SAGICOR FINANCIAL CORPORATION
FINANCIAL STATEMENTS
DECEMBER 31, 2005

PricewaterhouseCoopers
The Financial Services Centre
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Auditors' Report

To the Shareholders of
Sagicor Financial Corporation

We have audited the accompanying consolidated balance sheet of **Sagicor Financial Corporation** (the Company) as of December 31, 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants
April 27, 2006

SAGICOR FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEET
As of December 31, 2005

Amounts expressed in Barbados $000

	Notes	**2005**	**2004**
ASSETS			
Investment property	7	181,586	179,015
Property, plant and equipment	8	148,248	131,562
Investment in associated companies	9	50,251	24,276
Intangible assets	10	250,505	103,345
Financial investments	11	4,732,425	2,311,519
Reinsurance assets	12	696,188	109,200
Income tax assets	13	35,711	20,596
Miscellaneous assets and receivables	14	203,416	139,237
Cash resources	15	118,863	119,137
Total assets		**6,417,193**	**3,137,887**
LIABILITIES			
Policy liabilities			
Actuarial liabilities	16	2,777,231	1,485,042
Deposit administration liabilities	17	346,229	305,464
Other policy liabilities	18	364,331	333,367
		3,487,791	2,123,873
Other liabilities			
Loans payable	19	160,728	15,912
Deposit and security liabilities	20	1,440,445	85,838
Provisions	21	32,360	28,147
Income tax liabilities	22	30,958	18,073
Accounts payable and accrued liabilities	23	271,304	106,256
Total liabilities		5,423,586	2,378,099
EQUITY			
Share capital	24	458,451	432,495
Reserves	25	100,794	167,694
Retained earnings		188,304	93,079
Total shareholders' equity		747,549	693,268
Participating accounts	26	34,647	1,388
Minority interest in subsidiaries		211,411	65,132
Total equity		993,607	759,788
Total equity and liabilities		**6,417,193**	**3,137,887**

These financial statements have been approved for issue by the Board of Directors on April 27, 2006.

_______________ Director   _______________ Director

SAGICOR FINANCIAL CORPORATION
CONSOLIDATED INCOME STATEMENT
Year ended December 31, 2005

Amounts expressed in Barbados $000

	Notes	**2005**	**2004**
REVENUE			
Premium revenue		748,707	621,669
Reinsurance premium expense		(109,511)	(84,131)
Net premium revenue	27	639,196	537,538
Net investment income	28	415,415	242,928
Share of operating income of associated companies	9	3,473	9,269
Fees and other revenue	29	76,951	45,237
Gains arising on business combinations and acquisitions	38	38,946	-
Total revenue		1,173,981	834,972
BENEFITS			
Policy benefits incurred		432,380	501,053
Policy benefits reinsured		(43,340)	(167,965)
Net policy benefits incurred	30	389,040	333,088
Net increase in actuarial liabilities	16	58,680	109,115
Interest expense	31	147,869	39,006
Total benefits		595,589	481,209
EXPENSES			
Administrative expenses		214,544	154,262
Commissions and related compensation		94,961	85,405
Premium taxes		15,308	11,653
Finance costs		4,426	743
Depreciation and amortisation		25,498	21,801
Total expenses		354,737	273,864
INCOME FROM ORDINARY ACTIVITIES		223,655	79,899
Income taxes	33	(24,046)	(6,916)
NET INCOME FOR THE YEAR		**199,609**	**72,983**
NET INCOME ATTRIBUTABLE TO:			
Shareholders		136,562	67,690
Participating policyholders		25,522	(1,983)
Minority interest		37,525	7,276
		199,609	72,983
Earnings per common share – basic and diluted	35	52 cents	26 cents

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

Amounts expressed in Barbados $000

	Share capital Note 24	Reserves Note 25	Retained earnings	Par [1] accounts Note 26	Minority interest	Total
Balance, beginning of year						
As previously reported	432,495	181,513	89,049	1,388	67,858	772,303
Prior year adjustments (note 2.1 (a) (v))		(13,819)	4,030		(2,726)	(12,515)
As restated	432,495	167,694	93,079	1,388	65,132	759,788
Net gains / (losses) recognised directly in equity	-	(69,135)	-	235	(23,469)	(92,369)
Net income for the year	-	-	136,562	25,522	37,525	199,609
Total recognised gains and income for the year	-	(69,135)	136,562	25,757	14,056	107,240
Issue of shares	25,956	-	-	-	88,200	114,156
Dividends declared (note 35)	-	-	(31,600)	-	(9,026)	(40,626)
Acquisition of subsidiary and insurance business	-	-	-	-	53,049	53,049
Transfers	-	2,235	(9,737)	7,502	-	-
	25,956	(66,900)	95,225	33,259	146,279	233,819
Balance, end of year	458,451	100,794	188,304	34,647	211,411	993,607

[1] Participating

SAGICOR FINANCIAL CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended December 31, 2004

Amounts expressed in Barbados $000

	Share capital	Reserves	Retained earnings	Par [1] accounts	Minority interest	Total
	Note 24	Note 25		Note 26		
Balance, beginning of year						
As previously reported	432,495	98,323	43,317	1,222	56,289	631,646
Prior year adjustments (note 2.1 (a) (v))	-	(20,743)	4,030	-	(4,654)	(21,367)
As restated	432,495	77,580	47,347	1,222	51,635	610,279
Net gains / (losses) recognised directly in equity	-	89,358	-	(851)	14,632	103,139
Net income for the year	-	-	67,690	(1,983)	7,276	72,983
Total recognised gains and income for the year	-	89,358	67,690	(2,834)	21,908	176,122
Dividends declared (note 35)	-	-	(18,202)	-	(8,411)	(26,613)
Transfers	-	756	(3,756)	3,000	-	-
	-	90,114	45,732	166	13,497	149,509
Balance, end of year	432,495	167,694	93,079	1,388	65,132	759,788

[1] Participating

SAGICOR FINANCIAL CORPORATION
CONSOLIDATED CASH FLOW STATEMENT
Year ended December 31, 2005

Amounts expressed in Barbados $000

	Notes	**2005**	**2004**
Cash flows from operating activities			
Income from ordinary activities		223,655	79,899
Adjustments for non-cash items, interest and dividends	36	(206,466)	(71,116)
Interest and dividends received		296,905	170,590
Interest paid		(151,634)	(40,874)
Income taxes paid		(29,690)	(10,330)
Changes in operating assets	36	214,384	(238,278)
Changes in operating liabilities	36	(33,210)	132,598
Net cash from operating activities		313,944	22,489
Cash flows from investing activities			
Property, plant and equipment	36	(18,295)	(20,629)
Investment in associated companies, net		(22,232)	6,481
Intangible assets		(6,117)	(466)
Acquisition of subsidiaries and insurance businesses, net of cash and cash equivalents		(214,939)	-
Net cash used in investing activities		(261,583)	(14,614)
Cash flows from financing activities			
Dividends paid to shareholders		(31,435)	(18,202)
Shares issued to minority interest		5,554	2,170
Dividends paid to minority interest		(8,542)	(8,411)
Loans payable	36	143,994	(9,633)
Net cash from (used in) financing activities		109,571	(34,076)
Effects of exchange rate changes		(23,198)	13
Net increase (decrease) in cash and cash equivalents		138,734	(26,188)
Cash and cash equivalents, beginning of year		135,608	161,796
Cash and cash equivalents, end of year	36	274,342	135,608

SAGICOR FINANCIAL CORPORATION
INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2005

Amounts expressed in Barbados $000

1. INCORPORATION AND PRINCIPAL ACTIVITIES

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

The principal activities of the Sagicor Group are as follows:

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

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

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

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Inc	Life and health insurance, annuities and pensions	Barbados	100%
Life of Barbados Limited (1)	Life and health insurance, annuities and pensions	Barbados	100%
Life of Jamaica Limited	Life and health insurance, annuities and pensions	Jamaica	60% (2)
American Founders Life Insurance Company (3)	Life insurance, annuities and pensions	Texas, USA	100%
Sagicor Capital Life Insurance Company Limited	Life and health insurance, annuities and pensions	The Bahamas	100%
Capital Life Insurance Company Bahamas Limited	Life and health insurance, annuities and pensions	The Bahamas	100%

Amounts expressed in Barbados $000

1. INCORPORATION AND PRINCIPAL ACTIVITIES (continued)

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Capital de Seguros, SA	Life and health insurance	Panama	100%
Nationwide Insurance Company Limited	Life insurance	Trinidad & Tobago	100%
Sagicor Life of the Cayman Islands Limited	Life insurance	The Cayman Islands	60% (2)
Laurel Life Insurance Company (3)	Life insurance	Texas, USA	100%
Sagicor Allnation Insurance Company	Health insurance	Delaware, USA	100%
Cayman General Insurance Company Limited (4)	Property, casualty, health and life insurance	The Cayman Islands	31%
Sagicor General Insurance Inc	Property and casualty insurance	Barbados	53%
Sagicor Re Insurance Limited	Property and casualty insurance	The Cayman Islands	60% (2)
LOJ Holdings Limited	Insurance holding company	Jamaica	100%
Sagicor USA Inc	Insurance holding company	Delaware, USA	100%
LTE Limited (5)	Holding company	Barbados	100%
Pan Caribbean Financial Services Limited (6)	Development banking, investment and fund management services	Jamaica	66% (7)
Pan Caribbean Merchant Bank Limited (6)	Merchant banking	Jamaica	66% (7)
Sagicor Merchant Limited (8)	Merchant banking	Trinidad & Tobago	73%
GlobE Finance Inc	Loan and lease financing, and deposit taking	Barbados	51%
Sagicor Finance Inc (formerly The Mutual Finance Inc)	Loan and lease financing, and deposit taking	St. Lucia	70%

Amounts expressed in Barbados $000

1. INCORPORATION AND PRINCIPAL ACTIVITIES (continued)

Subsidiary Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Pan Caribbean Asset Management Limited [(6)]	Investment and fund management	Jamaica	66% [(7)]
Sagicor Asset Management Inc	Investment management and advisory services	Barbados	100%
The Mutual Financial Services Inc	Financial services holding company	Barbados	73%
Sagicor Funds Incorporated	Mutual fund holding company	Barbados	100%
LOJ Pooled Investment Funds Limited	Pension fund management	Jamaica	60% [(2)]
LOJ Property Management Limited	Property management	Jamaica	60% [(2)]
Sagicor International Management Services, Inc (formerly Capital International Management Services, Inc)	Management and business development services	Florida, USA	100%
Cayman National Insurance Managers Limited [(4)]	Captive insurance management services	The Cayman Islands	31%

(1) Amalgamated with Sagicor Life Inc on February 1, 2005.

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

(3) Acquired September 30, 2005.

(4) Acquired by Life of Jamaica Limited on November 30, 2005. Through control of Life of Jamaica Limited, the Group has a 51% voting interest in Cayman General Insurance Company Limited.

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

(6) Acquired January 7, 2005.

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

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

Amounts expressed in Barbados $000

1. INCORPORATION AND PRINCIPAL ACTIVITIES (continued)

The associated companies of the Group are as follows:

Associated Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
RGM Limited	Property ownership and management	Trinidad & Tobago	33%
Caribbean CariCard Services Inc [9]	Bank card processing, ATM and point-of-sale handling services	Barbados	37%
Manufacturers Credit and Information Services Limited [6]	Provision of fleet advance cards	Jamaica	16% [10]
FamGuard Corporation Limited [11]	Investment holding company	Bahamas	20%
Family Guardian Insurance Company Limited [11]	Life and health insurance and annuities	Bahamas	20%
FG General Insurance Agency Limited [11]	General insurance brokerage	Bahamas	20%
BahamaHealth Insurance Brokers and Benefit Consultants Limited [11]	Insurance brokers and benefit consultants	Bahamas	20%

[9] Caribbean CariCard Services Inc sold its operations effective July 31, 2004.

[10] A fully owned subsidiary of Pan Caribbean Financial Services Limited (PCFS) until May 31, when 75% of its interest was disposed. Through PCFS, the Group has a 25% voting interest in Manufacturers Credit and Information Services Limited.

[11] Acquired December 28, 2005.

