SAGICOR FINANCIAL CORPORATION

FINANCIAL STATEMENTS

DECEMBER 31, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Sagicor Financial Corporation

We have audited the accompanying consolidated financial statements of **Sagicor Financial Corporation** and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2013 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Sagicor Financial Corporation** and its subsidiaries as of December 31, 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SRL

March 29, 2014
Bridgetown, Barbados

SAGICOR FINANCIAL CORPORATION

APPOINTED ACTUARY'S

2013 REPORT TO THE SHAREHOLDERS AND POLICYHOLDERS

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

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

for the balance sheet, at 31st December 2013, and their change in the consolidated statement of operations, for the year then ended, for each organization and on a consolidated basis in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

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

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

Sylvain Goulet

Sylvain Goulet, FCIA, FSA, MAAA
Affiliate Member of the Institute and Faculty of Actuaries
Member of the Caribbean Actuarial Association
Appointed Actuary for Sagicor Financial Corporation

26 March 2014

Amounts expressed in US$000

	Note	2013	2012 restated
ASSETS			
Investment property	5	98,369	115,224
Property, plant and equipment	7	151,539	145,818
Associates and joint ventures	6	44,202	42,433
Intangible assets	8	71,893	79,612
Financial investments	9	4,191,766	4,041,326
Reinsurance assets	10	336,427	102,686
Income tax assets	11	29,035	33,073
Miscellaneous assets and receivables	12	148,151	99,157
Cash resources		226,370	183,996
Assets of discontinued operation	38	-	705,732
Total assets		5,297,752	5,549,057

These financial statements have been approved for issue by the Board of Directors on March 29, 2014.

Director

Director

	Note	2013	2012 restated
LIABILITIES			
Actuarial liabilities	13	2,324,319	2,040,907
Other insurance liabilities	14	194,434	187,199
Investment contract liabilities	15	367,001	346,196
Total policy liabilities		2,885,754	2,574,302
Notes and loans payable	16	290,160	241,556
Deposit and security liabilities	17	1,106,083	1,092,429
Provisions	18	75,083	58,621
Income tax liabilities	19	29,225	33,613
Accounts payable and accrued liabilities	20	131,237	114,425
Liabilities of discontinued operation	38	55,024	630,977
Total liabilities		4,572,566	4,745,923
EQUITY			
Share capital	21	295,450	296,058
Reserves	22	(4,825)	16,411
Retained earnings		221,472	274,565
Total shareholders' equity		512,097	587,034
Participating accounts	23	(5,662)	(10,333)
Minority interest in subsidiaries		218,751	226,433
Total equity		725,186	803,134
Total liabilities and equity		5,297,752	5,549,057

Amounts expressed in US$000

	Note	2013	2012 restated
REVENUE			
Premium revenue	24	1,016,538	757,223
Reinsurance premium expense	24	(359,510)	(92,220)
Net premium revenue		657,028	665,003
Net investment income	25	279,350	295,026
Fees and other revenue	26	103,105	104,253
Total revenue		1,039,483	1,064,282
BENEFITS			
Policy benefits and change in actuarial liabilities	27	797,743	599,758
Policy benefits and change in actuarial liabilities reinsured	27	(262,564)	(28,840)
Net policy benefits and change in actuarial liabilities		535,179	570,918
Interest expense	28	57,611	68,465
Total benefits		592,790	639,383
EXPENSES			
Administrative expenses		203,959	190,749
Commissions and related compensation		99,821	88,626
Premium and asset taxes		11,988	11,956
Finance costs		17,143	17,897
Depreciation and amortisation		15,230	15,901
Total expenses		348,141	325,129
INCOME BEFORE TAXES		98,552	99,770
Income taxes	32	(18,924)	(24,450)
NET INCOME FROM CONTINUING OPERATIONS		79,628	75,320

