to preference share subscription	6,483	2,114
Amortisation of issue expenses allocated to preference share reserve	(221)	(72)
Preference share dividends declared	(7,800)	(2,544)
Earnings attributable to common shareholders	8,836	471
Weighted average number of shares in issue in thousands	301,690	294,768
Basic earnings per common share	**2.9 ¢**	**0.2 ¢**
Attributable to:		
Continuing operations	**16.8 ¢**	**15.1 ¢**
Discontinued operation	**(13.9) ¢**	**(14.9) ¢**

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

34 EARNINGS PER COMMON SHARE (continued)

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

	2012	2011
Earnings attributable to common shareholders	8,836	471
Weighted average number of shares in issue in thousands	301,690	294,768
LTI restricted share grants	1,113	897
ESOP shares	2,930	2,302
Adjusted weighted average number of shares in issue	305,733	297,967
Fully diluted earnings per common share	**2.9 ¢**	**0.2 ¢**
Attributable to:		
Continuing operations	**16.8 ¢**	**15.1 ¢**
Discontinued operation	**(13.9) ¢**	**(14.9) ¢**

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

	2012	2011
Total comprehensive income attributable to common shareholders	45,676	45,275
Total comprehensive earnings attributable to common shareholders	44,138	44,771
Weighted average number of shares in issue in thousands	301,690	294,768
Basic total comprehensive earnings per common share from continuing operations	**14.6¢**	**15.2 ¢**

Amounts expressed in US $000

35 OTHER COMPREHENSIVE INCOME

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

	20112					2011				
	OCI tax expense	After tax OCI is attributable to				OCI tax expense	After tax OCI is attributable to			
		Shareholders	Participating policyholders	Minority interests	Total		Shareholders	Participating policyholders	Minority interests	Total
Items that may be reclassified subsequently to income:										
Available for sale assets:										
Unrealised gains / (losses) arising on revaluation	(9,596)	32,919	1,251	3,853	38,023	(8,419)	15,034	530	749	16,313
(Gains) / losses transferred to income	3,246	(9,087)	-	(4,041)	(13,128)	(2,011)	(3,532)	-	(1,483)	(5,015)
Net change in actuarial liabilities	11,035	(21,027)	(1,251)	-	(22,278)	7,080	(10,929)	(530)	-	(11,459)
Retranslation of foreign currency operations	-	(9,681)	239	(8,679)	(18,121)	-	(2,425)	(15)	(995)	(3,435)
Other items	(19)	(19)	-	-	(19)	-	-	-	-	-
	4,666	(6,895)	239	(8,867)	(15,523)	(3,350)	(1,852)	(15)	(1,729)	(3,596)
Items that will not be reclassified subsequently to income:										
Unrealised gains / (losses) arising on revaluation of owner occupied property	41	163	-	(319)	(156)	(345)	2,282	-	727	3,009
	4,707	(6,732)	239	(9,186)	(15,679)	(3,695)	430	(15)	(1,002)	(587)

Amounts expressed in US $000

36 CASH FLOWS

36.1 Operating activities

	2012	2011
Adjustments for non-cash items, interest and dividends:		
Interest and dividend income	(256,875)	(252,381)
Net investment gains	(34,506)	(34,933)
Net increase in actuarial liabilities	178,541	116,535
Gain on recapture of insurance portfolio	(32,155)	-
Interest expense and finance costs	86,362	86,925
Depreciation and amortisation	15,901	17,694
Increase in provision for unearned premiums	212	1,335
Other items	(3,924)	16,179
	(46,444)	(48,646)
Net increase in investments and operating assets:		
Investment property	1,274	(375)
Debt securities	(142,401)	(356,190)
Equity securities	(50,219)	309
Mortgage loans	6,995	20,432
Policy loans	(913)	(2,098)
Finance loans and finance leases	2,893	(14,802)
Securities purchased for re-sale	(3,413)	740
Deposits	(5,513)	59,384
Other assets and receivables	(7,633)	(1,004)
	(198,930)	(293,604)

36.1 Operating activities (continued)

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

	2012	2011
Investment property:		
Disbursements	(356)	(626)
Disposal proceeds	1,630	251
	1,274	(375)
Debt securities:		
Disbursements	(915,967)	(1,470,776)
Disposal proceeds	773,566	1,114,586
	(142,401)	(356,190)
Equity securities:		
Disbursements	(116,964)	(73,130)
Disposal proceeds	66,745	73,439
	(50,219)	309
Net increase in operating liabilities:		
Insurance liabilities	4,251	2,797
Investment contract liabilities	37,631	21,501
Other funding instruments	(13,591)	31,221
Deposits	15,528	20,713
Securities sold for re-purchase	(27,019)	46,869
Other liabilities and payables	(2,816)	(13,533)
	13,984	109,568

Amounts expressed in US $000

36.2 Investing activities

	2012	2011
Property, plant and equipment:		
Purchases	(21,591)	(14,625)
Disposal proceeds	1,748	2,155
	(19,843)	(12,470)

36.3 Financing activities

	2012	2011
Other notes and loans payable:		
Proceeds	2,055	-
Repayments	-	(32,797)
	2,055	(32,797)

36.4 Cash and cash equivalents

	2012	2011
Cash resources	183,996	126,568
Call deposits and other liquid balances	44,382	99,181
Bank overdrafts	(1,954)	(3,657)
Other short-term borrowings	(31,927)	(15,527)
Cash and cash equivalents of discontinued operation (note 38)	19,067	58,094
	213,564	264,659

37 SUBSIDIARY ACQUISITION AND OWNERSHIP CHANGES

On July 13, 2012, the Group sold an interest in Sagicor Life Jamaica Limited totalling 8% to the major minority shareholder, 0.2% to the Sagicor Life Jamaica LTI plan and an insignificant amount of shares to the market of the Jamaica Stock Exchange. The net proceeds on sale totalled $35,416 representing cash consideration, and gave rise to a net gain to shareholders of $4,862 which has been booked to retained earnings, and net movements in shareholders' equity reserves of $1,028.

On September 28, 2012, Sagicor Life Insurance Company (SLIC) completed its acquisition of PEMCO Life Insurance Company (PEMCO Life), a life insurance company based in the State of Washington, USA. The fair values of the net assets acquired, the purchase consideration, and the gain arising on acquisition are set out below.

	Fair Value	Acquiree's carrying value
Net assets acquired:		
Financial investments	8,994	8,825
Miscellaneous assets and receivables	122	2,405
Cash resources	769	769
Policy liabilities	2,321	(5,724)
Income tax liabilities	(1,868)	-
Accounts payable and accrued liabilities	(108)	(114)
Total net assets	10,230	6,161
Share of net assets acquired	10,230	
Purchase consideration and related costs	(7,861)	
Gain arising on acquisition (note 26)	2,369	

The gain on acquisition reflects the pricing of the transaction which valued the insurance liabilities on a USA statutory insurance basis. The fair value of the insurance liabilities acquired have been determined consistently with the Company's accounting policies as set out in note 2.12. PEMCO Life was merged with SLIC effective December 31, 2012.

Amounts expressed in US $000

38 DISCONTINUED OPERATION

The operations of the Sagicor Europe operating segment are presented as discontinued operations in these financial statements. The assets and liabilities held for sale of the discontinued operation are as follows:

	2012
Assets	
Property, plant and equipment	544
Intangible assets	24,727
Financial investments	346,735
Reinsurance assets	116,653
Income tax assets	12,037
Miscellaneous assets and receivables	186,319
Cash resources	18,717
	705,732
Liabilities	
Insurance liabilities	603,807
Provisions	3,271
Accounts payable and accrued liabilities	23,899
	630,977

38 Discontinued operation (continued)

Financial investments include $48,918 in deposits which are pledged as collateral for a letter of credit facility (note 39).

Of the balances in the foregoing table, only financial investment debt securities totalling $188,425 are carried at fair value. These are classified as Level 1 financial instruments (see note 41.5(b)).

Included in insurance liabilities are property and casualty benefits payable of $440,952 and provision for unearned property and casualty premium of $155,459. The corresponding reinsurers' share of property and casualty policy benefits payable totalling $96,175 and reinsurers' share of unearned property and casualty premium totalling $19,032 are both included in reinsurance assets.

The non-current assets of the discontinued operation totalled $35,515 (2011 - $33,801) and the additions to non-current assets for the year ended December 31, 2012 totalled $1,821 (2011 -$3,154).

Amounts expressed in US $000

38 Discontinued operation (continued)

The elements of net income from the discontinued operation are as follows:

	2012	2011
Revenue		
Premium revenue	372,382	480,790
Reinsurance premium expense	(60,959)	(74,694)
	311,423	406,096
Net investment income	8,227	7,271
Fees and other revenue	3,810	(2,233)
	323,460	411,134
Benefits and expenses		
Policy benefits and change in actuarial liabilities	230,353	368,185
Policy benefits and change in actuarial liabilities reinsured	(29,896)	(81,328)
	200,457	286,857
Administrative expenses	37,455	43,195
Brokerage commissions	99,529	122,646
Depreciation and amortisation	1,650	1,613
	339,091	454,311
Loss before taxes and undernoted items	(15,631)	(43,177)
Income tax	(4,484)	8,546
Foreign exchange unwinding (1)	(2,765)	671
Foreign exchange gains / (losses) booked at Group level	1,635	846
Finance costs (2)#	(9,717)	(8,146)
Cash-settled compensation benefits (3)	(828)	(2,612)
Loss estimated on disposal of discontinued operation	(10,244)	-
Net loss	(42,034)	(43,872)

38 Discontinued operation (continued)

(1) Foreign exchange unwinding represents the impact to segment income of translating unearned premium and deferred policy acquisition costs at historic rates of exchange instead of at current rates of exchange. This basis of foreign exchange translation within the segment is reported for management purposes. The Group's accounting policy is explained in note 2.3(c). The unwinding comprises the items in the following table.