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

2. ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

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

(a) <u>Changes in IFRS</u>

The introduction of new IFRSs and revisions to IASs affects the Group from the 2005 reporting year. These changes affect how items are presented in the financial statements, the disclosures made in the notes to the financial statements, and how certain items are accounted for.

The new standards introduced are:

IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations

Amounts expressed in Barbados $000

2. ACCOUNTING POLICIES (continued)

The standards revised are as follows:

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 19	Employee Benefits
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 28	Investments in Associates
IAS 31	Interests in Joint Ventures
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 38	Intangible Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property

These and other changes have resulted in several overall changes in presentation and in the consequential restatement of 2004 comparative amounts.

A summary of the changes significantly affecting the Group is set out below.

(i) IFRS 3 – Business Combinations, IAS 36 – Impairment of Assets, and IAS 38 – Intangible assets

The changes introduced affect the quantification of assets and liabilities acquired in a business combination, and affect the subsequent accounting for goodwill and other intangible assets.

The definition of intangible assets, other than goodwill, has been amended with the result that such assets are more readily recognised in a business combination. The impact of the change is that the recognition of separate intangible assets reduce the amount of goodwill that would hitherto have been recognised. Intangible assets are subject to either amortisation or to an annual impairment test.

Contingent liabilities are included in liabilities acquired. The impact of this change, is that the recognition of contingent liabilities will increase the amount of goodwill that would hitherto have been recognised.

Once a business combination has occurred, any subsequent increases in ownership are accounted for as a purchase of minority interest, and the excess of the consideration over the book value of the share of net assets acquired is recorded as goodwill.

Goodwill is allocated to cash generating units of the Group expected to benefit from that goodwill, it is not amortised, and it is tested annually for impairment. The impact of the change is that there is no goodwill amortisation expense in the income statement, but there is potentially an impairment expense.

2. ACCOUNTING POLICIES (continued)

(ii) Introduction of IFRS 4 – Insurance Contracts

The changes introduced by IFRS 4 affected the Group's financial statement presentation, disclosure and measurement in the following ways:

- The effect of reinsurance on all insurance assets, insurance liabilities, insurance income and insurance benefits are either presented separately or disclosed in the notes to the financial statements. Up to December 2004, the Group did not present separately or disclose effects of reinsurance on actuarial liabilities, on the benefit for the increase in actuarial liabilities, and on the provision for unearned premiums. This change affects the reported amounts for assets and liabilities respectively.
- The accounting policies for insurance contracts are more fully described in note 2.11. The Group has made no significant change in the measurement of its issued insurance policies.
- The insurance risks of the Group are more fully described in note 4.
- The techniques used to value actuarial liabilities are more fully described in notes 3.4 and 16.2, the analysis of components in the actuarial liabilities is provided in note 16, and sensitivity analysis on the actuarial liabilities is provided in note 16.

(iii) Changes to IAS 1 – Presentation of Financial Statements and IAS 27 – Consolidated and Separate Financial Statements

The revisions to these standards affected the Group's financial statement presentation and disclosure in the following ways:

- Minority interest on the balance sheet is presented within equity, and the income attributable to minority interest in the income statement is presented as an allocation of net income.
- A note entitled "critical accounting estimates and judgements" is included.

(iv) Changes to IAS 24 – Related party disclosures

The revisions to this standard have affected the identification of related parties, namely key management, and consequently the disclosures made.

(v) Changes to IAS 39 – Financial Instruments: Recognition and Measurement

Up to December 2004, the Group classified certain investments as "originated loans" (carried at amortised cost). The changes to IAS 39 have resulted in the Group reclassifying these investments as either "loans and receivables" (carried at amortised cost) or as "available for sale financial assets" (carried at fair value). In accordance with the IFRS, the change from amortised cost to fair value has been recorded retrospectively, and its effects are disclosed in the statement of equity, resulting in a reduction in the carrying values and fair value reserves at the beginning of the year of $12,515 (2004 - $21,367).

2. ACCOUNTING POLICIES (continued)

Arising from a change in the definition of “held to maturity investments”, most of the Group’s investments which were in this category have been reclassified as “loans and receivables”. This reclassification has resulted in no change in measurement of the affected investments.

(vi) IAS 38 – Intangible assets

The Group has reclassified software as an intangible asset. Formerly, software was included within property, plant and equipment.

(vii) IAS 19 – Employee Benefits

An amendment to IAS 19 now allows the option of recognising actuarial gains and losses in full in the period in which they occur, outside of the income statement, in the statement of equity. The Group does not intend to adopt this option.

2.2 Basis of consolidation

(a) Subsidiaries

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

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

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

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

2. ACCOUNTING POLICIES (continued)

(b) Investment in associated companies

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

The Group's share of its associates' post acquisition income and reserve movements are recognised in the consolidated income statement and consolidated statement of changes in equity respectively.

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.

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

(c) Joint Ventures

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

(d) Divestitures

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

(e) Pension and investment funds

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

The Group manages a number of segregated pension funds and mutual funds. These funds are legally segregated and investment returns on these funds accrue directly to unit-holders. Consequently the assets, liabilities and activity of these funds are not included in these consolidated financial statements.

2. ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation

(a) Functional and presentational currency

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

(b) Group Entities

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

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

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

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

	December 2005 closing rate	2005 average rate	December 2004 closing rate	2004 average rate
Bahamas dollar	0.50	0.50	0.50	0.50
Belize dollar	1.00	1.00	1.00	1.00
Cayman Islands dollar	0.4175	0.4175	0.4175	0.4175
Eastern Caribbean dollar	1.35	1.35	1.35	1.35
Jamaica dollar	32.1903	31.1218	30.7250	30.5794
Netherlands Antillean guilder	0.90	0.90	0.90	0.90
Trinidad & Tobago dollar	3.1493	3.1332	3.1444	3.1373
United States dollar	0.50	0.50	0.50	0.50

2. ACCOUNTING POLICIES (continued)

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

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

(c) Transactions and balances

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

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

2.4 Investment property

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

Transfers to or from investment property are recorded when there is a change in use of the property. Transfers to owner-occupied property or to real estate developed for resale are recorded at the fair value at the date of change in use. Transfers from owner-occupied property are recorded at their fair value and any difference with carrying value at the date of change in use is dealt with in accordance with note 2.5.

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

Rental income is recognised on an accruals basis.

2. ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment

Property, plant and equipment are recorded initially at cost.

Owner-occupied property is re-valued at least every three years to its fair value as determined by independent valuers. Movements in fair value are taken to the fair value reserve in equity, unless there is a net depreciation in respect of an individual property, which is then recorded in the income statement. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset. On disposal of owner-occupied property, the amount included in the reserve is transferred to retained earnings.

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

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

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

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

Asset	**Estimated useful life**
Buildings	20 to 50 years
Furnishings and leasehold improvements	10 years or lease term
Computer and office equipment	3 to 10 years
Vehicles	5 to 6 years
Leased equipment and vehicles	3 to 6 years

2.6 Intangible assets

(a) Goodwill

Goodwill (defined in note 2.2(a)) arising from an acquisition of a subsidiary or insurance business is allocated to appropriate cash generating units. A cash generating unit is determined to be the relevant subsidiary's operations in a geographical segment. Goodwill arising from an investment in an associate is included in the carrying value of the investment in associate.

2. ACCOUNTING POLICIES (continued)

From 2005, goodwill is tested annually for impairment and is carried at cost less accumulated impairment. In response to the change in accounting for goodwill, (in prior years goodwill was amortised over its estimated useful life and only tested for impairment when there was evidence of impairment), the net carrying value of goodwill at the end of 2004 is now deemed to be the cost.

(b) Other intangible assets

Other intangible assets arising on acquisitions occurring on or after March 31, 2004 are recognised only if future economic benefits attributable to the asset will flow to the Group and if the fair value of the asset can be measured reliably. In addition for the purposes of recognition, the intangible asset must be separable from the business being acquired or must arise from contractual or legal rights. Intangible assets acquired in a business combination are initially recognised at their fair value. Other intangible assets which have been acquired directly, are recorded initially at cost. On acquisition the useful life of the asset is estimated. If the estimated useful life is definite, then the cost of the asset is amortised over its life, and is tested for impairment when there is evidence of same. If the estimated useful life is indefinite, the asset is tested annually for impairment.

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

Asset	**Estimated useful life**
Customer relationships and contracts	2 - 20 years
Trade names	4 years, indefinite
Software	2 – 6 years

2.7 Financial assets

The Group classifies its financial assets into four categories:

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

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

Financial assets with fixed maturities and for which management has both the intent and ability to hold to maturity are classified as held to maturity. These assets are carried at amortised cost less provision for impairment.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are carried at amortised cost less provision for impairment.

2. ACCOUNTING POLICIES (continued)

Financial assets in the category at fair value through income include held for trading securities. An asset is classified in this category at inception if acquired principally for the purpose of selling in the short-term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking or if so designated by management. These investments are measured initially at cost and are subsequently re-measured at their fair value based on quoted prices or internal valuation techniques. Realised and unrealised gains and losses are recorded as investment income.

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

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

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

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

(a) Securities purchased under agreements to resell

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

(b) 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.

(c) Derivative financial instruments

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

2. ACCOUNTING POLICIES (continued)

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 held for trading security.

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

These assets are held in trust for the insurer and are in respect of policy liabilities ceded to reinsurers. These assets are classified as available for sale.

2.8 Real estate developed or held for resale

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

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

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

2.9 Impairment of assets

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

2.10 Cash and cash equivalents

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

2. ACCOUNTING POLICIES (continued)

2.11 Insurance and investment contracts

(a) Classification

The Group issues contracts that transfer insurance risk, financial risk or both.

Insurance contracts transfer insurance risk and may also transfer financial risk. The Group defines insurance risk if an insured event could cause an insurer to pay significant additional benefits in a scenario that has a discernable effect on the economics of the transaction.

Investment contracts are those contracts that transfer financial risk and no insurance risk (as defined above).

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

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

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

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

(b) Recognition and measurement

The main insurance and investment contracts issued by the Group are summarised below.

(i) Property and casualty insurance contracts

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

Premium revenue is recognised as earned on a pro-rated basis over the term of the respective policy coverage. The provision for unearned premiums represents the portion of premiums written relating to the unexpired terms of coverage.

2. ACCOUNTING POLICIES (continued)

Claims and loss adjustment expenses are recorded as incurred. Claim reserves represent estimates of future payments of reported and unreported claims and related expenses with respect to insured events that have occurred up to the balance sheet date. Reserving involves uncertainty and the use of informed estimates and judgements. The Group does not discount its loss reserve. The claim reserve is included in policy benefits in the course of settlement.

The Group obtains 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. Reinsurance claim recoveries are established at the time of the recording of the claim liability. Profit sharing commission due to the Group is recognised only when there is reasonable certainty of collectibility, at which time it is recorded as commission income.

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

(ii) Health insurance contracts

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

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

Claims are recorded on settlement. Reserves are recorded as described in note 2.12.

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

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

(iii) Long-term traditional insurance contracts

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

2. ACCOUNTING POLICIES (continued)

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, the contract will terminate unless an automatic premium loan is available to settle the premium.

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

Reserves for future policy liabilities are recorded as described in note 2.12.

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

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

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

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

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

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

Death benefits are recognised in policy benefits on notification. Fund withdrawals are recognised in policy benefits on receipt of the withdrawal request. Reserves for future policy liabilities are recorded as described in note 2.12.

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

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

2. ACCOUNTING POLICIES (continued)

(v) Reinsurance contracts assumed

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

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

(vi) Reinsurance contracts held

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

Reinsurance contracts held 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 actuarial liabilities on these policies.

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

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

(vii) Investment contracts – deposit administration and other investor contracts

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

Deposit administration contributions are recorded directly as liabilities. Withdrawals are deducted directly from the liability.

The interest or investment return provided is recorded as an interest expense.

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

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

Other investor contracts are valued at amortised cost and are otherwise accounted in a manner similar to deposit administration contracts. The liability in respect of other investor contracts is included under policy funds on deposit.