	Note	2013	2012 restated
Net income from continuing operations		79,628	75,320
Net loss from discontinued operation	38	(75,508)	(42,034)
NET INCOME FOR THE YEAR		4,120	33,286
Net income/(loss) is attributable to:			
Common shareholders:			
From continuing operations		39,138	53,101
From discontinued operation		(75,508)	(42,034)
		(36,370)	11,067
Participating policyholders		5,005	(12,525)
Minority interests		35,485	34,744
		4,120	33,286
Basic earnings /(loss) per common share:	34		
From continuing operations		12.5 cents	17.1 cents
From discontinued operation		(25.1) cents	(13.9) cents
		(12.6) cents	3.2 cents
Fully diluted earnings /(loss) per common share:	34		
From continuing operations		12.2 cents	16.2 cents
From discontinued operation		(24.8) cents	(13.1) cents
		(12.6) cents	3.1 cents

Amounts expressed in US$000

OTHER COMPREHENSIVE INCOME	Note	2013	2012 restated
Items net of tax that may be reclassified subsequently to income:	35		
Available for sale assets:			
(Losses) / Gains on revaluation		(47,442)	38,023
(Gains) transferred to income		(14,769)	(13,128)
Net change in actuarial liabilities		30,445	(22,278)
Retranslation of foreign currency operations		(36,441)	(18,402)
Other items		-	(19)
		(68,207)	(15,804)
Items net of tax that will not be reclassified subsequently to income:	35		
Gains / (losses) on revaluation of owner-occupied property		3,813	(156)
(Losses) on defined benefit plans		(9,475)	(7,967)
		(5,662)	(8,123)
OTHER COMPREHENSIVE (LOSS) / INCOME FROM CONTINUING OPERATIONS		(73,869)	(23,927)
Other comprehensive income from discontinued operation	38	19,272	144
OTHER COMPREHENSIVE (LOSS) FOR THE YEAR		(54,597)	(23,783)

TOTAL COMPREHENSIVE INCOME	2013	2012 restated
Net income	4,120	33,286
Other comprehensive income	(54,597)	(23,783)
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR	(50,477)	9,503
Total comprehensive (loss) / income is attributable to:		
Common shareholders:		
From continuing operations	(515)	39,902
From discontinued operation	(56,236)	(41,890)
	(56,751)	(1,988)
Participating policyholders	4,913	(12,286)
Minority interests	1,361	23,777
	(50,477)	9,503

Amounts expressed in US$000

	Share Capital (note 21)	Reserves (note 22)	Retained Earnings	Total Shareholders' Equity	Participating Accounts (note 23)	Minority Interests	Total Equity
2013							
Balance, beginning of year as restated (note 48)	296,058	16,411	274,565	587,034	(10,333)	226,433	803,134
Total comprehensive income from continuing operations	-	(36,413)	35,898	(515)	4,913	1,361	5,759
Total comprehensive income from discontinued operation	-	19,272	(75,508)	(56,236)	-	-	(56,236)
Transactions with holders of equity instruments:							
Movements in treasury shares	(608)	-	-	(608)	-	-	(608)
Changes in reserve for equity compensation benefits	-	2,123	-	2,123	-	55	2,178
Dividends declared (note 21.3)	-	-	(19,835)	(19,835)	-	(9,182)	(29,017)
Transfers and other movements	-	(6,218)	6,352	134	(242)	84	(24)
Balance, end of year	295,450	(4,825)	221,472	512,097	(5,662)	218,751	725,186
2012							
Balance, beginning of year as restated (note 48)	296,048	20,865	281,425	598,338	2,201	188,476	789,015
Total comprehensive income from continuing operations	-	(6,713)	46,615	39,902	(12,286)	23,777	51,393
Total comprehensive income from discontinued operation	-	144	(42,034)	(41,890)	-	-	(41,890)
Transactions with holders of equity instruments:							
Movements in treasury shares	10	-	-	10	-	-	10
Changes in reserve for equity compensation benefits	-	4,494	-	4,494	-	(41)	4,453
Changes in ownership of subsidiaries (note 37)	-	1,028	4,862	5,890	-	27,351	33,241
Dividends declared (note 21.3)	-	-	(19,835)	(19,835)	-	(13,264)	(33,099)
Transfers and other movements	-	(3,407)	3,532	125	(248)	134	11
Balance, end of year	296,058	16,411	274,565	587,034	(10,333)	226,433	803,134