	2012	2011
Revenue	(3,745)	1,142
Expenses	104	(276)
Income tax	876	(195)
Foreign exchange unwinding	(2,765)	671

(2) Finance costs represent the cost of letter of credit and reinsurance financing facilities used to satisfy the funds at Lloyd's of London requirement for the discontinued operation.

(3) The minority shareholders of Sagicor Europe Limited are participating employees who have subscribed in cash for shares of SEL. Each participating employee has contracted with SEL and the Company under a share subscription agreement. Under the provisions of these agreements, participating employees can exercise a put option to the Company to acquire their shares at the prevailing fair value. The put option may be exercised over the period beginning from the 5th anniversary of the agreement, with a maximum of 50% of the employee's shareholding being put on the 5th anniversary, a further maximum of 10% each on the 6th to 10th anniversaries.

The first tranche of put options vested in 2012 and options representing 5.1% of the total shareholding were exercised for cash consideration of $3,782.

The put options are accounted for as cash settled share based payment arrangements and a liability of $3,271 has been recognised in provisions at December 31, 2012 for the outstanding options. An expense of $828 (2011 - $2,612) has been recorded in the net income of the discontinued operation.

Amounts expressed in US $000

38 Discontinued operation (continued)

Included in premium revenue and reinsurance premium expense are property and casualty insurance lines as follows:

	Gross premium		Ceded to reinsurers	
	2012	2011	2012	2011
Direct property	96,965	119,029	21,159	22,592
Direct motor	51,483	94,703	4,853	10,670
Direct accident and liability	141,321	173,007	20,379	20,912
Reinsurance assumed	61,671	78,760	14,001	18,243
	351,440	465,499	60,392	72,417

Included in policy benefits and change in actuarial liabilities (reinsured) are property and casualty insurance claims as follows:

	Gross benefit		Ceded to reinsurers	
	2012	2011	2012	2011
Direct property	46,938	64,842	13,526	92
Direct motor	36,214	95,212	(4,507)	17,903
Direct accident and liability	112,495	64,430	16,230	(353)
Reinsurance assumed	29,590	141,091	4,466	62,594
	225,237	365,575	29,715	80,236

Net retained benefits include insurance catastrophe claims of $44,948 in 2012 and $72,134 in 2011. These claims were mostly incurred in the reinsurance assumed and direct property lines of insurance.

38 Discontinued operation (continued)

Comprehensive income of the discontinued operation is as follows:

	2012	2011
Net loss	(42,034)	(43,872)
Other comprehensive income		
Items that may be reclassified subsequently to income:		
Available for sale assets:		
Unrealised gains arising on revaluation	179	1,129
Losses transferred to income	(635)	(323)
Income tax credit/(charge)	57	(156)
Retranslation of foreign currency operation	543	1,632
Other comprehensive income	144	2,282
Total comprehensive loss	(41,890)	(41,590)

Net cash flows from the discontinued operation are as follows:

	2012	2011
Operating activities	(50,668)	(65,896)
Investing activities	(1,821)	(3,154)
Financing activities	-	(4,011)
Effects of exchange rate changes	481	128
	(52,008)	(72,933)

As of December 31, 2012, cash and cash equivalents of the discontinued operation comprised cash resources of $18,717 and call deposits and other liquid balances of $350.

38 Discontinued operation (continued)

(a) Insurance risks of discontinued operation

The principal activity of the discontinued operation is the participation in property and casualty insurance business at a Lloyd's of London syndicate. In addition to the insurance risks outlined in note 42, Sagicor Europe's syndicate at Lloyd's is subject to risk management standards which reflect the insurance, financial and operational risks pertinent to the business and how they are identified, quantified, measured, assessed and managed. The risk management process has the following features:

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

Insurance and other risks are recorded within the risk register with the prime risks stresses to calculate the syndicate's capital requirements.

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

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

38 Discontinued operation (continued)

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

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

Syndicates submit quarterly returns and performance is benchmarked against plan.

The preparation and submission of the 2013 annual plan incorporated a transition to Solvency II standards. Milestones were established by Lloyd's for the transition and involved developing Solvency II compliant models to document and measure risks.

(b) Capital adequacy of discontinued operation

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

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

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

Amounts expressed in US $000

38 Discontinued operation (continued)

Each year, an ICA is prepared based on a one year event horizon and capital requirements are based on the 99.5% confidence level over the next year. The ICA provides for all losses modelled to ultimate. An overall ICA number is computed. To this is added a premium and the resulting total, known as the Funds at Lloyd's requirement (FaL) is placed at the disposal of Lloyd's of London.

The FaL may consist of cash, securities, banker's irrevocable standby letters of credit or reinsurance financing. The FaL is put into effect before the start of the underwriting year and remains in place until the underwriting year closes and its profits are distributed or its losses are assumed by the participating member. An underwriting year is normally held open for a period of three years.

The 2013 underwriting year incorporated a transition to Solvency II and included the development of a Solvency Capital Requirement.

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

	Underwriting year		
	2013 - £000	**2012 - £000**	**2011 - £000**
FaL requirement:			
Syndicate 1206	164,878	152,004	137,241
Syndicate 44	4,910	5,199	4,438
	169,788	157,203	141,679
Represented by:			
Banker's letters of credit	52,100	52,100	52,100
Financial investments	36,551	31,619	31,622
Reinsurance financing	82,498	78,750	78,750
Solvency surplus	-	238	-
	171,149	162,707	162,472

38 Discontinued operation (continued)

Financial covenants in respect of the banker's letters of credit facility are summarised in the following table.

Covenant	Description
Tangible net worth [(1)]	The Sagicor Group is required to maintain a tangible net worth greater than $250,000 at all times, such covenant to be tested annually. As of December 31, 2012 and 2011, the Group satisfied this requirement.
Interest coverage ratio [(1)]	The Sagicor Group is required to maintain an interest coverage ratio of at least 5:1 at all times, such covenant to be tested annually. For the years ended December 31, 2012 and 2011, the Group's interest coverage ratio was 5.5:1 and 4.8:1 respectively.
Financial strength [(2)]	Sagicor Life Inc is required to maintain minimum financial strength ratings of BBB- from Standard & Poor's and of B+ from A.M. Best. Sagicor Life Inc has maintained the required financial strength ratings for the year and up to the date of issue of these financial statements.
Permitted liens	The covenant described in note 46.3(b) is incorporated into the letter of credit facility.

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

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

Amounts expressed in US $000

39 CONTINGENT LIABILITIES

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

	2012	2011
Customer guarantees and letters of credit [1]	8,994	12,495
Letter of credit facility [2]	84,236	80,550
	93,230	93,045

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

[2] Collateral for this facility totalled $48,918 (2011 - $46,624) and the associated financial covenants are disclosed in note 38(b).

(a) Legal proceedings

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

(b) Tax assessments

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

39 CONTINGENT LIABILITIES (continued)

(c) Insurance contracts

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

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

A review of the Universal Life portfolio in 2004 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 remains in discussions with the FSC on the matter; however to date, no final decision has been agreed. The cost, if any, of resolving this issue cannot be quantified at this time.

Further, over the past few years, the Group improved the review process for Universal Life policies. Where a policy has insufficient funds, the policyholder is given a number of options to improve the fund. These include reducing the coverage, increasing the premium or converting to another plan. The improvements to the Universal Life policy review process and corrective measures taken by policyholders have significantly reduced any exposure.

Amounts expressed in US $000

40 RELATED PARTY TRANSACTIONS

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

Key management transactions and balances

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

Compensation	**2012**	**2011**
Salaries, directors' fees and other short-term benefits	19,044	16,186
Equity-settled compensation benefits	4,247	4,541
Pension and other retirement benefits	2,688	1,580
	25,979	22,307

	Mortgage loans	**Other loans**	**Total loans**
Balance, beginning of year	3,964	424	4,388
Advances	1,333	854	2,187
Repayments	(324)	(839)	(1,163)
Effects of exchange rate changes	2	(16)	(14)
Transfer to assets of discontinued operation	-	(3)	(3)
Balance, end of year	4,975	420	5,395
Interest rates prevailing during the year	5% - 8.25%	5% - 17.7%	

41 FINANCIAL RISK

The Group's activities of issuing insurance contracts, of accepting funds from depositors, of investing insurance premium and deposit receipts in a variety of financial and other assets, banking and dealing in securities, exposes the Group to various insurance and financial risks. Financial risks include credit default, liquidity and market risks. Market risks arise from changes in interest rates, equity prices, currency exchange rates or other market factors. The principal insurance risks are identified in notes 42 and 43.

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

The amounts disclosed in this note and in notes 42 and 43, exclude amounts in the statement of financial position classified as assets of discontinued operation and as liabilities of discontinued operation.

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

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

41.1 Credit risk (continued)

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

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

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

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

	2012		2011	
	$000	%	$000	%
Investment portfolios	3,463,330	81.6	3,599,059	76.9
Lending portfolios	544,357	12.8	556,056	11.9
Reinsurance assets	82,363	1.9	289,701	6.2
Other financial assets	122,873	2.9	205,087	4.3
Total financial statement exposures	4,212,923	99.2	4,649,903	99.3
Loan commitments	21,073	0.5	17,465	0.4
Customer guarantees and letters of credit	8,993	0.3	12,495	0.3
Total off financial statement exposures	30,066	0.8	29,960	0.7
Total	4,242,989	100.0%	4,679,863	100.0%

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

41.1 Credit risk (continued)

The Group's largest exposures to individual counterparty credit risks as of December 31, 2012 and 2011 are set out below. The individual ratings reflect the rating of the counterparty listed below, while the amounts include exposures with subsidiaries of the counterparty.