2. ACCOUNTING POLICIES (continued)

(viii) Investment contracts – securities sold under agreements to repurchase

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

(ix) Investment contracts – deposit liabilities

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

(c) Liability adequacy tests

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

2.12 Actuarial liabilities

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

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

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

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

2. ACCOUNTING POLICIES (continued)

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

2.13 Participating Accounts

(a) “Closed” participating fund

For participating policies of Sagicor Life Inc in force at demutualisation, Sagicor Life Inc established a closed participating fund in order to protect the guaranteed benefits and future policy dividends, bonuses and other non-guaranteed benefits of the afore-mentioned policies. The rules of this fund require that premiums, benefits, actuarial reserve movements, investment returns, expenses and taxes, attributable to the said policies, are recorded in a 'closed' participating account. Policy dividends and bonuses of the said policies are paid from the participating account on a basis substantially the same as prior to demutualisation. The fund also includes the required provisions for adverse deviations as determined in the computation of actuarial liabilities of the said policies. Changes in the provision for adverse deviations are not recorded in the participating account, but are borne by the general operations of Sagicor Life Inc.

(b) “Open” participating fund

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

On February 1, 2005, Sagicor Life Inc amalgamated with Life of Barbados Limited, and participating policies of the latter were transferred to the open participating fund. Accordingly, the liabilities of these participating policies and matching assets were transferred to the open participating fund. The liabilities transferred included provisions for adverse deviations on the transferred policies, which are accounted for in the same way as the corresponding provisions in the closed participating fund. Additional assets to support the profit distribution to shareholders (see below) were also transferred into the fund.

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

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

2. ACCOUNTING POLICIES (continued)

(c) Financial statement presentation

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

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

2.14 Borrowings

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

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

2.15 Provisions

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

2.16 Interest income and expenses

Interest income and expenses are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment securities, loans and deposits and accrued discount and premium on discounted instruments.

2.17 Fees and other revenue

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

2. ACCOUNTING POLICIES (continued)

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.

(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. A provision is recognised where there are contractual obligations or where past practice has created a constructive obligation.

2. ACCOUNTING POLICIES (continued)

(d) Equity compensation benefits

The Company and certain Group subsidiaries have in place equity-settled share-based compensation plans for their administrative, sales and managerial staff.

For equity-settled share-based compensation plans, the fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, net profit growth target) Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the statement of income, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital or minority interests when the options are exercised.

A subsidiary has in place a share purchase plan which enables its administrative and sales staff to purchase new shares of that subsidiary at a discount.

(e) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than twelve (12) months after the balance sheet date are discounted to present value.

2.19 Deferred income taxes

The Group uses the balance sheet liability method of accounting for income tax. Deferred tax assets and liabilities resulting from temporary differences are computed at tax rates that are expected to apply to the period when the asset is realised or the liability settled. Deferred tax assets are only recognised when it is probable that taxable profits will be available against which the asset may be utilised. Provision for taxes, which could arise on the remittance of retained earnings from subsidiaries, is only made where there is a current intention to remit such earnings.

2.20 Dividend distributions

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

2. ACCOUNTING POLICIES (continued)

2.21 Statutory reserves

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Impairment of financial assets

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

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

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

3.2 Recognition and measurement of intangible assets

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

3.3 Impairment of intangible assets

(a) Goodwill

The assessment of goodwill impairment involves the determination of the fair value of the cash generating business units to which the goodwill has been allocated. Determination of fair value involves the estimation of future net income 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 models on these projections to determine if there is any impairment of goodwill.

(b) Other intangible assets

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

3.4 Actuarial liabilities

(a) Canadian asset liability method (CALM)

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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

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

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

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

4. RISK MANAGEMENT

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

4.1 Credit risk

The Group takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risks are primarily associated with financial investments and reinsurance contracts held.

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

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

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

4. RISK MANAGEMENT (continued)

4.2 Foreign exchange risk

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

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

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

4.3 Interest rate risk

The Group is exposed to interest rate risk, which arises when the returns earned from invested assets are insufficient either to maintain returns or to fulfil the minimum returns within insurance and investment contract liabilities.

The return on investments may be variable, fixed for a term or fixed to maturity. On reinvestment of a matured investment, the returns available on the new investment may be significantly different from the returns formerly achieved. Guaranteed minimum returns exist within cash values of long term traditional insurance contracts, long term universal life insurance contracts, annuity options, deposit administration liabilities and policy funds on deposit. For other investment contract liabilities, returns are usually contractual. The Group is therefore exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase or decrease as a result of such changes. Interest rate changes may also result in losses if asset and liability cash flows are not closely matched with respect to timing and amount.

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

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

The Group manages its interest rate risk by a number of measures, including where feasible the selection of assets which best match the maturity of liabilities, the offering of investment contracts which match the maturity profile of assets, the re-pricing of interest rates on loans receivable, insurance contracts and investment contracts in response to market changes. In the Caribbean region, 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 the markets.

4. RISK MANAGEMENT (continued)

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

4.4 Liquidity risk

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

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

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

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

4.5 Fair values of financial assets and financial liabilities

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

The estimated fair values of financial assets and financial liabilities are based on market values of quoted securities as at December 31 where available. In assessing the fair value of non-traded financial assets and financial liabilities, the Group uses a variety of methods including obtaining dealer quotes for specific or similar instruments and the use of internally developed pricing models.

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

4.6 Insurance risk - short term insurance contracts

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

4. RISK MANAGEMENT (continued)

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

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

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

4.7 Insurance risks - long-term insurance contracts

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

For long-term contracts inforce, the Group has adopted a policy of investing in assets with cash flow characteristics that closely match the cash flow characteristics of its policy liabilities. The primary purpose of this matching is to ensure that cash flows from these assets are synchronised with the timing and the amounts of payments that must be paid to policyholders.

Policy benefits payable under long-term contracts may be triggered

- by an insurable event, i.e. a death, disability or critical illness claim;
- at a specified time, i.e. an annuity settlement or a policy maturity;
- on the exercise of a surrender or withdrawal request by the policyholder.

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

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

Amounts expressed in Barbados $000

4. RISK MANAGEMENT (continued)

4.8 Concentrations of insurance risk

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

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

Total insurance coverage on insurance policies quantify some of the risk exposures. Typically, claims arising in any one year are a very small proportion in relation to the total insurance coverage provided. The total sums assured at December 31, 2005, gross and net of reinsurance on life and property and casualty risks are summarised below.

	Gross	**Net**
Contracts issued to individuals – life insurance	24,110,493	19,631,953
Contracts issued to groups – life insurance	8,548,240	7,127,969
Property and casualty	7,893,760	3,268,676

4.9 Reinsurance risk

To limit its exposure of potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. The Group selects reinsurers which have well established capability to meet their contractual obligations and which generally have high credit ratings. The credit ratings of reinsurers are monitored.

Amounts expressed in Barbados $000

4. RISK MANAGEMENT (continued)

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

Type of insurance contract		Retention by insurers
Property and casualty insurance		
	Property risks	• maximum retention of $20,000 for a single event; • maximum retention of $10,000 for a catastrophic event; • quota share retention to maximum of 60% in respect of the treaty limits; • quota share retention is further reduced to a maximum of $1,000 per event.
	Motor and liability risks	• maximum retention of $1,000 for a single event; • treaty limits apply.
	Miscellaneous accident risks	• maximum retention of $180 for a single event; • treaty limits apply.
	Engineering business risks	• maximum retention of $300 • treaty limits apply for material damage and for liability claims.
	Marine risks	• maximum retention of $150 for a single event; • treaty limits apply.
	Property, motor, liability, and engineering risk	• catastrophic excess of loss reinsurance cover is available per event for amounts in excess of treaty limits; • treaty limits apply to catastrophic excess of loss coverage.
Health insurance contracts with individuals		Retention per individual to a maximum of $785
Health insurance contracts with groups		Retention per individual to a maximum of $200
Life insurance contracts with individuals		Retention per individual life to a maximum of $700
Life insurance contracts with groups		Retention per individual life to a maximum of $200
Life insurance and annuity blocks of contracts		0% to 37.5% retention on policy liabilities

4. RISK MANAGEMENT (continued)

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

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

Reinsurance ceded does not discharge the insurer's liability and failure by a reinsurer to honour its commitments could result in losses to the Group.

Reinsurance balances and the effects of reinsurance ceded on income are disclosed in the notes 12, 16, 18, 27 and 30.

4.10 Fiduciary activities

The Group provides investment management, administration and corporate trust services to pension and mutual funds and other corporate entities which involve the Group making allocation, purchase and sale decisions in relation to a wide range of investments. Those assets are held in a fiduciary capacity and are not included in these financial statements. These services give rise to fiduciary risk that may expose the Group to claims for mal-administration or under-performance of these funds. As of December 31, the Group administered approximately $2.4 billion (2004 - $1.5 billion) in assets on behalf of these funds.

5. STATUTORY RESTRICTIONS ON ASSETS

Insurers are registered to conduct insurance business under legislation in place in each relevant jurisdiction. This legislation may prescribe a number of requirements with respect to deposits, investment of funds and solvency for the protection of policyholders.

Banking subsidiaries may also be required to hold deposits with Central Banks which regulate the conduct of banking operations.

To satisfy the above requirements, invested assets and cash totalling $1,271 million (2004 - $1,076 million have been deposited with or are held in trust to the order of the insurance regulators.

In some countries where the Group operates, there are exchange control or other restrictions on the remittance of funds out of those countries.

Amounts expressed in Barbados $000

6. SEGMENTED INFORMATION

6.1 Geographical Segments

The Group's operations are primarily segregated by the location of the subsidiary or branch initiating the business.

	Year ended December 31, 2005				
	Total assets	Total liabilities	Total revenue	Income from ordinary activities	Total cash flows
Barbados	1,169,324	1,011,566	220,830	18,610	(9,114)
Jamaica	2,001,138	1,561,793	513,850	92,408	71,340
Trinidad & Tobago	734,358	536,615	191,558	64,341	25,104
USA	1,782,293	1,646,972	46,012	(9,970)	5,588
Other Caribbean	729,676	490,947	160,892	40,939	54,998
Not allocated to segments	404	175,693	40,839	17,327	(9,182)
	6,417,193	5,423,586	1,173,981	223,655	138,734

	Year ended December 31, 2004				
	Total assets	Total liabilities	Total revenue	Income from ordinary activities	Total cash flows
Barbados	1,113,345	934,325	214,313	28,929	(33,986)
Jamaica	523,925	399,133	292,267	46,627	13,517
Trinidad & Tobago	712,922	490,424	160,750	58,202	5,049
USA	21,784	15,740	24,341	(3,607)	(2,012)
Other Caribbean	620,959	515,570	142,993	(34,676)	13,115
Not allocated to segments	144,952	22,907	308	(15,576)	(21,871)
	3,137,887	2,378,099	834,972	79,899	(26,188)

Items not allocated to segments include balances relating to goodwill (in 2004 only), loans received to finance acquisitions and gains arising on business combinations.