Amounts expressed in US$000

	Note	2013	2012 restated
OPERATING ACTIVITIES			
Income before taxes		98,552	99,770
Adjustments for non-cash items, interest and dividends	36.1	(75,741)	(46,747)
Interest and dividends received		258,552	256,676
Interest paid		(73,683)	(81,080)
Income taxes paid		(28,063)	(20,130)
Net increase in investments and operating assets	36.1	(351,404)	(193,557)
Net increase in operating liabilities	36.1	183,379	13,984
Acquisition of insurance portfolio, net of cash and cash equivalents	13.2	30,699	-
Recapture of reinsurance contract held	13.2	-	3,826
Net cash flows - operating activities		42,291	32,742
INVESTING ACTIVITIES			
Property, plant and equipment, net	36.2	(18,284)	(19,843)
Associates and joint ventures, net		1,082	(5,275)
Intangible assets, net		(1,015)	(2,025)
Acquisition of subsidiary, net of cash and cash equivalents	37	-	(9,461)
Sale of subsidiaries, net of disposal costs	38	86,697	-
Net cash flows - investing activities		68,480	(36,604)

	Note	2013	2012 restated
FINANCING ACTIVITIES			
Movement in treasury shares		(622)	(249)
Shares issued to minority interests		(18)	(38)
Change in ownership of subsidiaries	37	-	35,416
Other notes and loans payable, net	36.3	42,432	2,055
Dividends paid to common shareholders		(11,849)	(11,846)
Dividends paid to preference shareholders		(7,810)	(7,790)
Dividends paid to minority interests		(9,007)	(12,130)
Net cash flows - financing activities		13,126	5,418
Effects of exchange rate changes		21	(643)
NET CHANGE IN CASH AND CASH EQUIVALENTS - CONTINUING OPERATIONS		123,918	913
Net change in cash and cash equivalents - discontinued operation	38	(78,882)	(52,008)
Cash and cash equivalents, beginning of year		213,564	264,659
CASH AND CASH EQUIVALENTS, END OF YEAR	36.4	258,600	213,564

1 INCORPORATION AND PRINCIPAL ACTIVITIES

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

Sagicor and its subsidiaries 'the Group' operate across the Caribbean, in the United States of America (USA) and in the United Kingdom (UK). Details of the Sagicor's holdings and operations are set out in notes 4 and 38.

The principal activities of the Sagicor Group are as follows:

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

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

2 ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

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

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

2.1 Basis of preparation (continued)

(a) Amendments to IFRS

Several new or amended standards are effective for the current financial year, and where required those standards have been applied in preparing these financial statements with restatement of comparative disclosures. These standards are as follows:

(i) IAS 19 - Employee Benefits

The key amendments to this standard affect defined benefit retirement plans and are summarised as follows:

- The 10% corridor method has been removed and all actuarial and experience gains and losses are required to be recognised in other comprehensive income.
- Expected returns on plan assets are no longer recognised in income. Instead, interest is recognised on the net defined benefit liability or asset, calculated using the discount rate used to measure the defined benefit obligation.
- Past service cost arising from plan amendments or curtailment are now recognised in income at the earlier of when the amendment occurs or when the related restructuring or termination cost are recognised. The option to amortise such cost over future years has been eliminated.
- All items recorded in other comprehensive income are taken to retained earnings or minority interest.

These represent changes from the former standard where actuarial gains and losses within the 10% corridor were deferred and all other recognised changes were recorded in income.

2.1 Basis of preparation (continued)

The revised standard has been adopted as a change in accounting policy and has been applied retrospectively with the restatement of the comparative 2012 amounts and of the cumulative impact at the beginning of 2012. The impact on the group's results has been:

- A decrease in equity and an increase in the net defined benefit liability of $8,518 at the beginning of 2012;
- For the year ended December 31, 2012, an increase in net income of $1,260 and a decrease in other comprehensive income of $7,967.