	Sagicor Risk Rating	2012	Sagicor Risk Rating	2011
Investment portfolios:				
Government of Jamaica	5	964,133	5	1,122,561
Government of Trinidad and Tobago	2	135,768	2	143,613
Government of Barbados	4	281,570	3	182,740
The Bank of Nova Scotia	1	67,213	1	130,307
Government of USA	1	31,760	1	102,452
The Federal National Mortgage Association	1	86,054	1	72,394
The Federal Home Loan Mortgage Corporation	1	64,689	1	58,174
CIBC	2	46,638	2	61,897
Lending portfolios:				
Value Assets International S.A. and Egret Limited	4	52,546	4	54,247
Reinsurance assets:				
Scottish Re (U.S.) Inc [1]	7	-	7	104,112
Washington National Insurance Company [2]	5	49,284	5	53,238

(1) The reinsurance asset held in the name of Scottish Re was 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 $nil (2011 - $147,782). In 2012, the reinsurance contract was recaptured (see note 13.2(a)).

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

41.1 Credit risk (continued)

(a) Investment portfolios

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

Investment portfolios					
Risk Rating	Classification	2012		2011	
		Exposure $000	Exposure %	Exposure $000	Exposure %
1	Minimal risk	472,923	14%	638,481	18%
2	Low risk	640,588	18%	679,735	19%
3	Moderate risk	688,242	20%	764,604	21%
4	Acceptable risk	450,759	13%	179,571	5%
5	Average risk	1,136,269	33%	1,297,212	36%
6	Higher risk	39,772	1%	16,712	1%
7	Special mention	3,103	0%	4,055	0%
8	Substandard	4,247	0%	4,903	0%
TOTAL RATED EXPOSURES		3,435,903	99%	3,585,273	100%
UN-RATED EXPOSURES		27,427	1%	13,786	0%
TOTAL		3,463,330	100%	3,599,059	100%

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

41.1 Credit risk (continued)

(b) Lending portfolios

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

Lending portfolios					
Risk Rating	Classification	2012		2011	
		Exposure $000	Exposure %	Exposure $000	Exposure %
1	Minimal risk	125,296	23%	124,626	22%
2	Low risk	127,126	23%	129,312	23%
3	Moderate risk	125,575	23%	133,991	24%
4	Acceptable risk	13,490	2%	35,055	6%
5	Average risk	51,103	9%	34,559	6%
6	Higher risk	10,459	2%	8,837	2%
7	Special mention	3,720	1%	5,675	1%
8	Substandard	13,474	2%	16,123	3%
9	Doubtful	3,325	1%	4,500	1%
10	Loss	4,271	1%	3,051	1%
TOTAL RATED EXPOSURES		477,839	87%	495,729	89%
UN-RATED EXPOSURES		66,518	13%	60,327	11%
TOTAL		544,357	100%	556,056	100%

41.1 Credit risk (continued)

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

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

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

	2012	2011
Barbados	200,061	193,204
Jamaica	122,865	129,442
Trinidad & Tobago	85,679	93,873
Other Caribbean	75,043	74,790
USA	60,709	64,747
	544,357	556,056

(c) Past due and impaired financial assets

A financial asset is past due when a counterparty has failed to make payment when contractually due. The Group is most exposed to the risk of past due assets with respect to its debt securities, mortgage loans, finance loans and finance leases.

Debt securities are assessed for impairment when amounts are past due, when the borrower is experiencing cash flow difficulties, or when the borrower's credit rating has been downgraded.

Amounts expressed in US $000

41.1 Credit risk (continued)

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

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

	Debt securities	Mortgage loans	Finance loans & leases
2012			
Neither past due nor impaired	3,107,172	173,060	116,082
Past due up to 3 months, but not impaired	11,927	56,458	33,820
Past due up to 12 months, but not impaired	250	9,516	104
Past due up to 5 years, but not impaired	174	5,763	-
Past due over 5 years, but not impaired	39	6,731	-
Total past due but not impaired	12,390	78,468	33,924
Impaired assets	4,360	12,824	4,702
Total carrying value	3,123,922	264,352	154,708
Accumulated allowances on impaired assets	2,492	2,704	3,143
Accrued interest on impaired assets	20	398	90

41.1 Credit risk (continued)

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

The Group is also exposed to impaired premiums receivable. Property and casualty insurers frequently provide settlement terms to customers and intermediaries which extend up to 3 months. However, under the terms of insurance contracts, insurers can usually lapse an insurance policy for non-payment of premium, or if there is a claim, recover any unpaid premiums from the claim proceeds.

(d) Repossessed assets

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

Amounts expressed in US $000

41.1 Credit risk (continued)

(e) Renegotiated assets

The Group may renegotiate the terms of any financial investment to facilitate borrowers in financial difficulty. Arrangements to waive, adjust or postpone scheduled amounts due may be entered into. The Group classifies these amounts as past due, unless the original agreement is formally revised, modified or substituted.

41.2 Liquidity risk

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

Asset liability matching is a tool used by the Group to mitigate liquidity risks particularly in operations with significant maturing short-term liabilities. For long-term insurance contracts, the Group has adopted a policy of investing in assets with cash flow characteristics that closely match the cash flow characteristics of its policy liabilities. The primary purpose of this matching is to ensure that cash flows from these assets are synchronised with the timing and the amounts of payments that must be paid to policyholders.

Group companies monitor cash inflows and outflows in each operating currency. Through experience and monitoring, the Group is able to maintain sufficient liquid resources to meet current obligations.

Investment property may be held to back insurance liabilities. As these assets are relatively illiquid, the insurers hold less than 5% of their total assets in investment property.

41.2 Liquidity risk (continued)

(a) Insurance liabilities

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

	Expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
2012				
Actuarial liabilities	123,584	415,676	1,501,647	2,040,907
Other insurance liabilities	85,276	13,177	55,393	153,846
Total	208,860	428,853	1,557,040	2,194,753
2011				
Actuarial liabilities	105,910	354,577	1,415,990	1,876,477
Other insurance liabilities	272,061	188,662	103,201	563,924
Total	377,971	543,239	1,519,191	2,440,401

Amounts expressed in US $000

41.2 Liquidity risk (continued)

(b) Financial liabilities and commitments

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

	2012 - Contractual un-discounted cash flows				2011 - Contractual un-discounted cash flows			
	On demand or within 1 year	1 to 5 years	After 5 years	Total	On demand or within 1 year	1 to 5 years	After 5 years	Total
Financial liabilities:								
Investment contract liabilities	292,711	34,865	20,375	347,951	280,669	30,877	10,261	321,807
Notes and loans payable	11,972	299,589	-	311,561	11,250	308,963	-	320,213
Deposit and security liabilities:								
Other funding instruments	197,734	47,736	9,965	255,435	213,949	51,066	15,755	280,770
Customer deposits	160,947	35,654	14,882	211,483	159,067	35,020	14,894	208,981
Structured products	2,018	8,525	-	10,543	-	1,055	3,162	4,217
Securities sold for re-purchase	601,348	342	-	601,690	618,036	128	-	618,164
Derivative financial instruments	21,706	25,719	-	47,425	5,211	2,608	296	8,115
Bank overdrafts	1,954	-	-	1,954	3,657	-	-	3,657
Accounts payable and accrued liabilities	120,479	-	987	121,466	163,936	5,628	28,842	198,406
Total financial liabilities	1,410,869	452,430	46,209	1,909,508	1,455,775	435,345	73,210	1,964,330
Off financial statement commitments:								
Loan commitments	6,402	13,835	836	21,073	13,024	3,296	1,145	17,465
Non-cancellable operating lease and rental payments	5,895	12,678	6,511	25,084	3,858	7,703	7,569	19,130
Guarantees, acceptances and other financial facilities	4,133	4,506	355	8,994	7,277	4,831	387	12,495
Total off financial statements commitments	16,430	31,019	7,702	55,151	24,159	15,830	9,101	49,090
Total	1,427,299	483,449	53,911	1,964,659	1,479,934	451,175	82,311	2,013,420

Amounts expressed in US $000

41.2 Liquidity risk (continued)

(c) Financial and insurance assets

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

	2012 – Contractual or expected discounted cash flows				2011 – Contractual or expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
Debt securities	304,367	894,282	1,925,273	3,123,922	421,159	879,013	1,806,768	3,106,940
Mortgage loans	22,428	34,910	207,014	264,352	19,878	47,570	205,532	272,980
Policy loans	14,759	14,219	96,319	125,297	6,482	14,241	103,903	124,626
Finance loans and finance leases	68,233	57,550	28,925	154,708	65,511	54,177	38,762	158,450
Securities purchased for re-sale	19,497	37	-	19,534	12,082	-	-	12,082
Deposits	134,423	371	1,084	135,878	282,538	11,842	995	295,375
Derivative financial instruments	27,683	24,398	-	52,081	7,234	7,671	296	15,201
Reinsurance assets: share of actuarial liabilities	6,422	17,327	32,934	56,683	15,118	51,030	103,011	169,159
Reinsurance assets: other	21,614	3,830	236	25,680	56,035	51,639	12,868	120,542
Premiums receivable	35,712	-	-	35,712	150,225	-	-	150,225
Other assets and accounts receivable	34,382	377	321	35,080	36,588	2,753	320	39,661
Cash resources	183,996	-	-	183,996	184,662	-	-	184,662
Total	873,516	1,047,301	2,292,106	4,212,923	1,257,512	1,119,936	2,272,455	4,649,903