Amounts expressed in Barbados $000

6. SEGMENTED INFORMATION (continued)

Significant non-cash expenses charged to income from ordinary activities comprise:

	Year ended Dec. 31, 2005		Year ended Dec. 31, 2004	
	Depreciation and Amortisation	Increase in actuarial liabilities	Depreciation and Amortisation	Increase in actuarial liabilities
Barbados	10,041	24,713	8,530	20,516
Jamaica	12,334	7,807	2,006	16,722
Trinidad & Tobago	1,106	38,575	1,256	28,758
USA	608	(1,972)	966	25,504
Other Caribbean	1,409	(10,443)	466	17,615
Not allocated to segments	-	-	8,577	-
	25,498	58,680	21,801	109,115

Other significant cash expenditures comprise:

	Year ended Dec. 31, 2005		Year ended Dec. 31, 2004	
	Property, plant and equipment	Intangible assets	Property, plant and equipment	Intangible assets
Barbados	17,002	2,539	16,348	420
Jamaica	3,819	3,578	3,636	46
Trinidad & Tobago	666	-	7,011	-
USA	668	-	-	-
Other Caribbean	1,710	-	1,918	-
Not allocated to segments	-	-	-	-
	23,865	6,117	28,913	466

Amounts expressed in Barbados $000

6. SEGMENTED INFORMATION (continued)

Included in the first two tables above are amounts relating to associated companies which each conduct business primarily in one geographical segment. Total assets and income for the associates consolidated in these financial statements are as follows:

	Year ended Dec. 31, 2005		Year ended Dec. 31, 2004	
	Total assets	Income from ordinary activities	Total assets	Income from ordinary activities
Barbados	253	40	2,113	5,525
Jamaica	507	68	133	-
Trinidad & Tobago	24,775	3,365	22,030	3,744
Other Caribbean	24,716	-	-	-
	50,251	3,473	24,276	9,269

6.2 Business segments

The Group's business segments are defined by the grouping of products and services of a similar nature. Total assets and total revenue for the principal business segments are as follows:

	Year ended December 31, 2005	
	Total assets	Total revenue
Life insurance, health insurance and annuities business from contracts issued to individuals	4,009,674	609,367
Life insurance, health insurance and pensions business from contracts issued to groups	787,811	279,147
Property and casualty insurance	198,343	46,963
Banking and other financial services	1,420,961	197,665
Not allocated to segments	404	40,839
	6,417,193	1,173,981

Amounts expressed in Barbados $000

6. SEGMENTED INFORMATION (continued)

	Year ended December 31, 2004	
	Total assets	**Total revenue**
Life insurance, health insurance and annuities business from contracts issued to individuals	2,097,416	533,182
Life insurance, health insurance and pensions business from contracts issued to groups	556,164	240,369
Property and casualty insurance	195,109	32,344
Banking and other financial services	144,246	28,769
Not allocated to segments	144,952	308
	3,137,887	834,972

7. INVESTMENT PROPERTY

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

	2005	**2004**
Balance, beginning of year	179,015	151,523
Additions at cost	8,873	15,605
Transfer to real estate developed for resale	(5,849)	-
Transfer from property, plant & equipment	-	7,258
Disposals	(336)	(1,824)
Appreciation in fair values	1,710	6,892
Effects of exchange rate changes	(1,827)	(439)
Balance, end of year	181,586	179,015

Investment property includes $43,552 (2004 - $43,977) which represents the Group’s proportionate interest in the partnerships and joint ventures set out below.

Amounts expressed in Barbados $000

7. INVESTMENT PROPERTY (continued)

Description of property	Percentage owned by the Group
Barbados:	
Land at Fort George Heights, Upton, St Michael	**50%**
Land at Plum Tree, St Thomas	**50%**
Trident House Properties, Lower Broad Street, Bridgetown	**33%**
Financial Services Centre, Bishop's Court Hill, St Michael	**50%**
United Nations House, Marine Gardens, Christ Church	**25%**
BET Building, Wildey, St Michael	**10%**
Belize:	
Belize Insurance Centre, North Front Street, Belize City	**50%**
Grenada:	
The Mutual / Trans-Nemwil Office Complex, The Villa, St George's	**50%**
Trinidad & Tobago:	
Ernst & Young Building, Sweet Briar Road, Port-of-Spain	**60%**

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

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

	2005	2004
Cash, miscellaneous assets and receivables	4,830	5,304
Other funding instruments, accounts payable an accrued liabilities	553	1,647
Revenue	3,588	4,737
Expenses	221	1,586

Amounts expressed in Barbados $000

8. PROPERTY, PLANT AND EQUIPMENT

	Year ended December 31, 2005				
	Owner-occupied properties	**Furnishings & leasehold improvements**	**Office equipment & software**	**Vehicles**	**Total assets for internal use**
Net book value, beginning of year	88,270	6,939	15,688	4,576	115,473
Additions at cost	539	5,333	6,339	1,332	13,543
Additions arising from acquisitions	-	2,113	7,216	281	9,610
Disposals	(819)	(2,349)	(191)	(270)	(3,629)
Appreciation in fair values	4,896	-	-	-	4,896
Depreciation charge	(1,380)	(1,886)	(5,413)	(1,749)	(10,428)
Effects of exchange rate changes	(243)	(114)	(553)	(32)	(942)
Net book value, end of year	91,263	10,036	23,086	4,138	128,523
Represented by:					
Cost or valuation	91,980	31,629	67,914	9,347	200,870
Accumulated depreciation	(717)	(21,593)	(44,828)	(5,209)	(72,347)
	91,263	10,036	23,086	4,138	128,523

Amounts expressed in Barbados $000

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	Year ended December 31, 2005		
	Leased vehicles & equipment	Total assets for internal use	Total
Net book value, beginning of year	16,089	115,473	131,562
Additions at cost	10,322	13,543	23,865
Additions arising from acquisitions	-	9,610	9,610
Disposals	(2,094)	(3,629)	(5,723)
Appreciation in fair values	-	4,896	4,896
Depreciation charge	(4,592)	(10,428)	(15,020)
Effects of exchange rate changes	-	(942)	(942)
Net book value, end of year	19,725	128,523	148,248
Represented by:			
Cost or valuation	28,318	200,870	229,188
Accumulated depreciation	(8,593)	(72,347)	(80,940)
	19,725	128,523	148,248

Amounts expressed in Barbados $000

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	Year ended December 31, 2004				
	Owner-occupied properties	Furnishings & leasehold improvements	Computer & office equipment	Vehicles	Total assets for internal use
Net book value, beginning of year	89,574	7,359	12,333	3,972	113, 238
Additions at cost	7,167	1,373	7,635	2,179	18,354
Disposals	(5,758)	(8)	(179)	(113)	(6,058)
Disposals arising from divestitures	-	(10)	(12)	-	(22)
Appreciation in fair values	6,492	-	269	-	6,761
Transfer to investment properties	(7,258)	-	-	-	(7,258)
Depreciation charge	(1,688)	(1,693)	(4,351)	(1,449)	(9,181)
Effects of exchange rate changes	(259)	(82)	(7)	(13)	(361)
Net book value, end of year	88,270	6,939	15,688	4,576	115,473
Represented by:					
Cost or valuation	89,254	26,163	52,250	8,796	176,463
Accumulated depreciation	(984)	(19,224)	(36,562)	(4,220)	(60,990)
	88,270	6,939	15,688	4,576	115,473

Amounts expressed in Barbados $000

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	Year ended December 31, 2004		
	Leased vehicles & equipment	Total assets for internal use	Total
Net book value, beginning of year	10,482	113,238	123,720
Additions at cost	10,559	18,354	28,913
Disposals	(1,532)	(6,058)	(7,590)
Disposals arising from divestitures	-	(22)	(22)
Appreciation in fair values	-	6,761	6,761
Transfer to investment properties	-	(7,258)	(7,258)
Depreciation charge	(3,420)	(9,181)	(12,601)
Effects of exchange rate changes	-	(361)	(361)
Net book value, end of year	16,089	115,473	131,562
Represented by:			
Cost or valuation	21,644	176,463	198,107
Accumulated depreciation	(5,555)	(60,990)	(66,545)
	16,089	115,473	131,562

Amounts expressed in Barbados $000

9. INVESTMENT IN ASSOCIATED COMPANIES

	2005	**2004**
Investment, beginning of year	24,276	21,414
Additions	25,702	-
Operating income *(see below)*	3,473	9,269
Income taxes	(16)	159
Dividends paid	(3,102)	(6,481)
Effects of exchange rate changes	(82)	(85)
Investment, end of year	50,251	24,276

The Group's associated company, Caribbean CariCard Services Inc (CariCard) sold its operations effective July 31, 2004. The net assets sold, consideration received and gain are as follows:

	2004
Net assets sold	2,547
Consideration received	12,947
Total gain on sale	10,400
Gain included in operating income above	5,200

$1,404 of the above gain is attributable to the minority interest.

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

	2005	**2004**
Total assets	447,823	145,638
Total liabilities	284,502	108,246
Total revenue	34,099	47,972
Net income for the year	10,321	22,580

Amounts expressed in Barbados $000

10. INTANGIBLE ASSETS

	Year ended December 31, 2005				
	Goodwill	**Customer relation-ships**	**Trade names**	**Software**	**Total**
Net book value, beginning of year	100,124	-	-	3,221	103,345
Assumed on acquisitions	-	-	-	834	834
Additions:					
PCFS (note 38.1)	5,814	63,798	15,212	-	84,824
EBA (note 38.2)	12,770	37,418	-	106	50,294
First Life (note 38.3)	-	3,856	-	-	3,856
Laurel Life (note 38.4)	1,965	724	-	-	2,689
Cayman General (note 38.5)	1,478	9,394	2,093	2,250	15,215
Other	-	-	-	6,117	6,117
Amortisation charge	-	(4,625)	(3,803)	(2,050)	(10,478)
Effects of exchange rate changes	(1,801)	(3,673)	(453)	(264)	(6,191)
Net book value, end of year	120,350	106,892	13,049	10,214	250,505
Represented by:					
Cost:	120,350	111,366	16,726	15,041	263,483
Accumulated amortisation	-	(4,474)	(3,677)	(4,827)	(12,978)
	120,350	106,892	13,049	10,214	250,505

Amounts expressed in Barbados $000

10. INTANGIBLE ASSETS (continued)

	Year ended December 31, 2004		
	Goodwill	**Software**	**Total**
Net book value, beginning of year	109,259	3,428	112,687
Additions	-	466	466
Amortisation charge	(8,554)	(645)	(9,199)
Effects of exchange rate changes	(581)	(28)	(609)
Net book value, end of year	100,124	3,221	103,345
Represented by:			
Cost:	170,521	5,007	175,528
Accumulated amortisation	(70,397)	(1,786)	(72,183)
	100,124	3,221	103,345

Goodwill has been allocated to the following geographical segments.

	Goodwill			
	Allocation, beginning of year	**Additions**	**Effects of exchange rate changes**	**Balance, end of year**
Barbados	45,266	-	-	45,266
Jamaica	23,355	18,584	(1,704)	40,235
Trinidad & Tobago	9,840	-	-	9,840
USA	-	1,965	-	1,965
Other Caribbean	21,663	1,478	(97)	23,044
	100,124	22,027	(1,801)	120,350

Amounts expressed in Barbados $000

10. INTANGIBLE ASSETS (continued)

The recoverable amount of a cash generating unit is based on its value in use. These calculations use income projections prepared by management for the next three years. Projections beyond three years are extrapolated using the estimated discount factors and growth rates set out below.

	2005	
	Discount factor	**Residual growth rate**
Barbados	12.00%	6.00%
Jamaica	21.00%	8.00%
Trinidad & Tobago	12.00%	6.00%
USA	8.91%	5.00%
Other Caribbean	10.00%, 12.00%	4.00%, 6.00%

Amounts expressed in Barbados $000

11. FINANCIAL INVESTMENTS

11.1 Analysis of financial investments

	2005 Carrying Value	2005 Fair Value	2004 Carrying Value	2004 Fair value
Held to maturity securities:				
Debt securities	43,260	47,215	50,080	50,221
Available for sale securities:				
Debt securities	2,308,667	2,308,667	293,292	293,292
Equity securities	396,752	396,752	453,456	453,456
	2,705,419	2,705,419	746,748	746,748
Securities at fair value through income:				
Debt securities	150,884	150,884	130,380	130,380
Equity securities	43,261	43,261	38,922	38,922
	194,145	194,145	169,302	169,302
Loans and receivables:				
Debt securities	637,886	668,822	582,946	584,983
Mortgage loans	420,600	419,406	355,050	355,050
Policy loans	254,993	254,993	143,639	143,639
Finance loans and finance leases	235,133	235,133	61,549	61,549
Securities purchased under agreements to resell	69,029	69,029	30,179	30,179
Deposits	171,960	171,960	172,026	172,026
	1,789,601	1,819,343	1,345,389	1,347,426
Total financial investments	4,732,425	4,766,122	2,311,519	2,313,697

Amounts expressed in Barbados $000

11. FINANCIAL INVESTMENTS (continued)

Debt securities comprise:

	2005	2004
Government debt securities	1,943,775	841,893
Corporate debt securities	612,692	200,662
Collateralised mortgage obligations	475,636	-
Other securities	108,594	14,143
	3,140,697	1,056,698

Debt securities include $12,733 (2004 - $8,285) that contain options to convert to common shares of the issuer.

Corporate debt securities include:

(i) convertible loans totalling $1,548 (2004 - $1,718) issued to the Group by an associated company. These loans can be converted into equity or bonds issued by the associated company.

(ii) $25,598 (2004 - $21,884) in bonds issued by an associated company.

Equity securities include $12,526 (2004 - $11,834) in mutual funds managed by the Group.

Policy loans include $89,900 (2004 – nil) in assets held as reinsurers' share of actuarial liabilities. The Group earns no income on these assets.

Amounts expressed in Barbados $000

11. FINANCIAL INVESTMENTS (continued)

11.2 Pledged assets

Debt securities include $82,330 (2004 – nil) held in trust supporting reinsurance liabilities assumed. The Group manages these investments and bears the investment risk.

Debt and equity securities include $55,749 (2004 - $45,875) as collateral for loans payable.

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

Debt securities are pledged as collateral under repurchase agreements with customers and other financial institutions and for security relating to overdraft and other facilities with other financial institutions. As of December 31, 2005, these pledged assets totalled $904,302 (2004 - $309). Of these assets pledged as security $394,706 (2004 – nil) represent collateral for securities sold under agreements to repurchase in instances when the transferee has the right by contract or by custom to sell or re-pledge the collateral.

11.3 Significant concentrations

	2005	2004
Debt securities:		
Government of Jamaica	1,322,041	351,707
Federal government of USA and its agencies	576,354	5,864
Government of Barbados	208,154	161,241
Government of Trinidad & Tobago	86,086	125,022
Equity securities:		
RBTT Financial Holdings Limited	42,081	122,336
Securities purchased under agreements to resell:		
Government of Jamaica	68,863	30,127

Amounts expressed in Barbados $000

11. FINANCIAL INVESTMENTS (continued)

11.4 Effective interest rates

	2005	2004
Debt securities	8.7%	11.5%
Mortgage loans	7.1%	8.9%
Policy loans	11.0%	10.2%
Finance loans and finance leases	12.9%	11.9%
Securities purchased under agreements to resell	7.3%	10.9%
Deposits	7.2%	5.3%

11.5 Maturity profiles

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

Amounts expressed in Barbados $000

11. FINANCIAL INVESTMENTS (continued)

	December 31, 2004			
	Repayable within one year	Repayable between one and five years	Repayable after five years	Total
Debt securities	149,615	247,280	659,803	1,056,698
Mortgage loans	14,989	44,004	296,057	355,050
Finance loans and finance leases	4,964	43,118	13,467	61,549
Securities purchased under agreements to resell	30,179	-	-	30,179
Deposits	152,848	17,123	2,055	172,026
	352,595	351,525	971,382	1,675,502

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

11.6 Returns accruing to the benefit of contract-holders

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

	2005	2004
Debt securities	393,382	149,234
Equity securities	35,520	29,579
Mortgage loans	224,806	82,074
Securities purchased under agreements to resell	6,706	7,003
Deposits	45,660	959
	706,074	268,849

Amounts expressed in Barbados $000

11. FINANCIAL INVESTMENTS (continued)

11.7 Allowances for impairment losses

	2005	2004
Mortgage loans	5,222	7,839
Debt securities	14,826	8,530
Finance loans and finance leases	5,710	3,009
	25,758	19,378

Interest of $3,645 (2004 $3,481) has been accrued on impaired financial investments.

12. REINSURANCE ASSETS

	2005	2004
Reinsurers' share of actuarial liabilities (note 16.1)	605,995	2,889
Claim recoveries from reinsurers (note 18)	44,396	92,912
Unearned premiums ceded to reinsurers (note 18.3)	33,289	13,399
Other	12,508	-
	696,188	109,200

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

	2005	2004
Reinsurers' share of actuarial liabilities and claim recoveries from reinsurers include the following significant balances:		
Scottish Re (U.S.) Inc (rated A- Excellent by A.M. Best)	366,900	-
Washington National Insurance Company (rated B++ Very Good by A.M. Best)	211,532	-
AON Re	6,783	74,265

13. INCOME TAX ASSETS

	2005	2004
Deferred income tax assets (note 34)	8,226	8,037
Income and withholding taxes recoverable	27,485	12,559
	35,711	20,596

Amounts expressed in Barbados $000

14. MISCELLANEOUS ASSETS AND RECEIVABLES

	2005	2004
Pension plan assets (note 32.2)	2,723	2,191
Real estate developed or held for resale	23,498	15,293
Premiums in the course of collection	52,517	32,770
Amounts due from managed funds	10,722	1,680
Other accounts receivable	113,956	87,303
	203,416	139,237

Real estate developed for resale includes $8,611 which is expected to be realised after one year.

Real estate developed for resale includes $4,628 (2004 - $8,268) which represents the Group's proportionate interest in the joint ventures set out below.

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

15. CASH RESOURCES

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

	2005	2004
FirstCaribbean International Bank	72,440	45,209

Amounts expressed in Barbados $000

16. ACTUARIAL LIABILITIES

16.1 Analysis of actuarial liabilities

	2005	2004
(a) Contracts issued to individuals:		
Life - participating polices	539,382	450,120
Life and annuity - non-participating policies	1,673,880	675,174
Health	7,192	5,988
Unit linked funds	169,151	174,102
Reinsurance contracts held	18,910	9,451
	2,408,515	1,314,835
(b) Contracts issued to groups:		
Life	54,704	8,383
Annuities	282,565	139,200
Health	31,447	22,624
	368,716	170,207
Total actuarial liabilities	2,777,231	1,485,042

The following notes are in respect of the above:

- Life includes insurance coverage for disability and critical illness.
- Actuarial liabilities include $368,271 (2004 - $6,472) in assumed reinsurance.
- Liabilities for reinsurance contracts held occur because the reinsurance premium costs exceed the mortality costs assumed in determining the gross liability of the policy.

Amounts expressed in Barbados $000

16. ACTUARIAL LIABILITIES (continued)

The above liabilities include the following amounts which are recoverable from reinsurers:

	2005	2004
(a) Contracts issued to individuals:		
Life - participating polices	6,302	-
Life and annuity - non-participating policies	483,188	-
Health	2,666	344
	492,156	344
(b) Contracts issued to groups:		
Life	7,157	2,138
Annuities	106,428	-
Health	254	407
	113,839	2,545
Total reinsurers' share of actuarial liabilities (note 12)	605,995	2,889

16.2 Assumptions

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

At each date for valuation of actuarial liabilities, the Appointed Actuary (AA) of each insurer reviews the assumptions made at the last valuation date. The AA tests the validity of each assumption by reference to current data, and where appropriate, changes the assumptions for the current valuation.

A similar process of review and assessment is conducted in the determination of margins for adverse deviations.

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

Amounts expressed in Barbados $000

16. ACTUARIAL LIABILITIES (continued)

(b) Assumptions for mortality and morbidity

For the 2005 valuation, insurers (with the exception of American Founders Life Insurance Company) conducted studies of their own recent mortality experience. Studies were conducted by combining data in some geographic segments to create a credible mortality table. The combined experience was measured against an industry standard (CIA 86-92) and the combined experience resulted in a modification of the probabilities of death by policy duration. Appropriate modification factors were selected and applied to underwritten and non-underwritten business respectively in the actuarial valuation. Annuitant mortality was determined by reference to established scales.

American Founders Life Insurance Company has relied upon industry studies and other sources to develop its mortality assumptions for its life insurance and annuity contracts.

Assumptions for morbidity are determined after taking into account insurer and industry experience.

(c) Assumptions for lapse

Lapse studies were performed by insurers for the 2005 valuation, to determine the most recent experience of persistency. Appropriate rates of termination by policy duration were determined and applied in the actuarial valuation.

(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 valuation date, all investments, except policy loans, are reinvested in long-term, default free government bonds. In accordance with revisions in actuarial practice standards, for the 2005 valuation, policy loans are assumed to be held beyond twenty years, as long as the current level of policy loans is in line with investment strategy.

The ultimate rate of return (URR) is the assumed rate that will ultimately be earned on government bonds and is as follows:

Geographical segment	URR
Barbados	4.75%
Jamaica	7.00%
Trinidad & Tobago	5.75%
USA	4.00 – 4.25%
Other Caribbean	4.75 - 5.25%

Amounts expressed in Barbados $000

16. ACTUARIAL LIABILITIES (continued)

(e) Assumptions for operating expenses and taxes

New business and maintenance expense costs for long-term business are measured and monitored by each insurer. These costs were updated for the 2005 valuation, were computed on a per policy basis, and were reflected in the actuarial valuation after adjusting for expected inflation.

(f) Asset defaults

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

(g) Margins for adverse deviations

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

Provisions for adverse deviations	**2005**	**2004**
Mortality and morbidity	48,536	37,927
Lapse	34,406	24,021
Investment yields and asset default	136,517	41,627
Operating expenses and taxes	25,969	18,955
	245,428	122,530

(h) Supplemental benefits

Further harmonisation between insurers in the valuation of supplemental benefits has been effected in 2005. The valuation is based on the specific cash flows associated with these benefits.

(i) Health insurance

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

Amounts expressed in Barbados $000

16. ACTUARIAL LIABILITIES (continued)

16.3 Movement in actuarial liabilities and changes in assumptions

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

	2005	2004
Balance, beginning of year	1,485,042	1,380,741
Liabilities assumed on acquisitions	1,254,825	-
Changes in net inforce, assumptions and actuarial modelling	(57,472)	88,103
Changes in provisions for adverse deviations	109,885	21,360
Effect of exchange rate changes	(15,049)	(5,162)
Balance, end of year	2,777,231	1,485,042

The movement in actuarial liabilities includes the following amounts which are recoverable from reinsurers:

	2005	2004
Balance, beginning of year	2,889	2,541
Liabilities assumed on acquisitions	609,373	-
Change during the year	(6,267)	348
Balance, end of year (note 12)	605,995	2,889

The net increase in actuarial liabilities charged to income is as follows:

	2005	2004
Changes in net inforce, assumptions and actuarial modelling	(57,472)	88,103
Change in reinsurance recoverable	6,267	(348)
Changes in provisions for adverse deviations	109,885	21,360
	58,680	109,115

Components of the net increase in actuarial liabilities have been estimated using Policy Premium Method equivalents. Because the process of changes in assumptions is applied to all affected insurance contracts, changes in assumptions and in actuarial modelling may have a significant effect in the period in which they are recorded. The introduction of a margin on equity securities and real estate supporting policy liabilities was the only change in assumptions and actuarial modelling which represented more than 5% of actuarial liabilities at the beginning of the year. The impact of this change on the actuarial liabilities was an approximate increase of $76,400 but was offset by other changes in assumptions and actuarial modelling. In summary, the components of the net change in actuarial liabilities are as follows:

16. ACTUARIAL LIABILITIES (continued)

	2005
Normal increase in liabilities	141,223
Effect of changes in assumptions and actuarial modelling	(82,543)
	58,680

16.4 Sensitivity analysis

(a) Sensitivity arising from the valuation of actuarial liabilities

The valuation of actuarial liabilities is sensitive to:

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

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

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

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

- Operating expenses and taxes
- Lapse
- Mortality and morbidity

(b) Dynamic capital adequacy testing (DCAT)

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

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

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

16. ACTUARIAL LIABILITIES (continued)

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.

Specific scenarios tested and the resulting impact on insurers are as follows.

(i) Worsening rate of lapse. For products which produce higher valuation reserves with an increase in lapse rates, the scenario lapse rates were increased. For products which produce higher valuation reserves with a decrease in lapse rates, the scenario lapse rates were reduced. Overall, this scenario produces adverse results.

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

(iii) Low interest rate. An assumed decrease in portfolio rate of 0.25% for 5 years (LOJ -1% per year for 5 years) was tested in this scenario. Overall, this scenario produces adverse results.

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

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

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

Certain insurers in the Group conducted DCAT as of December 31, 2005. In each instance, the AA concluded that the financial condition of the insurer is satisfactory under the DCAT procedures. The insurers were as follows:

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

Amounts expressed in Barbados $000

16. ACTUARIAL LIABILITIES (continued)

These insurers have net actuarial liabilities totalling $1,520,235 or 70% of the Group total.

The following table represents the estimated sensitivity of each of the above scenarios to net actuarial liabilities one year from balance sheet date.