41.3 Interest rate risk

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

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

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

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

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

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

41.3 Interest rate risk (continued)

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

Amounts expressed in US $000

41.3 Interest rate risk (continued)

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

	2012					2011				
	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	42,473	4,979	55,393	51,001	153,846	237,565	5,062	54,660	266,637	563,924
Investment contract liabilities	292,524	33,822	19,788	62	346,196	279,237	27,895	8,357	70	315,559
Notes and loans payable	664	243,827	-	(2,935)	241,556	-	236,553	-	(4,023)	232,530
Deposit and security liabilities:										
Other funding instruments	197,426	42,236	5,724	289	245,675	204,615	42,657	11,477	2,775	261,524
Customer deposits	157,514	31,715	7,970	809	198,008	154,203	30,938	7,973	990	194,104
Structured products	-	5,708	-	3,508	9,216	-	-	-	3,184	3,184
Securities sold for re-purchase	585,923	318	-	4,823	591,064	609,043	116	-	3,822	612,981
Derivative financial instruments	-	43,143	-	3,369	46,512	-	-	-	8,115	8,115
Bank overdrafts	1,954	-	-	-	1,954	3,657	-	-	-	3,657
Accounts payable and accrued liabilities	5,408	-	-	109,017	114,425	18	-	-	194,369	194,387
Total	1,283,886	405,748	88,875	169,943	1,948,452	1,488,338	343,221	82,467	475,939	2,389,965

Amounts expressed in US $000

41.3 Interest rate risk (continued)

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

	2012					2011				
	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	542,794	764,741	1,766,182	50,205	3,123,922	666,613	779,874	1,604,613	55,840	3,106,940
Equity securities	26,498	-	-	139,056	165,554	-	-	-	106,512	106,512
Mortgage loans	92,925	30,698	136,495	4,234	264,352	79,786	46,907	142,052	4,235	272,980
Policy loans	13,643	13,993	93,949	3,712	125,297	5,653	14,496	100,858	3,619	124,626
Finance loans and leases	54,248	57,140	42,209	1,111	154,708	66,883	53,959	36,423	1,185	158,450
Securities purchased for re-sale	19,472	-	-	62	19,534	12,017	-	-	65	12,082
Deposits	133,522	371	759	1,226	135,878	277,498	11,811	670	5,396	295,375
Derivative financial instruments	-	45,695	-	6,386	52,081	2,829	-	-	12,372	15,201
Reinsurance assets: other	-	-	236	25,444	25,680	34,835	94	4,564	81,049	120,542
Premiums receivable	137	-	-	35,575	35,712	715	-	-	149,510	150,225
Other assets and accounts receivable	1,777	264	-	33,039	35,080	415	359	17	38,870	39,661
Cash resources	97,020	-	-	86,976	183,996	119,042	-	-	65,620	184,662
Total	982,036	912,902	2,039,830	387,026	4,321,794	1,266,286	907,500	1,889,197	524,273	4,587,256

Amounts expressed in US $000

41.3 Interest rate risk (continued)

The table below summarises the average interest yields on financial assets and liabilities held during the year in respect of continuing operations.

	2012	2011
Financial assets:		
Debt securities	7.1%	7.6%
Mortgage loans	7.6%	8.1%
Policy loans	8.1%	8.1%
Finance loans and finance leases	10.2%	11.5%
Securities purchased for re-sale	5.1%	6.2%
Deposits	2.4%	2.9%
Financial liabilities		
Investment contract liabilities	7.2%	8.3%
Notes and loans payable	7.9%	8.6%
Other funding instruments	2.6%	2.8%
Deposits	3.8%	4.2%
Securities sold for re-purchase	5.4%	5.3%

a) Sensitivity

Sensitivity to interest rate risk is considered by operating subsidiaries. The effects of changes in interest rates of assets backing actuarial liabilities are disclosed in note 43.4. The Group's property and casualty operations are not exposed to a significant degree of interest rate risk, since the majority of its interest bearing"instruments has short-term maturities. The sensitivity of the Group's principal operating subsidiaries engaged in banking, investment management and other financial services are considered'In the following paragraphs."'"

41.3 Interest rate risk (continued)

Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited

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 the above companies which operate in Jamaica.

The sensitivity of income is the effect of the assumed changes in interest rates on income based on floating rate debt securities 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.

2012				2011			
Change in interest rate		Effect on net income	Effect on TCI	Change in interest rate		Effect on net income	Effect on TCI
JMD	USD			JMD	USD		
- 1%	- 0.5%	(2,930)	5,712	- 1%	- 0.5%	2,413	8,727
+ 4%	+ 2.5%	12,400	(15,865)	+ 1%	+ 0.5%	(2,413)	(9,071)

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

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

41.4 Foreign exchange risk (continued)

2012	US$ 000 equivalents of balances denominated in						
	Barbados $	Jamaica $	Trinidad $	Eastern Caribbean $	US $	Other Currencies	Total
ASSETS							
Financial investments(1)	454,135	650,945	298,187	105,539	2,135,364	231,602	3,875,772
Reinsurance assets	6,739	1,097	10,023	1,843	59,492	3,169	82,363
Receivables (1)	9,818	31,091	8,984	8,290	5,851	6,758	70,792
Cash resources	11,398	12,423	34,713	5,694	95,700	24,068	183,996
	482,090	695,556	351,907	121,366	2,296,407	265,597	4,212,923
Other assets (2)	210,765	212,306	90,688	29,551	76,631	10,759	630,700
Total assets of continuing operations	692,855	907,862	442,595	150,917	2,373,038	276,356	4,843,623
LIABILITIES							
Actuarial liabilities	406,386	316,058	286,238	43,626	905,565	83,034	2,040,907
Other insurance liabilities(1)	64,951	20,080	25,472	8,901	26,477	7,965	153,846
Investment contracts	34,969	74,214	109,957	39,525	79,848	7,683	346,196
Notes and loans payable	16,199	-	-	-	225,357	-	241,556
Deposit and security liabilities	65,719	300,716	2,174	10,261	654,747	58,812	1,092,429
Provisions	15,739	11,046	8,902	1,145	734	5,847	43,413
Accounts payable and accruals	30,288	24,681	11,522	8,271	33,786	5,877	114,425
	634,251	746,795	444,265	111,729	1,926,514	169,218	4,032,772
Other liabilities (2)	14,367	7,501	19,799	2,615	20,965	1,719	66,966
Total liabilities of continuing operations	648,618	754,296	464,064	114,344	1,947,479	170,937	4,099,738
Net position	44,237	153,566	(21,469)	36,573	425,559	105,419	743,885

(1) Monetary balances

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

41.4 Foreign exchange risk (continued)

2011	US$ 000 equivalents of balances denominated in							
	Barbados $	Jamaica $	Trinidad $	Eastern Caribbean $	UK £	US $	Other Currencies	Total
ASSETS								
Financial investments[1]	370,443	786,116	309,268	106,598	67,514	2,053,524	292,191	3,985,654
Reinsurance assets	5,637	1,129	10,215	2,077	69,918	195,317	5,408	289,701
Receivables [1]	17,047	24,372	9,364	8,044	49,183	54,481	27,395	189,886
Cash resources	10,106	9,557	34,868	5,303	29,960	60,963	33,905	184,662
	403,233	821,174	363,715	122,022	216,575	2,364,285	358,899	4,649,903
Other assets [2]	212,963	158,255	83,145	29,679	109,259	96,002	24,867	714,170
Total assets	616,196	979,429	446,860	151,701	325,834	2,460,287	383,766	5,364,073
LIABILITIES								
Actuarial liabilities	396,429	306,089	264,960	41,373	2,854	789,036	75,736	1,876,477
Other insurance liabilities [1]	64,067	20,260	25,328	9,496	181,124	143,756	119,893	563,924
Investment contracts	34,254	73,461	98,988	35,208	-	66,782	6,866	315,559
Notes and loans payable	13,078	-	-	-	-	219,452	-	232,530
Deposit and security liabilities	58,299	377,336	3,215	10,046	9,558	614,214	10,897	1,083,565
Provisions	13,248	9,857	7,443	807	6,677	433	5,707	44,172
Accounts payable and accruals	6,601	41,698	11,168	6,792	20,486	83,995	23,647	194,387
	585,976	828,701	411,102	103,722	220,699	1,917,668	242,746	4,310,614
Other liabilities [2]	14,824	13,850	18,880	3,442	76,825	85,592	42,513	255,926
Total liabilities	600,800	842,551	429,982	107,164	297,524	2,003,260	285,259	4,566,540
Net position	15,396	136,878	16,878	44,537	28,310	457,027	98,507	797,533

[1] Monetary balances

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

Amounts expressed in US $000

41.4 Foreign exchange risk (continued)

(a) Sensitivity

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

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

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

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

- Currency risk of reported results of foreign operations

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

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

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

The operating currency whose value noticeably fluctuate against the USD is the Jamaica dollar (JMD). The theoretical impact of JMD currency risk on reported results and of the Group's investment in foreign operations is considered in the following section.

41.4 Foreign exchange risk (continued)

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, 2012 and for the year then ended are considered in the following table.