	(i)	(ii)	(iii)	(iv)	(v)
Scenario	**Worsening rate of lapse**	**High interest rate**	**Low interest rate**	**Worsening mortality / morbidity**	**Higher expenses**
(Increase) / decrease in liability	(38,033)	328,625	(176,423)	(63,408)	(54,397)

17. DEPOSIT ADMINISTRATION LIABILITIES

The movement in deposit administration liabilities for the year is as follows:

	2005	2004
Balance, beginning of year	305,464	292,217
Liabilities assumed on acquisition	25,458	-
Contributions received	28,376	28,904
Interest expense	24,617	22,569
Payments and withdrawals	(32,541)	(35,369)
Expenses	(2,014)	(2,232)
Effects of exchange rate changes	(3,131)	(625)
Balance, end of year	346,229	305,464

Deposit administration liabilities represent balances which are long term in nature and for which, most are expected to be settled after one year.

Amounts expressed in Barbados $000

18. OTHER POLICYHOLDER LIABILITIES

	2005	2004
Policy funds on deposit	202,231	153,645
Policy benefits in the course of settlement	102,547	144,086
Provision for unearned premiums	56,967	35,636
Unearned reinsurance commissions	2,586	-
	364,331	333,367

18.1 Policy funds on deposit

Policy funds on deposit comprise:

	2005	2004
Investment contracts	85,546	61,127
Dividends on deposit – participating policies	108,283	85,427
Other policy balances	8,402	7,091
	202,231	153,645

The effective interest rate and contractual maturity profile of policy funds on deposit are as follows:

	2005	2004
Effective interest rate	5.3%	8.0%
Contractual maturity profile:		
Repayable on demand or within one year	163,047	132,414
Repayable between one and five years	20,201	18,461
Repayable after five years	18,983	2,770
	202,231	153,645

Amounts expressed in Barbados $000

18. OTHER POLICYHOLDER LIABILITIES (continued)

18.2 Policy benefits in the course of settlement

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

Policy benefits in the course of settlement comprise:

	2005	2004
Death and disability claims	52,137	40,483
Maturities	8,258	7,290
Health claims	1,140	1,683
Property and casualty claims	36,581	91,066
Other	4,431	3,564
	102,547	144,086

Health claims include $315 (2004-$922) in provisions for claims incurred but not yet reported.
Property and casualty claims include $1,695 (2004 –$1,984) in provisions for claims incurred but not yet reported.

The associated reinsurance recoveries from benefits in the course of settlement are in respect of:

	2005	2004
Death and disability claims	20,283	16,451
Health claims	851	640
Property and casualty claims	23,168	75,821
Other	94	-
Total (note 12)	44,396	92,912

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

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

	2005	2004
Balance, beginning of year	144,086	58,972
Balance assumed on acquisitions	33,022	-
Policy benefits incurred	432,380	492,219
Policy benefits paid	(505,028)	(406,760)
Effect of exchange rate changes	(1,913)	(345)
Balance, end of year	102,547	144,086

Amounts expressed in Barbados $000

18. OTHER POLICYHOLDER LIABILITIES (continued)

The movement in policy benefits in the course of settlement includes the following amounts which are recoverable from reinsurers.

	2005	2004
Balance, beginning of year	92,912	26,894
Balance assumed on acquisitions	10,263	-
Policy benefits reinsured	43,340	167,965
Reinsurance claim recoveries	(101,238)	(101,909)
Effect of exchange rate changes	(881)	(38)
Balance, end of year (note 12)	44,396	92,912

18.3 Provision for unearned premiums

(a) <u>Analysis of provision for unearned premiums</u>

The provision for unearned premiums arises from:

	2005	2004
Property and casualty insurance	53,857	25,940
Health insurance	3,110	9,696
	56,967	35,636

The associated unearned premiums ceded to reinsurers are in respect of:

	2005	2004
Property and casualty insurance	33,289	13,399
Total (note 12)	33,289	13,399

(b) <u>Movement in provision for unearned premiums</u>

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

	2005	2004
Balance, beginning of year	35,636	28,246
Balance assumed on acquisitions	21,131	-
Premiums written	99,869	90,028
Premium revenue	(97,931)	(82,620)
Effect of exchange rate changes	(1,738)	(18)
Balance, end of year	56,967	35,636

Amounts expressed in Barbados $000

18. OTHER POLICYHOLDER LIABILITIES (continued)

The movement in unearned premiums ceded to reinsurers is as follows:

	2005	2004
Balance, beginning of year	13,399	10,699
Balance assumed on acquisitions	15,003	-
Reinsurance on premiums written	38,207	31,248
Reinsurance premium expense	(33,147)	(28,548)
Effect of exchange rate changes	(173)	-
Balance, end of year (note 12)	33,289	13,399

19. LOANS PAYABLE

	2005	2004
US$ bank loan secured by shares in certain subsidiaries and by the guarantee of another subsidiary, repayable 2006	116,427	-
US$ bank loan secured by portfolio of investment securities (note 11.2), repayable 2006 – 2010	34,268	-
US$ bank loan secured by portfolio of investment securities (note 11.2), repayable 2006 and bears interest at 6%	10,000	-
US$ bank loan secured by bankers' guarantee, repayable 2004 – 2005	-	10,714
US$ bank loan secured by portfolio of investment securities, repayable 2004 – 2005	33	5,198
	160,728	15,912

Unless stated above, the interest rates on the above loans float based on either the 3 month or the 6 month LIBOR. The carrying value of these loans therefore approximates their fair value. The effective interest rate and maturity profile of loans payable are as follows:

	2005	2004
Effective interest rate	4.9%	3.4%
Maturity profile:		
Repayable within one year	132,168	9,496
Repayable between one and five years	28,560	6,416
	160,728	15,912

Amounts expressed in Barbados $000

20. DEPOSIT AND SECURITY LIABILITIES

Deposit and security liabilities represent sources of funds for on-lending, leasing and portfolio investments.

	2005	2004
Other funding instruments:		
Loans for mortgage financing (market value $250,792)	252,704	-
Loans for development financing (market value $31,042)	31,042	-
Loans from commercial banks (market value $12,496)	12,496	1,475
Deposits:		
Customer deposits	227,504	74,064
Securities:		
Securities sold under agreements to repurchase	907,987	-
Bank overdrafts	8,712	10,299
Total deposit and security liabilities	1,440,445	85,838

The loans for mortgage financing have been obtained from the Federal Home Loan Bank (FHLB).

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

Un-disbursed facilities in respect of other funding instruments and bank overdrafts total approximately $6,054 (2004 – nil).

(a) Effective interest rates

	2005	2004
Other funding instruments	5.9%	8.9%
Deposits	7.3%	5.8%
Securities	10.0%	-

Amounts expressed in Barbados $000

20. DEPOSIT AND SECURITY LIABILITIES (continued)

(b) Maturity profiles

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

	2004			
	Repayable within one year	Repayable between one and five years	Repayable after five years	Total
Other funding instruments	163	1,045	267	1,475
Deposits	37,926	36,106	32	74,064
Bank overdrafts	10,299	-	-	10,299
	48,388	37,151	299	85,838

21. PROVISIONS

	2005	2004
Pension plans and other retirement benefits (note 32.2)	28,994	26,261
Other	3,366	1,886
	32,360	28,147

22. INCOME TAX LIABILITIES

	2005	2004
Deferred income tax liabilities (note 34)	10,938	3,852
Income taxes payable	20,020	14,221
	30,958	18,073

23. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2005	2004
Amounts due to policyholders	2,331	4,692
Amounts due to reinsurers	139,046	42,970
Amounts due to managed funds	11,956	6,242
Other accounts payable and accrued liabilities	117,971	52,352
	271,304	106,256

24. SHARE CAPITAL

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

Series A Common Shares have been issued and movements are summarised in the following table.

	2005		2004	
	Number of shares	Consideration (Barbados $000)	Number of shares	Consideration (Barbados $000)
Balance, beginning of year	260,029,748	432,495	260,029,748	432,495
Allotment (note 38)	5,523,000	25,956	---	---
Balance, end of year	265,552,748	458,451	260,029,748	432,495

At a special general meeting of shareholders held on December 19, 2005, approval was granted for the establishment of an executive long-term incentive plan (LTI) and an employee share ownership plan (ESOP). 26,555,274 Series A Common Shares have been reserved for these plans which become effective from December 31, 2005.

Amounts expressed in Barbados $000

25. RESERVES

	2005	2004
Fair value reserve – available for sale investment securities:		
Balance, beginning of year as previously reported	186,739	110,127
Prior year adjustments	(13,819)	(20,743)
Balance, beginning of year as restated	172,920	89,384
Unrealised gains arising on revaluation	4,967	130,140
Gains transferred to income on disposal and impairment	(65,874)	(46,604)
Balance, end of year	112,013	172,920
Fair value reserve – owner occupied property:		
Balance, beginning of year	12,971	6,033
Unrealised gains arising on revaluation	4,896	7,578
Gains transferred to retained earnings on disposal	(96)	(640)
Balance, end of year	17,771	12,971
Currency translation:		
Balance, beginning of year	(25,486)	(23,730)
Restatement of foreign branch operations	-	(310)
Retranslation of foreign operations	(13,124)	(1,446)
Balance, end of year	(38,610)	(25,486)
Statutory reserves:		
Balance, beginning of year	7,289	5,893
Net change for the year	2,331	1,396
Balance, end of year	9,620	7,289
Total reserves, end of year	100,794	167,694

Amounts expressed in Barbados $000

26. PARTICIPATING ACCOUNTS

26.1 'Closed' participating fund

The movement in the closed participating account during the year was as follows:

	2005	2004
Balance, beginning of year	779	1,047
Net unrealized gains (losses) arising on available for sale investment securities	235	(851)
Net income for the year	12,950	583
Balance, end of year	13,964	779

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

	2005	2004
Assets	182,074	170,449
Liabilities	168,110	169,670
Revenues	21,059	22,040
Benefits	3,911	18,004
Expenses	3,595	2,924
Income taxes	603	529

26.2 'Open' participating fund

The movement in the open participating account during the year was as follows:

	2005	2004
Balance, beginning of year	609	175
Transfer from retained earnings to support the profit distribution to shareholders	13,500	-
Return of transfer to support profit distribution to shareholders	(498)	-
Transfer of seed capital from retained earnings	-	3,000
Return of seed capital to retained earnings	(5,500)	-
Net income (loss) for the year	12,572	(2,566)
Balance, end of year	20,683	609

Amounts expressed in Barbados $000

26. PARTICIPATING ACCOUNTS (continued)

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

	2005	2004
Assets	418,686	896
Liabilities	398,003	287
Revenues	69,784	3,745
Benefits	33,974	(494)
Expenses	21,813	6,805
Income taxes	1,425	-

26.3 Total participating accounts

	2005	2004
Total participating accounts, end of year	34,647	1,388

27. NET PREMIUM REVENUE

	Year ended December 31, 2005			2004
	Premium revenue	Reinsurance premium expense	Net premium revenue	Net premium revenue
Life insurance	392,303	(57,726)	334,577	281,300
Health insurance	197,039	(8,452)	188,587	151,650
Property and casualty insurance	74,063	(43,211)	30,852	22,892
Annuities and pensions	85,302	(122)	85,180	81,696
	748,707	(109,511)	639,196	537,538

Premium revenue includes $24,640 (2004 - $13,340) in reinsurance assumed.

Amounts expressed in Barbados $000

28. NET INVESTMENT INCOME

	2005	2004
Income:		
Rental income from investment property	11,179	11,176
Interest income:		
Debt securities	242,360	108,767
Mortgage loans	28,071	29,284
Policy loans	14,184	13,459
Finance loans and finance leases	25,431	6,398
Securities purchased under agreements to resell	10,735	2,883
Deposits	8,619	8,168
Other balances	509	263
Dividend income	12,432	11,047
Net gains on financial investments	78,189	63,748
Net fair value gains on investment property	1,710	6,892
Foreign exchange translation and trading	4,461	3,140
Other investment income	1,825	-
	439,705	265,225
Expenses		
Direct operating expenses of investment property	2,430	2,101
Allowances for impairment losses	15,608	14,243
Other direct investment expenses	6,252	5,953
	24,290	22,297
Net investment income	415,415	242,928

Interest from debt securities includes $2,881 (2004 - $2,463) from an associated company.