	Amounts denominated in		Total amounts	Effect of a 10% depreciation
	JMD	USD		
Financial position:				
Assets	905,900	783,469	1,689,369	(90,590)
Liabilities	754,131	566,418	1,320,549	(75,413)
Net position	151,769	217,051	368,820	(15,177)
Represented by:				
Currency risk of the Group's investment in foreign operations				(15,177)
Income statement:				
Revenue	315,945	52,189	368,134	(8,849)
Benefits	(169,475)	(18,342)	(187,817)	16,948
Expenses	(128,061)	(6,092)	(134,153)	12,806
Income taxes	(9,761)	-	(9,761)	976
Net income	8,648	27,755	36,403	21,881
Represented by:				
Currency risk relating to the future cash flows of monetary balances				22,745
Currency risk of reported results of foreign operations				(864)
				21,881

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

41.5 Fair value of financial instruments

(a) Financial instruments carried at amortised cost

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

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

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

(b) Financial instruments carried at fair value

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

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

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

41.5 Fair value of financial instruments (continued)

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

A financial instrument is classified as Level 2 if:

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

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

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

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

A financial instrument is classified as Level 3 if:

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

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

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

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

Amounts expressed in US $000

41.5 Fair value of financial instruments (continued)

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

	2012				2011			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Available for sale securities:								
Debt securities	294,056	1,690,840	35,188	2,020,084	470,805	1,548,210	37,442	2,056,457
Equity securities	39,863	31,516	8,982	80,361	49,717	19,170	8,645	77,532
	333,919	1,722,356	44,170	2,100,445	520,522	1,567,380	46,087	2,133,989
Investments at fair value through income:								
Debt securities	23,161	93,780	-	116,941	19,205	88,030	6,497	113,732
Equity securities	6,678	70,907	7,608	85,193	14,742	10,834	3,404	28,980
Derivative financial instruments	-	45,892	6,189	52,081	-	6,894	8,307	15,201
Mortgage loans	-	-	40,212	40,212	-	-	40,674	40,674
Securities purchased for re-sale	-	-	177	177	-	-	492	492
	29,839	210,579	54,186	294,604	33,947	105,758	59,374	199,079
Total assets	363,758	1,932,935	98,356	2,395,049	554,469	1,673,138	105,461	2,333,068
Total assets by percentage	15%	81%	4%	100%	24%	72%	4%	100%
Policy liabilities:								
Unit linked deposit administration liabilities	-	104,084	-	104,084	-	93,000	-	93,000
Deposit and security liabilities:								
Structured products	-	-	9,216	9,216	-	-	3,184	3,184
Derivative financial instruments	-	46,512	-	46,512	1,291	6,824	-	8,115
	-	46,512	9,216	55,728	1,291	6,824	3,184	11,299
Total liabilities	-	150,596	9,216	159,812	1,291	99,824	3,184	104,299
Total liabilities by percentage	0%	94%	6%	100%	1%	96%	3%	100%

Amounts expressed in US $000

41.5 Fair value of financial instruments (continued)

Balances totalling $10,018 have been transferred from Level 1 to Level 2 in 2012. There have been no other material transfers between Level 1 and Level 2 instruments during 2012 and 2011.

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

	2012				2011	2012		2011
	Available for sale securities	Investments at fair value through income	Derivative instruments	Total assets	Total assets	Structured products	Total liabilities	Total liabilities
Balance, beginning of year	46,087	51,067	8,307	105,461	117,932	3,184	3,184	5,655
Additions	2,663	15,633	3,612	21,908	31,513	-	-	-
Issues	-	-	-	-	-	6,250	6,250	-
Transfers in	2	-	-	2	50	-	-	-
Fair value changes recorded in income	3,203	165	2,042	5,410	(3,427)	-	-	-
Fair value changes recorded in other comprehensive income	41	-	-	41	713	-	-	-
Disposals and divestitures	(5,232)	(18,389)	(7,579)	(31,200)	(40,681)	-	-	-
Settlements	-	-	-	-	-	-	-	(2,427)
Effect of exchange rate changes	(2,594)	(479)	(193)	(3,266)	(639)	(218)	(218)	(44)
Balance, end of year	44,170	47,997	6,189	98,356	105,461	9,216	9,216	3,184
Fair value changes recorded in income for instruments held at end of year	-	(230)	-	(230)	360	-	-	-

Amounts expressed in US $000

41.5 Fair value of financial instruments (continued)

(c) Equity price risk

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

(c) Sensitivity

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

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

Available for sale equities	Carrying value	20% change on TCIBT
Listed on Caribbean stock exchanges and markets	24,279	4,856
Listed on US stock exchanges and markets	35,801	7,160
Listed on other exchanges and markets	20,281	4,056
	80,361	16,072

41.6 Derivative financial instruments and hedging activities

The Group's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed to ensure that they remain within acceptable risk levels, with matching deals being utilised to achieve this where necessary. When entering into derivative transactions, the Group employs its credit risk management procedures to assess and approve potential credit exposures.

41.6 Derivative financial instruments and hedging activities (continued)

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

	Contract / notional amount	Fair value	
		Assets	Liabilities
2012			
Derivatives held for trading:			
Currency forwards	2,644	2,775	2,644
Cross currency swap	42,643	42,643	43,394
Equity indexed options	120,040	6,663	474
	165,327	52,081	46,512
2011			
Derivatives held for trading:			
Currency forwards	275	6,573	6,503
Exchange traded funds – short sale	1,292	-	1,291
Foreign exchange collar option	-	298	-
Equity indexed options	75,380	5,799	321
Interest rate swap	20,008	2,829	-
	96,955	15,201	8,115

41.6 Derivative financial instruments and hedging activities (continued)

(i) Currency forwards and swaps

Currency forwards represent commitments to buy and sell foreign currencies on a gross basis at future dates at specified prices. The credit risk is evaluated for each contract and is collateralised where deemed necessary. The currency forward contracts are settled on a gross basis. Inforce at December 31, 2012 is a contract to buy US dollars and sell Euros which expires in November 2014.

(ii) Cross currency swap

A Group company entered into a currency swap with an initial notional principal amount of Euro 45 million maturing in February 2015. Under the terms of this swap, the Group company pays Euro at a rate of 5% and receives 4.26% in US dollars on the notional principal amount.

The Group company obtains principal and interest in Euros on a promissory note included in debt securities classified as financial assets at fair value through income in note 9 .

(iii) Equity indexed options

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

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

41.6 Derivative financial instruments and hedging activities (continued)

For certain universal life and annuity insurance contracts, an insurer has purchased custom call options that are selected to materially replicate the policy benefits that are associated with the equity indexed components within the policy contract. These options are appropriate to reduce or minimise the risk of movements in specific equity markets. Credit risk that the insurer has regarding the options is mitigated by ensuring that the counterparty is sufficiently capitalized. 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.

42 INSURANCE RISK – PROPERTY & CASUALTY CONTRACTS

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

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

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

42.1 Underwriting risk

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

- Benchmark exposure rates,
- Historic experience.

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

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

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

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

42.2 Claims risk

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

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

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

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

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

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

Amounts expressed in US $000

42.2 Claims risk (continued)

Region	2012 premium	Property	Motor	Accident & liability	Total
Barbados	Gross	14,286	6,054	2,704	23,044
	Net	1,381	2,819	1,454	5,654
Trinidad and Tobago	Gross	14,151	16,154	5,471	35,776
	Net	854	8,019	2,864	11,737
Other Caribbean	Gross	6,018	802	517	7,337
	Net	355	388	238	981
Total	Gross	34,455	23,010	8,692	66,157
	Net	2,590	11,226	4,556	18,372

Concentration of risk is mitigated through risk selection, line sizes, 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 and floods and events triggering multi coverage corporate liability claims are considered to be the potential sources of catastrophic losses arising from insurance risks.

A realistic disaster scenarios modelled for 2012 is presented below and results in estimated gross and net losses. Amounts are stated in currency 000's.

	Gross loss	Net loss
A Barbados and St. Lucia windstorm having a 250 year return period.	$396,673	$7,500

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

42.3 Reinsurance risk

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

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

The Group selects reinsurers which have well established capability to meet their contractual obligations and which generally have a Sagicor credit risk rating of 1 or 2. Insurers also place reinsurance coverage with various reinsurers to limit their exposure to any one reinsurer.

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

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

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

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 by Sagicor General are summarised in the following tables. However, these arrangements are not exhaustive and do not represent a complete schedule of all reinsurance arrangements for each line of insurance business written.

42.3 Reinsurance risk (continued)

SAGICOR GENERAL	
Type of risk	**Retention by insurers -** currency amounts in thousands
Property	• maximum retention of $4,500 for a single event; • maximum retention of $7,500 for a catastrophic event; • quota share retention to maximum of 30% in respect of treaty limits; • quota share retention is further reduced to a maximum of $750 per event.
Motor and liability	• maximum retention of $750 for a single event; • quota share retention a maximum of 50% in respect of treaty limits; • treaty limits apply.
Miscellaneous accident	• maximum retention of $75 for a single event; • treaty limits apply.
Engineering business	• maximum retention of $250 for a single risk; • treaty limits apply for material damage and for liability claims.
Property, motor, and engineering	• catastrophic excess of loss reinsurance cover is available per event for amounts in excess of treaty limits; • treaty limits apply to catastrophic excess of loss coverage.

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

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

- Hurricane with a 250 year return period affecting Barbados and St. Lucia and an earthquake with a 250 year return period affecting Trinidad within a 24 hour period.

42.3 Reinsurance risk (continued)

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

Risk Rating	Classification	Exposure $000	Exposure %
1	Minimal risk	297,972	41%
2	Low risk	420,783	59%
3	Moderate risk	-	0%
4	Acceptable risk	-	0%
5	Average risk	-	0%
6	Higher risk	-	0%
7	Special mention	-	0%
8	Substandard	-	0%
TOTAL		718,755	100%

42.4 Estimation of claim liabilities

Due to the inherent uncertainties in estimating claim liabilities described above and in note 3.5, the development of an insurer's claims in the course of settlement provides a measure of its ability to estimate the ultimate value of claims incurred. In the following tables, estimates of total ultimate claims incurred and recoverable from reinsurers for each year are provided at successive year ends. The most recent estimate is then reconciled to the recognised liability.

The disclosures are by accident year. Accident year is the financial period in which the claim is incurred.

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Amounts expressed in US $000

42.4 Estimation of claim liabilities (continued)

SAGICOR GENERAL - BY ACCIDENT YEAR	Prior years (1)	2008	2009	2010	2011	2012	Total
Estimate of gross claims incurred as of December 31	-	16,952	15,338	18,290	17,956	16,078	84,614
One year later	-	16,239	15,030	17,812	17,355		
Two years later	-	16,087	15,174	17,539			
Three years later	-	16,136	16,008				
Four years later	-	16,395					
Most recent year	-	16,395	16,008	17,539	17,355	16,078	83,375
Cumulative payments to date	-	(14,637)	(13,259)	(14,238)	(13,256)	(9,407)	(64,797)
Gross liability recognised	4,079	1,758	2,749	3,301	4,099	6,671	22,657
Net favourable (unfavourable) development	-	557	(670)	751	601	-	1,239
Estimate of reinsurers' share as of December 31	-	9,410	8,209	10,667	9,579	8,230	46,095
One year later	-	9,523	8,022	10,366	8,975		
Two years later	-	9,378	7,997	10,272			
Three years later	-	9,392	8,380				
Four years later	-	9,517					
Most recent year	-	9,517	8,380	10,272	8,975	8,230	45,374
Cumulative receipts to date	-	(8,535)	(7,020)	(8,154)	(6,994)	(4,748)	(35,451)
Total recoverable recognised from reinsurers	2,083	982	1,360	2,118	1,981	3,482	12,006
Net (favourable) unfavourable development	-	(107)	(171)	395	604	-	721

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

Amounts expressed in US $000

42.5 Sensitivity of incurred claims

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

	2012		2011	
	Claims liability	**5% increase in liability**	**Claims liability**	**5% increase in liability**
Direct property	900	45	2,797	140
Direct motor	15,896	795	14,652	733
Direct accident and liability	5,517	276	5,813	291
Reinsurance assumed	419	21	83	4
	22,732	1,137	23,345	1,168

43 INSURANCE RISK – LIFE, ANNUITY & HEALTH CONTRACTS

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

43.1 Contracts without investment returns

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

43.1 Contracts without investment returns (continued)

(a) Product design and pricing risk

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

Risks are priced to achieve an adequate return on capital on the insurer's business as a whole. In determining the pricing of an insurance contract, the insurer considers the nature and amount of the risk assumed, and recent experience and industry statistics of the benefits payable. Pricing inadequacy may arise either from the use of inadequate experience and statistical data in deriving pricing factors or from market softening conditions.

The underwriting process has established pricing guidelines, and may include specific medical tests and enquiries which determine the insurer's assessment of the risk. Insurers may also establish deductibles and coverage limits for health risks which will limit the potential claims incurred. Term life and critical illness risks have limitations of insured amounts. The pricing of a contract therefore consists of establishing appropriate premium rates, deductibles and coverage limits.

(b) Mortality and morbidity risk

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

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

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

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

Amounts expressed in US $000

43.1 Contracts without investment returns (continued)

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

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

2012 Premium revenue by location of insureds	Gross	Ceded	Net
Barbados	21,662	1,153	20,509
Jamaica	75,719	1,984	73,735
Trinidad & Tobago	19,192	396	18,796
Other Caribbean	24,072	1,472	22,600
USA	174	159	15
Total	140,819	5,164	135,655

(c) Sensitivity of incurred claims

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

	2012		2011	
	Liability	5% increase in liability	Liability	5% increase in liability
Actuarial liability	37,742	1,887	38,761	1,938
Claims payable	2,632	132	3,021	151
	40,374	2,019	41,782	2,089

43.2 Contracts with investment returns

Life and annuity insurance contracts with investment returns generally have durations of 5 or more years. The contract terms provide for the policyholder to pay either a single premium at contract inception, or periodic premiums over the duration of the contract. From the premium received, acquisition expenses and maintenance expenses are financed. Investment returns are credited to the policy and are available to fund surrender, withdrawal and maturity policy benefits. The principal risks associated with these policies are in respect of product design and pricing, mortality and longevity, lapse, expense and investment.

(a) Product design and pricing risk

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

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

(b) Mortality and longevity risk

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

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

Amounts expressed in US $000

43.2 Contracts with investment returns (continued)

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

Total insurance coverage on insurance policies provides a quantitative measure of absolute mortality risk. However, claims arising in any one year are a very small proportion in relation to the total insurance coverage provided. The total amounts insured by the Group at December 31, gross and net of reinsurance, are summarised by geographic area below.

Total insurance coverage		2012		2011	
		Individual contracts	Group contracts	Individual contracts	Group contracts
Barbados	Gross	3,218,071	1,732,691	2,971,794	1,566,161
	Net	2,861,245	1,581,292	2,602,757	1,451,511
Jamaica	Gross	6,765,112	3,676,730	6,502,180	3,798,600
	Net	6,478,833	3,676,730	6,160,337	3,779,952
Trinidad & Tobago	Gross	2,586,471	1,564,189	2,251,480	1,474,597
	Net	2,021,590	1,455,997	1,716,213	1,361,386
Other Caribbean	Gross	6,542,572	2,990,004	6,409,169	2,875,174
	Net	5,191,479	1,945,312	5,608,097	1,823,219
UK & Europe	Gross	155	-	303,766	3,031,670
	Net	155	-	142,178	2,267,343
USA	Gross	3,942,455	64,262	1,704,249	123,381
	Net	1,709,692	59,076	894,842	74,726
Total	Gross	23,054,836	10,027,876	20,142,638	12,869,583
	Net	18,262,994	8,718,407	17,124,424	10,758,137

43.2 Contracts with investment returns (continued)

(c) Lapse risk

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

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

(d) Expense risk

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

(e) Investment risk

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

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

43.3 Reinsurance risk

To limit its exposure of potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. The Group selects reinsurers which have well established capability to meet their contractual obligations and for new business a Sagicor credit risk rating of 1 or 2 is usually selected. Reinsurance ceded does not discharge the insurer's liability and failure by a reinsurer to honour its commitments could result in losses to the Group.

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

Type of insurance contract	Retention by insurers - currency amounts in thousands
Health insurance contracts with individuals	Retention per individual to a maximum of $75
Health insurance contracts with groups	Retention per individual to a maximum of $75
Life insurance contracts with individuals	Retention per individual life to a maximum of $500
Life insurance contracts with groups	Retention per individual life to a maximum of $378

43.4 Sensitivity arising from the valuation of actuarial liabilities

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

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

- the economic scenario used in CALM,
- the investments allocated to back the liabilities,
- the underlying assumptions used (note 13.3 (b) to (f)), and
- the margins for adverse deviations (note 13.3 (g)).

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

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 scenarios developed and tested by insurers were as follows.

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

Amounts expressed in US $000

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

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

	Sagicor Life Inc segment		Sagicor Life Jamaica segment		Sagicor USA segment	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Base net actuarial liability	823,715	785,729	424,308	403,926	723,137	508,715
Scenario	**increase in liability**		**increase in liability**		**increase in liability**	
Worsening rate of lapse	79,214	64,660	45,106	44,540	19,077	16,881
High interest rate	(124,698)	(94,935)	(81,408)	(75,447)	(41,925)	(28,115)
Low interest rate	160,513	132,801	120,139	111,371	48,167	32,223
Worsening mortality / morbidity	25,937	25,538	27,030	27,997	14,618	8,048
Higher expenses	26,811	26,164	18,136	19,936	4,812	2,784

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43.5 Dynamic capital adequacy testing (DCAT)

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

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

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

The purpose of the DCAT is

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

Full DCAT is conducted periodically by some insurers within the Group.

Amounts expressed in US $000

44 FIDUCIARY RISK

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

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

	2012	2011
Pension and insurance fund assets	1,318,748	1,247,709
Mutual fund, unit trust and other investment fund assets	439,731	364,749
	1,758,479	1,612,458

45 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 $1,371,876 (2011 - $1,361,659) 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.

46 CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than equity in the statement of financial position, are:

- 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.

46.1 Capital resources

The principal capital resources of the Group are as follows:

	2012	2011
Shareholders' equity	601,605	607,135
Minority interest	227,368	188,197
Notes and loans payable	241,556	232,530
Total financial statement capital resources	1,070,529	1,027,862
Letter of credit facilities, net of collateral assets	35,318	33,926
Total off financial statement resources	35,318	33,926
Total capital resources	1,105,847	1,061,788

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.

46.2 Capital adequacy

The capital adequacy of the principal operating subsidiaries is discussed in this section. That of the discontinued operation is discussed in note 38 (b).

(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. Jamaica and the USA have recognised capital adequacy standards.

The consolidated MCCSR for the Sagicor Group as of December 31 has been estimated as 250% (2011 – 269%). This is the principal standard of capital adequacy used to assess the overall strength of the Sagicor Group. However, because of the variations in capital adequacy standards across jurisdictions, the consolidated result should be regarded as applicable to the Group as a whole and not necessarily applicable to each individual segment, insurance subsidiary or insurance subsidiary branch.

46.2 Capital adequacy (continued)

(i) Sagicor Life Jamaica

Sagicor Life Jamaica is governed by the Jamaican MCCSR regime which requires an insurer to maintain a minimum ratio of 150%. For the years ended December 31, 2012 and 2011, this ratio was 163% and 160% respectively.

(ii) Sagicor Life Insurance Company (USA)

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

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

Sagicor Life Insurance Company looks to maintain at least 300% of the Company Action Level, and has maintained these ratios as of December 31, 2012 and 2011 respectively.

Amounts expressed in US $000

46.2 Capital adequacy (continued)

(b) Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited

Capital adequacy and the use of regulatory capital are monitored monthly by management employing techniques based on the guidelines developed by the Financial Services Commission (FSC), the Bank of Jamaica (BOJ), Basel II and the Risk Management and Compliance Unit. The required information is filed with the respective Regulatory Authorities at stipulated intervals. The BOJ and the FSC require each regulated entity to hold the minimum level of regulatory capital, and to maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

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 capital adequacy ratios. During 2012 and 2011, all applicable externally imposed capital requirements were complied with.