Amounts expressed in Barbados $000

29. FEES AND OTHER REVENUE

	2005	2004
Fee income - assets under administration	19,792	13,976
Fee income - deposit administration and policy funds	5,762	6,653
Commission income on insurance ceded to reinsurers	16,687	13,740
Other fees and commission income	17,038	1,544
Miscellaneous income	17,672	9,324
	76,951	45,237

30. NET POLICY BENEFITS

	Year ended December 31, 2005			2004
	Policy benefits incurred	Policy benefits reinsured	Net policy benefits incurred	Net policy benefits incurred
Death and disability	64,853	(17,988)	46,865	33,937
Maturities	18,809	(52)	18,757	32,337
Surrenders and withdrawals	111,533	(8,946)	102,587	69,086
Annuities and pensions	58,676	(2,634)	56,042	46,373
Policy dividends and bonuses	15,204	(144)	15,060	14,007
Health insurance	134,128	(8,782)	125,346	97,720
Property and casualty insurance	19,788	(4,682)	15,106	27,217
Other benefits	9,389	(112)	9,277	12,411
	432,380	(43,340)	389,040	333,088

Policy benefits incurred include $23,085 (2004 - $5,782) in reinsurance assumed.

Amounts expressed in Barbados $000

31. INTEREST EXPENSE

	2005	2004
Deposit administration and employee pension plan liabilities	26,338	23,894
Policy funds on deposit	11,829	11,375
Other funding instruments	5,801	-
Deposits	14,598	3,737
Securities	87,418	-
Other Items	1,885	-
	147,869	39,006

32. EMPLOYEE BENEFITS

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

	2005	2004
Administrative staff salaries, directors' fees and other short-term benefits	91,272	65,360
Employer contributions to social security schemes	7,082	4,987
Equity compensation benefits	6,773	-
Employer contribution to defined contribution pension schemes	1,026	686
Costs – defined benefit pension schemes	4,672	3,061
Costs – other retirement benefits	1,403	1,429
	112,228	75,523

The total number of administrative staff at December 31 was 1,627 persons (2004 – 1,251 persons).

32.1 Equity compensation benefits

(a) The Company

Effective December 31, 2005, the Company authorised compensation of $5,809 under the executive long-term incentive plan. The compensation awarded may, at the option of the recipient, be settled in cash, or shares issued by the Company, or by a combination of cash and shares.

Amounts expressed in Barbados $000

32. EMPLOYEE BENEFITS (continued)

(b) Life of Jamaica Limited (LOJ)

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

The movement in share options was as follows:

	2005		2004	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	14,959	J$ 5.13	11,665	J$ 3.39
Options granted	4,086	J$ 9.86	3,294	J$11.30
Balance, end of year	19,045	J$ 6.14	14,959	J$ 5.13
Exercisable at the end of the year	3,739	J$ 9.86	2,916	J$11.30

The proceeds from shares issued under the share purchase plan totalled $4,754 (2004 - $2,181)

(c) Pan Caribbean Financial Services Limited (PCFS)

The directors of PCFS have granted options in PCFS shares as follows:

(i) 450,000 share options on February 7, 2002. These expire on December 31, 2006. The shares in respect of these options have been issued by the company and are held in an Employee Share Option Trust. The exercise price for these options is J$4.55.

(ii) 17,220,000 share options on March 8, 2004. The exercise price for these options is J$10. The options vest by December 31, 2006. 6,600,000 shares were allotted in the prior year. A further 900,000 vested options were exercised during the year.

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

(iv) 1,200,000 share options on March 1, 2005. These options expire on December 31, 2008. The exercise price for the options is J$36.50. The options vest over four years – 25% on each anniversary date of the grant.

Amounts expressed in Barbados $000

32. EMPLOYEE BENEFITS (continued)

The movement in share options was as follows:

	2005	
	Number of options '000	**Weighted average exercise price**
Assumed on acquisition	11,887	J$ 9.80
Options granted	1,200	J$ 36.50
Options exercised	(1,817)	J$ 10.00
Options lapsed	(60)	J$ 4.55
Balance, end of year	11,210	J$ 12.70
Exercisable at the end of the year	7,510	J$ 10.20

For options outstanding at the end of the year, exercise prices range from J$ 4.55 to J$ 36.50. The weighted average remaining contractual term is two years.

The weighted average share price at the date of exercise for options exercised during the year was J$ 37.20.

J$ 20,420 (Barbados $ 656) was expensed during the year in respect of these share options.

32.2 Employee retirement benefits

Retirement benefits recognised in the balance sheet are as follows:

	2005	2004
Defined benefit pension schemes	(19,983)	(18,921)
Other retirement benefits	(6,288)	(5,149)
Net liability	(26,271)	(24,070)

Amounts expressed in Barbados $000

32. EMPLOYEE BENEFITS (continued)

(a) Defined benefit pension schemes

Certain Group subsidiaries have contributory defined benefit pension schemes in place for eligible administrative staff.

	2005	2004
The amounts recognised in the balance sheet are determined as follows:		
Fair value of pension plan assets	122,392	104,550
Present value of pension obligations	(137,745)	(118,942)
	(15,353)	(14,392)
Unrecognised actuarial gains	(4,630)	(4,529)
Amounts recognised in the balance sheet	(19,983)	(18,921)
Represented by:		
Asset balances	2,723	2,191
Liability balances	(22,706)	(21,112)
	(19,983)	(18,921)

Included in liability balances are interest bearing deposit administration fund balances totalling $25,536 (2004 - $23,383), representing employee pension plan funds on deposit with the Group.

Amounts expressed in Barbados $000

32. EMPLOYEE BENEFITS (continued)

	2005	2004
The amounts recognised in the income statement are determined as follows:		
Current service cost	5,322	2,864
Interest cost	10,519	7,865
Net actuarial losses recognised during the year	123	86
Past service cost	696	-
Expected return on pension plan assets	(11,988)	(7,754)
Pension cost	4,672	3,061

The actual return on plan assets was $10,573 (2004 – $28,240)

	2005	2004
The movement in the amounts recognised in the balance sheet is as follows:		
Amounts recognised, beginning of year	(18,921)	(19,604)
Amounts recognised on subsidiaries acquired	452	-
Pension cost	(4,672)	(3,061)
Contributions made	3,045	3,675
Effects of exchange rate changes	113	69
Amounts recognised, end of year	(19,983)	(18,921)

The principal actuarial assumptions used were as follows:

	Jamaica	Trinidad & Tobago	Barbados & other countries
Discount rate	12.5%	7.0%	6.0% - 7.0%
Expected return on plan assets	12.5%	7.0%	6.0% - 7.0%
Future salary increases	10.0%	5.5%	2.25% - 5.80%
Future pension increases	3.5%	1.5%	0.0% - 2.5%
Portion of employees opting for early retirement	0.0%	0.0%	0.0%
Future changes in National Insurance Scheme Ceilings	0.0%	2.5%	2.5% - 4.0%

Amounts expressed in Barbados $000

32. EMPLOYEE BENEFITS (continued)

(b) Other retirement benefits

Certain Group subsidiaries offer retiree medical and life insurance benefits that contribute to the health care and life insurance coverage of retirees and beneficiaries.

	2005	**2004**
The liability recognised in the balance sheet is determined as follows:		
Present value of obligations	(9,117)	(5,534)
Unrecognised actuarial losses	2,829	385
Liability recognised in the balance sheet	(6,288)	(5,149)
The amounts recognised in the income statement are determined as follows:		
Current service cost	734	355
Interest cost	670	948
Net actuarial (gains) losses recognised during the year	(1)	126
Total cost	1,403	1,429
The movement in the liability recognised in the balance sheet is as follows:		
Liability recognised, beginning of year	(5,149)	(4,030)
Amounts recognised on subsidiaries acquired	(110)	-
Total cost	(1,403)	(1,429)
Contributions made	154	243
Effects of exchange rate changes	220	67
Liability recognised, end of year	(6,288)	(5,149)

The principal actuarial assumptions used were as follows:

	Jamaica
Discount rate	12.5%
Expected return on plan assets	12.5%
Long term increase in health costs	10.5%

Amounts expressed in Barbados $000

33. INCOME TAXES

The Group is subject to taxation in the jurisdictions in which business operations are conducted. Rates of taxation in the principal jurisdictions for income year 2005 are as follows:

	Life insurance, non-registered annuities	Registered annuities	Health, property and casualty insurance
Taxes on premium revenue:			
Barbados	3% - 5%	Nil	3.75%
Jamaica	3%	Nil	Nil
Trinidad and Tobago	Nil	Nil	6%
United States of America	0.75% - 3.5%	Nil	Nil

	Life insurance, non-registered annuities	Registered annuities	All other lines of business
Taxes on income:			
Barbados	5% of gross investment income	Nil	30% of net income
Jamaica	15% of investment income	15% of investment income	$33^{1/3}$ % of net income
Trinidad and Tobago	15% of investment income	Nil	25% - 35% of net income
United States of America	34%/35% of net income	34%/35% of net income	34%/35% of net income

The income tax expense is comprised of:

	2005	**2004**
Current tax	17,514	9,776
Deferred tax	6,516	(2,701)
Share of tax of associated companies	16	(159)
	24,046	6,916

Amounts expressed in Barbados $000

33. INCOME TAXES (continued)

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

	2005	2004
Investment income subject to direct taxation	66,083	61,334
Income from ordinary activities subject to direct taxation	9,804	(16,793)
Total income subject to taxation	75,887	44,541

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

	2005	2004
Income subject to tax	75,887	44,541
Tax calculated at the applicable rates on income subject to tax	11,864	(28)
Adjustments to current tax for items not subject to tax or not allowed for tax	(637)	647
Other current tax adjustments	(689)	410
Adjustments for current tax of prior periods	(13)	(721)
Movement in unrecognised deferred tax asset	8,418	3,719
Deferred tax expense (income) relating to the origination (reversal) of temporary differences	161	1,372
Deferred tax expense (income) relating to changes in tax rates and the imposition of new taxes	969	14
Deferred tax expense (income) that arises from the write down (reversal of a write down) of a deferred tax asset	(158)	195
Tax on distribution of profits from policyholder funds	3,526	137
Other taxes	605	1,171
	24,046	6,916

Amounts expressed in Barbados $000

34. DEFERRED INCOME TAXES

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

	2005	2004
Deferred income tax assets:		
Pensions and other retirement benefits	1,322	2,049
Unused tax losses	8,454	7,287
Other items	(1,550)	(1,299)
Total (Note 13)	8,226	8,037

	2005	2004
Deferred income tax liabilities:		
Accelerated tax depreciation	2,192	2,069
Policy reserves taxable in the future	372	372
Pensions and other retirement benefits	65	(9)
Accrued Interest	809	314
Available for sale investments	5,884	-
Other items	1,616	1,106
Total (Note 22)	10,938	3,852

These balances include the following

	2005	2004
Deferred income tax assets to be settled after one year	3,060	2,323
Deferred income tax liabilities to be settled after one year	8,368	1,545

The Group has not recognised potential deferred income tax assets of $26,209 (2004 – $7,660) arising from unrecognised tax losses of $82,370 (2004 - $24,924).

Deferred income taxes have not been provided for income taxes that would be payable on the distribution of retained earnings of certain subsidiaries because there is no intention to distribute those earnings. These retained earnings totalled $52,855 at December 31, 2005 (2004 - $63,758)

Amounts expressed in Barbados $000

35. EARNINGS AND DIVIDENDS PER COMMON SHARE

35.1 Earnings per common share

Basic earnings per common share is calculated by dividing the net income for the year attributable to shareholders by the weighted average number of common shares in issue during the year.

	2005	2004
Net income for the year attributable to shareholders	136,562	67,690
Weighted average number of shares in issue (in thousands)	263,937	260,030
Basic and diluted earnings per common share	52 cents	26 cents

35.2 Dividends per common share

In 2005, the Company declared dividends per common share of 12 cents, of which 6 cents was the final dividend for 2004 and 6 cents was the interim dividend for 2005.

In 2004, the Company declared dividends per common share of 7 cents, of which 3 cents was the final dividend for 2003 and 4 cents was the interim dividend for 2004.

On April 27, 2006, the Company declared a final dividend for 2005 of 6 cents per common share which will be recorded in the 2006 financial statements.