	Sagicor Investments Jamaica		Sagicor Bank Jamaica	
	2012	**2011**	**2012**	**2011**
Actual capital base to risk weighted assets	17%	21%	21%	26%
Required capital base to risk weighted assets	10%	10%	10%	10%

46.3 Financial covenants

(a) Letter of credit facilities

Financial covenants relating to letter of credit facilities are discussed in note 38(b).

46.3 Financial covenants (continued)

(b) 7.5% senior notes due 2016

Under an indenture entered into by the Group on the issue of the senior notes (see note 16), the Group has to comply with a permitted lien covenant, which will not allow the Company nor any of its subsidiaries to directly or indirectly, incur or permit to exist any lien to secure any indebtedness or any guarantee of indebtedness, other than permitted liens, without effectively providing that the senior notes are secured equitably and rateably with (or, if the obligation to be secured by the lien is subordinated in right of payment to the senior notes, prior to) the obligations so secured for so long as such obligations are so secured.

Permitted liens are liens existing on the date of issue of the senior notes, certain liens which would arise in the course of normal business, and other liens whose outstanding principal amounts in aggregate outstanding principal amount do not exceed 10% of the consolidated net tangible assets (as is defined in the indenture). As of December 31, 2012 and 2011, the Group satisfied this requirement.

(c) International Finance Corporation (IFC)

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

(i) Price protection rights

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

Amounts expressed in US $000

46.3 Financial covenants (continued)

(ii) Put option

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

47 EVENTS AFTER DECEMBER 31, 2012

47.1 The Jamaica National Debt Exchange (NDX) programme

On February 12, 2013, the Government of Jamaica (GOJ) announced a public invitation to participate in its National Debt Exchange (NDX) programme in respect of specific debt instruments. The NDX involves the voluntary exchange of the majority of existing GOJ domestic debt instruments for new debt instruments having longer maturities and lower coupon rates.

Group companies Sagicor Life Jamaica (SLJ), Sagicor Investments Jamaica Limited (SIJ) and Sagicor Bank Jamaica Limited (SBJ) have agreed to participate in the programme.

The financial impact of the exchange on total comprehensive income in 2013 and beyond is dependent on how the market prices the new notes. Assuming the fair value of the new notes is at par, there would be a negative impact on total comprehensive income.

The NDX programme also had a negative impact on SLJ's the investment yield assumption used to compute the December 31, 2012 actuarial liabilities and therefore on the SLJ segment income for 2012.

47.1 The Jamaica National Debt Exchange (NDX) programme (continued)

Details of the debt instruments exchanged initially by the Group are summarised in the following table.

	JMD denominated instruments	USD denominated instruments
Face value of instruments exchanged:	542,145	80,840
Reduction in average coupon interest rates:		
SLJ	12.49% to 11.49%	6.75% to 5.25%
SIJ and SBJ	8.28% to 7.66%	7.05% to 5.25%
Increase in average durations:		
SLJ	6.44 to 7.33 years	9.12 to 9.13 years
SIJ and SBJ	0.74 to 1.55 years	1.66 to 5.84 years

The face values of debt instruments exchanged by the Group in respect of funds under management totalled $430,904.

Subsequent to the initial exchange, the Group exchanged additional selected securities with a face value of approximately $32,000.

47.2 Credit risk ratings and letter of credit facilities

Consequent to the announcement of the Jamaica NDX programme, the Sagicor risk rating for GOJ debt instruments held has been amended from 5 to 6 (details in note 41.1) . Consequent to the change in rating of GOJ instruments, the Standard and Poor's financial strength credit rating for Sagicor Life Inc has been amended from BBB- to BB+. As a consequence, the Group is required to fully collateralize the letter of credit facility set out in note 38(b). The Company has requested and the bank has agreed to grant an extension for full collateralization until June 30, 2013 on the basis that the Company is in the process of completing the sale of Sagicor Europe Limited.

47.3 BAICO Eastern Caribbean Insurance Portfolio

Sagicor Life Inc acquired the British American Insurance Company Limited (BAICO) Eastern Caribbean insurance portfolio.

On June 29, 2012, the Judicial Managers of BAICO together with the Governments of the Eastern Caribbean Currency Union (ECCU) entered into an agreement to sell the traditional life insurance business of BAICO to Sagicor Life Inc.

The insurance portfolio being acquired by Sagicor is made up of group pensions and the following traditional life policies issued by BAICO in Anguilla, Antigua, Dominica, Grenada, Montserrat, Saint Lucia, St Kitts & Nevis, and St Vincent and the Grenadines:

- Universal Life policies
- Term Life
- Whole Life
- Endowment
- Home Service Life.

Approximately 17,500 policyholders will benefit from this agreement in which all valid and inforce life policies as at the effective date transfer to Sagicor without any amendment or change to the respective policy, allowing policyholders to benefit from the terms they historically agreed with BAICO.

All necessary approvals for the scheme of transfer from the relevant Courts and insurance regulators in The Bahamas (where BAICO is incorporated) and throughout the ECCU countries have been received and the entire business described above was formally transferred to Sagicor Life Inc. on March 15, 2013.

A recapitalisation amount representing cash equivalent to the actuarial liability for future policy benefits of the policies transferred has been established under the terms of the transfer agreement. The recapitalisation amount, which has been met by a combination of funding from BAICO and the ECCU governments, is estimated at $38,000 has been transferred to Sagicor together with the insurance policies.

47.3 BAICO Eastern Caribbean Insurance Portfolio (continued)

As consideration for the transfer, Sagicor paid BAICO a sum of $9,490, representing the Life Business Consideration of $5,600 and the value of regular policy loans within the transferred insurance portfolio.

The obligation to pay certain unpaid amounts to policyholders under these policies (being claims, maturities, surrenders and bonuses) has been assumed by Sagicor with the transfer of the insurance portfolio, and the ECCU Governments have agreed to arrange funding for the payment of these in accordance with the terms of the policies. The payment of claims will be subject to the claimant meeting the requirements of the policy terms, and signing an appropriate release.

The ECCU Governments are mindful that, during the three year period from 2009 to 2012, due to the uncertainty about BAICO's future, many policyholders may have stopped paying their premiums. In many cases, this will have resulted in them allowing their policies to lapse. The governments propose to assist holders of lapsed Home Service Life, Whole Life, Endowment and Universal Life policies by either settling forfeited policy benefits or assisting with the reinstatement of policies.

Sagicor Life Inc. is a registered insurer in all of the ECCU countries involved in the transaction. Sagicor has demonstrated its commitment to the ECCU region by:

- Agreeing to set up an ECCU Consultative Committee, to play an oversight role (including compliance, anti-money laundering, capital adequacy and corporate governance) in relation to the performance of the Business;
- Placing its ECCU business into a separate ECCU-based entity within 12 months of completion of the transaction; and
- Committing to listing at least 25% of the shares of the ECCU Entity on the Eastern Caribbean Securities Exchange within two years of its commencement of operations.

CONTRIBUTE

Every contribution moves us forward, no matter its size.

SHAREHOLDER INFORMATION

DIVIDENDS

An interim dividend of US 2 cents per common share, approved for the half-year ended June 30, 2012, was paid on November 15, 2012 to the holders of common shares, including depositary interest holders, whose names were registered on the books of the Company at the close of business on October 22, 2012. A final common dividend of US 2 cents per common share, payable on May 15, 2013, was approved for the financial year ended December 31, 2012 to the holders of common shares, including depositary interest holders, whose names were registered on the books of the Company at the close of business on April 15, 2013. The total dividend on common shares for the 2012 financial year amounted to US 4 cents per share.

An interim dividend of US 3.25 cents per convertible redeemable preference share was paid on November 15, 2012 to the holders of convertible redeemable preference shares, whose names were registered on the books of the Company at the close of business on October 22, 2012. A final dividend of US 3.25 cents per convertible redeemable preference share, payable on May 15, 2013, was approved for the financial year ended December 31, 2013 to the holders of convertible redeemable preference shares, whose names were registered on the books of the Company at the close of business on April 15, 2013. The total convertible redeemable preference dividend for the 2012 financial year amounted to US 6.50 cents per share.

SHARES

The following Shareholders own more than 5% and 3% respectively of the capital of the Company as at December 31, 2012:

	Common Shares		Convertible Redeemable Preference Shares	
	Number of Shares	Percentage	Number of Shares	Percentage
International Finance Corporation:	12,269,938	4.04%	78,339,530	65.28%
National Insurance Board, Barbados:	18,950,000	6.24%	10,000,000	8.33%
Republic Bank Limited – 1162:	10,998,300	3.62%	4,000,000	3.33%

The total number of issued shares as at December 31, 2012 and as at December 31, 2011 is set out below. No new shares were issued in 2012.

Common Shares		Convertible Redeemable Preference Shares	
As at 31-Dec-12	As at 31-Dec-11	As at 31-Dec-12	As at 31-Dec-11
303,917,020	303,917,020	120,000,000	120,000,000

LONG TERM INCENTIVE PLAN (LTI)

The Tables below show grants of restricted stock and stock options as at December 31, 2012 under the LTI for Executives.

Restricted Stock					
		As of December 31, 2012			Vested in 2012
Award Year	Value attributable to Stock Grant	Awards Made and in Effect	Vested	Not Vested	
2006 – 2008	US$ 1.98, 2.01, 2.50	1,314,920	1,314,920	0	0
2009	US$ 1.58, 2.50	1,094,845	1,064,185	30,660	1,628
2010	US$ 1.60	1,039,089	641,547	397,542	77,726
2011	US$ 1.48	1,130,448	284,455	845,993	94,246
2012	US$ 1.53	1,486,080	142,053	1,344,027	142,053
		6,065,382	3,447,160	2,618,222	315,653
		Allocated for settlement of tax			(99,478)
		Total converted to shares			216,175

Stock Options							
Award Year	Exercise Price of Stock Option	As of December 31, 2012					Vested in 2012
		Awards Made and in Effect	Vested	Exercised	Not Exercised	Not Vested	
2006	US$ 1.98	771,037	771,037	120,443	650,594	0	0
2007	US$ 2.01	1,757,294	1,757,294	72,839	1,684,455	0	0
2008	US$ 2.50	1,224,471	1,224,471	0	1,224,471	0	306,117
2009	US$ 2.50	1,493,607	1,120,206	0	1,120,206	373,401	373,402
2010	US$ 1.60	2,176,442	1,088,223	0	1,088,223	1,088,219	544,111
2011	US$ 1.48	2,605,003	651,256	0	651,256	1,953,747	651,256
2012	US$ 1.53	1,420,462	0	0	0	1,420,462	0
		11,448,316	6,612,487	193,282	6,419,205	4,835,829	1,874,886

ANALYSIS OF COMMON SHAREHOLDING

Common Shareholders by Size of Holding

Number of Common Shareholders by Size of Holding as at December 31, 2012 (with 2011 Comparison)								
Size of Holding	Number of Shareholders		Percentage of Shareholders		Total Shares Held		Percentage of Shares Held	
	2012	2011	2012	2011	2012	2011	2012	2011
1 - 1,000	6,383	6,491	17.28	17.38	3,871,773	3,943,827	1.27	1.30
1,001 - 2,500	15,285	15,439	41.39	41.33	25,365,443	25,623,946	8.35	8.43
2,501 - 5,000	7,161	7,252	19.39	19.42	24,863,373	25,176,454	8.18	8.28
5,001 - 10,000	4,148	4,180	11.23	11.19	29,640,145	29,874,915	9.75	9.83
10,001 - 25,000	2,997	3,045	8.12	8.15	43,181,562	43,882,707	14.21	14.44
25,001 - 100,000	707	701	1.91	1.88	33,569,614	33,306,340	11.05	10.96
100,001 - 1,000,000	225	223	0.61	0.60	63,776,716	63,785,367	20.98	20.99
1,000,001 & above	22	21	0.06	0.06	79,648,394	78,323,464	26.21	25.77
Total	36,928	37,352	100.00	100.00	303,917,020	303,917,020	100.00	100.00

Common Shareholders by Country of Residence

Number of Common Shareholders by Country of Residence and by Type as at December 31, 2012								
Country	Directors, Management, Staff, Advisors		Companies		Individuals		Total	
	Shareholders	%	Shareholders	%	Shareholders	%	Shareholders	%
Trinidad and Tobago	109	0.30	713	1.93	15,331	41.52	16,153	43.74
Barbados	189	0.51	276	0.75	11,675	31.62	12,140	32.87
Eastern Caribbean	25	0.07	35	0.09	7,150	19.36	7,210	19.52
Other Caribbean	14	0.04	43	0.12	167	0.45	224	0.61
Other	21	0.06	8	0.02	1,172	3.17	1,201	3.25
Total	358	0.97	1,075	2.91	35,495	96.12	36,928	100.00

Number of Common Shareholders by Country of Residence and by Type as at December 31, 2011								
Country	Directors, Management, Staff, Advisors		Companies		Individuals		Total	
	Shareholders	%	Shareholders	%	Shareholders	%	Shareholders	%
Trinidad and Tobago	82	0.22	720	1.93	15,568	41.68	16,370	43.83
Barbados	172	0.46	264	0.71	11,895	31.85	12,331	33.01
Eastern Caribbean	27	0.07	55	0.15	7,218	19.32	7,300	19.54
Other Caribbean	15	0.04	62	0.17	163	0.44	240	0.64
Other	14	0.04	45	0.12	1,052	2.82	1,111	2.97
Total	310	0.83	1,146	3.07	35,896	96.10	37,352	100.00

Common Shares held by Country of Residence

Number of Common Shares Held by Country of Residence and by Type as at December 31, 2012								
Country	Directors, Management, Staff, Advisors		Companies		Individuals		Total	
	Shares	%	Shares	%	Shares	%	Shares	%
Trinidad and Tobago	2,037,688	0.67	72,878,227	23.98	78,514,045	25.83	153,429,960	50.48
Barbados	9,141,668	3.01	40,818,555	13.43	55,506,507	18.26	105,466,730	34.70
Eastern Caribbean	64,528	0.02	487,215	0.16	20,196,355	6.65	20,748,098	6.83
Other Caribbean	1,530,253	0.50	3,899,762	1.28	598,245	0.20	6,028,260	1.98
Other	576,286	0.19	12,966,494	4.27	4,701,192	1.55	18,243,972	6.00
Total	13,350,423	4.39	131,050,253	43.12	159,516,344	52.49	303,917,020	100.00

Number of Common Shares Held by Country of Residence and by Type as at December 31, 2011								
Country	Directors, Management, Staff, Advisors		Companies		Individuals		Total	
	Shares	%	Shares	%	Shares	%	Shares	%
Trinidad and Tobago	1,776,247	0.58	71,562,431	23.55	78,752,220	25.91	152,090,898	50.04
Barbados	3,814,925	1.26	41,430,546	13.63	61,220,581	20.14	106,466,052	35.03
Eastern Caribbean	79,783	0.03	580,875	0.19	20,510,383	6.75	21,171,041	6.97
Other Caribbean	539,905	0.18	4,490,028	1.48	1,086,618	0.36	6,116,551	2.01
Other	422,326	0.14	13,358,668	4.40	4,291,484	1.41	18,072,478	5.95
Total	6,633,186	2.18	131,422,548	43.24	165,861,286	54.57	303,917,020	100.00

ANALYSIS OF CONVERTIBLE REDEEMABLE PREFERENCE SHAREHOLDING

Preference Shareholders by Size of Holding

Number of Preference Shareholders by Size of Holding as at December 31, 2012 (with 2011 Comparison)								
Size of Holding	Number of Shareholders		Percentage of Shareholders		Total Shares Held		Percentage of Shares Held	
	2012	2011	2012	2011	2012	2011	2012	2011
1 - 1,000	416	417	36.21	35.86	227,809	227,809	0.19	0.19
1,001 - 2,500	189	190	16.45	16.34	378,404	380,904	0.32	0.32
2,501 - 5,000	262	264	22.80	22.70	1,205,810	1,214,810	1.00	1.01
5,001 - 10,000	106	108	9.23	9.29	919,598	939,598	0.77	0.78
10,001 - 25,000	69	71	6.01	6.10	1,259,995	1,309,995	1.05	1.09
25,001 - 100,000	67	73	5.83	6.28	4,069,549	4,398,549	3.39	3.67
100,001 - 1,000,000	33	34	2.87	2.92	13,224,000	13,940,000	11.02	11.62
1,000,001 & above	7	417	0.61	0.52	98,714,835	97,588,335	82.26	81.32
Total	1,149	1,163	100.00	100.00	120,000,000	120,000,000	100.00	100.00

Preference Shareholders by Country of Residence

Number of Preference Shareholders by Country of Residence and by Type as at December 31, 2012								
Country	Directors, Management, Staff, Advisors		Companies		Individuals		Total	
	Shareholders	%	Shareholders	%	Shareholders	%	Shareholders	%
USA	0	0	1	0.09	1	0.09	2	0.17
Trinidad and Tobago	13	1.13	71	6.18	413	35.94	497	43.26
Barbados	41	3.57	43	3.74	566	49.26	650	56.57
Total	54	4.70	115	10.01	980	85.29	1,149	100.00

Number of Preference Shareholders by Country of Residence and by Type as at December 31, 2011								
Country	Directors, Management, Staff, Advisors		Companies		Individuals		Total	
	Shareholders	%	Shareholders	%	Shareholders	%	Shareholders	%
USA	0	0.00	1	0.09	0	0.00	1	0.09
Trinidad and Tobago	11	0.95	63	5.42	435	37.40	509	43.77
Barbados	36	3.10	41	3.53	576	49.53	653	56.15
Total	47	4.04	105	9.03	1,011	86.93	1,163	100.00

Preference Shares held by Country of Residence

Number of Preference Shares Held by Country of Residence and by Type as at December 31, 2012								
Country	Directors, Management, Staff, Advisors		Companies		Individuals		Total	
	Shares	%	Shares	%	Shares	%	Shares	%
USA	0	0	78,339,530	65.28	1,000	0.00	78,340,530	65.28
Trinidad and Tobago	615,000	0.51	14,381,007	11.98	4,779,704	3.98	19,775,711	16.48
Barbados	2,273,848	1.89	19,490,770	16.24	119,141	0.10	21,883,759	18.24
Total	2,888,848	2.41	112,211,307	93.51	4,899,845	4.08	120,000,000	100.00

Number of Preference Shares Held by Country of Residence and by Type as at December 31, 2011								
Country	Directors, Management, Staff, Advisors		Companies		Individuals		Total	
	Shares	%	Shares	%	Shares	%	Shares	%
USA	0	0.00	78,339,530	65.28	0	0.00	78,339,530	65.28
Trinidad and Tobago	663,000	0.55	12,496,307	10.41	7,200,404	6.00	20,359,711	16.97
Barbados	360,348	0.30	18,761,240	15.63	2,179,171	1.82	21,300,759	17.75
Total	1,023,348	0.85	109,597,077	91.33	9,379,575	7.82	120,000,000	100.00

COMMUNICATE

Listening and speaking are invaluable skills,
but only when used together.

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Cover Design: GREY
Layout and Artwork: GENESIS Graphics
Pre-Press and Printing: COT Media Group

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