Amounts expressed in Barbados $000

36. CASH FLOWS

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

OPERATING ACTIVITIES	**2005**	**2004**
Adjustments for non-cash items, interest and dividends		
Increase / (decrease) in provision for unearned premiums	3,006	4,708
Interest income	(329,909)	(169,222)
Dividend income	(12,432)	(11,047)
Net gains on financial investments and investment property	(79,899)	(70,640)
Interest expense	153,140	40,734
Increase in provisions for impairment	17,557	14,243
Share of operating income of associated companies	(3,473)	(9,269)
Increase in actuarial liabilities	58,680	109,115
Movement in recognised employee retirement benefits	3,030	815
Depreciation	15,020	12,601
Loss / (gain) on disposal of property, plant and equipment	154	(672)
Amortisation of intangible assets	10,478	9,199
Gain on business combinations and acquisitions	(38,946)	-
Other items	(2,872)	(1,681)
	(206,466)	(71,116)
Changes in operating assets		
Investment property	(2,688)	(13,846)
Debt securities	(144,400)	(96,887)
Equity securities	78,181	47,431
Mortgage loans	(38,153)	(5,099)
Policy loans	(303)	(1,563)
Finance loans and finance leases	(53,623)	(9,357)
Securities purchased under agreements to resell	272,529	(4,566)
Deposits	42,623	(68,238)
Reinsurance assets	(1,374)	-
Other assets and receivables	61,592	(86,153)
	214,384	(238,278)

Amounts expressed in Barbados $000

36. CASH FLOWS (continued)

	2005	2004
Investment property		
Disbursements	(8,873)	(15,605)
Disposal proceeds	6,185	1,759
	(2,688)	(13,846)
Debt securities		
Purchases	(675,475)	(309,246)
Proceeds on maturities and disposals	531,075	212,359
	(144,400)	(96,887)
Equity securities		
Purchases	(171,860)	(45,772)
Disposal proceeds	250,041	93,203
	78,181	47,431
Changes in operating liabilities		
Deposit administration liabilities	18,438	13,872
Policy funds on deposit	(14,578)	2,529
Other funding instruments	(4,977)	-
Customer deposits	48,674	14,423
Securities sold under agreements to repurchase	6,740	-
Other benefits and payables	(87,507)	101,774
	(33,210)	132,598

INVESTING ACTIVITIES

	2005	2004
Property, plant and equipment		
Purchases	(23,865)	(28,913)
Disposal proceeds	5,570	8,284
	(18,295)	(20,629)

Amounts expressed in Barbados $000

36. CASH FLOWS (continued)

FINANCING ACTIVITIES	2005	2004
Loans payable		
Proceeds	162,905	-
Repayments	(18,911)	(9,633)
	143,994	(9,633)

CASH AND CASH EQUIVALENTS	2005	2004
For the purposes of the cash flow statement, cash and cash equivalents comprise:		
Cash resources	117,105	119,137
Financial investments with an initial term to maturity of 90 days or less	165,949	26,770
Bank overdrafts	(8,712)	(10,299)
	274,342	135,608

Amounts expressed in Barbados $000

37. ASSETS AND LIABILITIES BY CURRENCY

	Balances denominated in					2005
	Barbados $	Jamaica $	Trinidad $	US $	Other currencies	Total
ASSETS						
Investment property	98,699	33,678	38,641	7,191	3,377	181,586
Property, plant and equipment	78,663	18,782	20,790	5,369	24,644	148,248
Investment in associated companies	253	507	24,775	-	24,716	50,251
Intangible assets	48,507	166,583	9,847	3,447	22,121	250,505
Financial investments	700,281	1,003,320	484,632	2,164,149	380,043	4,732,425
Reinsurance assets	16,041	4,247	10,004	623,564	42,332	696,188
Income tax assets	5,907	22,083	300	5,690	1,731	35,711
Miscellaneous assets and receivables	37,169	64,534	14,363	45,800	41,550	203,416
Cash resources	29,920	12,389	6,120	44,666	25,768	118,863
Total assets	1,015,440	1,326,123	609,472	2,899,876	566,282	6,417,193
LIABILITIES						
Policy liabilities						
Actuarial liabilities	661,046	263,537	355,736	1,304,632	192,280	2,777,231
Deposit administration liabilities	98,342	69,392	121,318	2,932	54,245	346,229
Other policy liabilities	106,090	79,767	28,801	78,372	71,301	364,331
	865,478	412,696	505,855	1,385,936	317,826	3,487,791
Other liabilities						
Loans payable	-	-	-	160,728	-	160,728
Deposit and security liabilities	85,571	513,912	861	817,406	22,695	1,440,445
Provisions	12,851	8,938	5,851	1,226	3,494	32,360
Income tax liabilities	3,098	18,080	4,579	2,516	2,685	30,958
Accounts payable and accrued liabilities	25,549	49,490	7,916	191,898	(3,549)	271,304
Total liabilities	992,547	1,003,116	525,062	2,559,710	343,151	5,423,586
Net position	22,893	323,007	84,410	340,166	223,131	993,607

38. ACQUISITIONS

During the year, the Group acquired control of:

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

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

As a consequence of part of the consideration for the PCFS and EBA acquisitions being shares issued by LOJ, the Group reduced its interest in LOJ from 78% to 60% and recorded a gain of $26,769 arising from the difference between the net assets of LOJ attributable to minority interests after the acquisition and the value of shares issued by LOJ to the minority interests.

The Group also acquired interests in two associated companies, Manufacturers' Credit and Information Services ((MCIS) and FamGuard Corporation Limited (Family Guardian).

The Group has accounted for the above acquisitions provisionally because data is being gathered to support some of the underlying assumptions. Therefore, adjustments may result in the carrying amounts of the identifiable assets, liabilities and contingent liabilities acquired in the 2006 financial year.

38.1 PCFS

(a) Details of acquisition

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

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

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

Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

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

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

Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

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

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

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

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

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

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

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

b) Details of acquiree's net income

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

Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

38.2 EBA joint venture

(a) Details of acquisition

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

	Total fair value	Acquirees' carrying value
Net assets acquired:		
Property, plant and equipment	167	167
Intangible assets (note 10)	37,524	-
Financial investments	63,065	63,065
Reinsurance assets	338	338
Miscellaneous assets and receivables	9,297	9,297
Cash resources	4,713	4,713
Actuarial liabilities	(24,662)	(24,662)
Deposit administration liabilities	(25,458)	(25,458)
Other policy liabilities	(10,129)	(10,129)
Loans payable	(1,767)	(1,767)
Income tax liabilities	(234)	(234)
Accounts payable and accrued liabilities	(4,083)	(3,898)
Total net assets acquired	48,771	11,432
Purchase consideration and related costs		
Shares issued by the Company	11,419	
Shares to be issued by the Company	739	
Shares issued by LOJ	49,383	
Total purchase consideration	61,541	
Goodwill arising on acquisition (note 10)	12,770	

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

Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

(b) Details of acquirees' net income

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

38.3 First Life individual life insurance business

(a) Details of acquisition

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

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

Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

(b) Details of acquirees' net income

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

38.4 Laurel Life

(a) Details of acquisition

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

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

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

Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

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

(b) Details of acquiree's net income

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

38.5 Cayman General

(a) Details of acquisition

On November 30, LOJ acquired a 51% interest in Cayman General. Cayman General is engaged in property, casualty, group health and group life insurance in the Cayman Islands.

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

	Total	**Acquirees' carrying value**
Net assets acquired:		
Property, plant and equipment	2,622	2,622
Intangible assets (note 10)	13,737	-
Financial investments	103	103
Reinsurance assets	33,489	33,489
Miscellaneous assets and receivables	16,254	16,254
Cash resources	23,291	23,291
Other policy liabilities	(28,266)	(28,266)
Accounts payable and accrued liabilities	(24,830)	(24,830)
Total net assets	36,400	22,663
Share of net assets acquired by the Group	18,565	
Purchase consideration and related costs		
Cash	20,043	
Goodwill arising on acquisition (note 10)	1,478	

Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

(b) Details of acquiree's net income

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

38.6 MCIS

(a) Details of acquisition

MCIS was a wholly owned subsidiary of PCFS when the latter was acquired by the Group in January 2005. Effective May 31, 2005, PCFS disposed of a 75% interest in MCIS with the result that MCIS became an associated company. The gain realised by PCFS on the disposal amounted to $717. The net income of MCIS for the five month period to June 1, 2005 amounted to $261 and has been included in the Group's net income. On May 31, 2005, the Group recorded its 25% interest in MCIS at a value of $368.

(b) Details of acquiree's net income

The Group's share of MCIS's net income for the seven month period from May 31, 2005 to balance sheet date, amounted to $68.

38.7 Family Guardian

(a) Details of acquisition

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

	2005
Group's share of net assets acquired	13,618
Cash consideration	24,716
Goodwill	11,098

The market value, as determined by the listed price of Family Guardian's shares, of the Group's shareholding amounted to $24,200 at balance sheet date.

Amounts expressed in Barbados $000

38. ACQUISITIONS (continued)

(b) Details of acquiree's net income and fair value

The Group has not recognised any net income or loss between the acquisition date and the balance sheet date.

39. COMMITMENTS

Commitments entered into for which no provision has been made in these financial statements include the following:

	2005	**2004**
Loan advances	44,824	30,182
Expenditure on real estate	19,229	-
Operating lease agreements and rental payments	8,543	1,716
Customer guarantees and letters of credit	6,751	-

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

40. CONTINGENT LIABILITIES

(a) Legal proceedings

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

(b) Tax assessments

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

Amounts expressed in Barbados $000

40. 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. The design of this product is based on the assumption that the fund value built-up from premiums paid and from investment earnings will be sufficient to cover future administrative costs and mortality charges. A review of the Group's universal life policy portfolio in Jamaica revealed that many of these policies were affected by fund values which were insufficient to cover these costs through the life of the policies.

Once the problem was recognized, discussions were initiated with the Jamaica Regulators, the Financial Services Commission (FSC), and affected policyholders. Affected policyholders were given the opportunity to reduce their existing coverage under the policies or to increase the premiums. Approximately 90% of these policyholders have agreed to adjustments to their policies. However, some affected policyholders, (less than 1%), have filed complaints with the FSC. The Group believes that it has acted properly and in the best interest of the policyholders. The matter is under review by the FSC.

The cost, if any, of resolving this issue cannot be quantified at this time and no provision has been made in these financial statements.

41. RELATED PARTY TRANSACTIONS

(a) Key management

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

Compensation	**2005**	**2004**
Salaries, directors' fees and other short-term benefits	17,702	11,447
Equity compensation benefits	6,773	-
Pension and other retirement benefits	401	297
	24,876	11,744

Amounts expressed in Barbados $000

41. RELATED PARTY TRANSACTIONS (continued)

Loans	**Mortgage loans**	**Other loans**	**Total loans**
Balance, beginning of year	5,579	39	5,618
Advances	1,275	-	1,275
Repayments	(589)	(15)	(604)
Balance, end of year	6,265	24	6,289

The Company has not advanced any loans to key management. All loans have been advanced by Group subsidiaries. Mortgage loans bear interest at rates from 5.5% to 11%. Other loans bear interest at rates from 9% to 10%.

(b) Employee pension plans

Certain Group subsidiaries have employee pension plans which are administered by the Group as segregated pension plans. The assets of the segregated pension plans at December 31, 2005 amounted to $116,806 and are included in the assets under administration referred to in note 4.10.

(c) First Jamaica Investment Limited (First Jamaica)

The Group acquired a 37% shareholding in PCFS and the remaining 50% interest EBA (see note 38), from First Jamaica (formerly First Life Insurance Company Limited). As a result of these transactions, First Jamaica holds a 25% interest in LOJ. Because of the size of this shareholding, First Jamaica is considered to be a related party.

Apart from the above-mentioned transactions during the year, other accounts receivable includes $7,856 (2004 - $ 3,301) and accounts payable includes $ 6,138 (2004 – nil) in balances with First Jamaica.

42. SUBSEQUENT EVENT

On March 30, 2006, Sagicor Finance Limited was incorporated in the Cayman Islands as a wholly owned subsidiary of the Company for the purpose of raising finance for the Group.