These restatements are summarised in note 48.

(ii) IFRS 10 - Consolidated Financial Statements; IFRS 11 - Joint Arrangements; IFRS 12 - Disclosure of Interests in Other Entities

These new standards partially or wholly replace IAS 27, IAS 28 and IAS 31 and:

- Refine the definition of control over entities and consequently define interests that require consolidation.
- Introduce new accounting requirements for joint arrangements.
- Require enhanced disclosures about both consolidated and unconsolidated entities so that users of financial statements may evaluate the basis of control, restrictions on assets and liabilities, risk exposures from involvements with unconsolidated entities and non-controlling interests' involvement in consolidated entities.

The Group has re-assessed its subsidiary, associates and jointly-owned holdings and has concluded that IFRS 11 - Joint Arrangements requires a reclassification of a joint venture was formerly accounted for under the proportionate consolidation method. The joint venture is included in note 6.

2.1 Basis of preparation (continued)

(iii) IFRS 13 - Fair Value Measurement

The standard defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurements.

The standard applies to financial and non-financial assets and liabilities that are either measured at fair value or for which fair value is disclosed. The fair value hierarchy concept formerly defined in IFRS 7 has been transferred to and enhanced by this standard. The standard summarises the main valuation techniques which should be applied.

The Group has adopted this standard from the current year. These statements include new disclosures of the fair value hierarchy as applied to investment and owner-occupied property (note 40) and to financial instruments carried at amortised cost (note 41.5(b)). Disclosures of the fair value hierarchy as applied to financial instruments carried at fair value continues from prior years in note 41.5(a).

This standard has no significant impact on the Group's financial results.

2.2 Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities over which the Group has control. The Group has control over an entity when the Group is exposed to the variable returns from its ownership interest in the entity and when the Group has the ability to affect those returns through its power over the entity. 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.

2.2 Basis of consolidation (continued)

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

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

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

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

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

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

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

2.2 Basis of consolidation (continued)

(b) Discontinued operation

In December 2012, the Group agreed to sell Sagicor Europe Limited, its subsidiary Sagicor at Lloyd's Limited and its interest in Lloyd's of London syndicate 1206. The decision to sell resulted in the closure of the Sagicor Europe operating segment and therefore met the criteria of a discontinued operation. The sale was concluded in December 2013. Consequently, the balances and results associated with the discontinued operation have been classified separately in the these financial statements.

As of December 31, 2013, the future price adjustments relating to the discontinued operation are disclosed in the statement of financial position at their estimated undiscounted value. Prior to the sale (as of December 31, 2012 and during interim financial periods in 2013), the net assets of the discontinued operation were carried in the statement of financial position at their estimated fair value less costs to sell. As this amount was less than the previous carrying value, impairments were recorded and applied to the goodwill and intangible assets component of the discontinued operation's assets.

(c) Sale of subsidiaries

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

(d) Associates and joint venture

The investments in associated companies, which are not majority-owned or controlled but where significant influence exists, are included in these consolidated financial statements under the equity method of accounting.

Investments in associate and joint venture companies are originally recorded at cost and include intangible assets identified on acquisition. Accounting policies have been changed where necessary to ensure consistency with the accounting policies adopted by the Group.

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

(e) Pension and investment funds

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

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

(f) Employees share ownership plan (ESOP)

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

2.3 Foreign currency translation

(a) Functional and presentational currency

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

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

(b) Reporting units

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

(i) Income, other comprehensive income, movements in equity and cash flows are translated at average exchange rates for the year.
(ii) Assets and liabilities are translated at the exchange rates ruling on December 31.
(iii) Resulting exchange differences are recognised in other comprehensive income.

Currencies which are pegged to the United States dollar are converted at the pegged rates. Currencies which float are converted to the United States dollar by reference to the average of buying and selling rates quoted by the respective central banks or in the case of pounds sterling, according to prevailing market rates. Exchange rates of the other principal operating currencies to the United States dollar were as follows:

	2013 closing	2013 average	2012 closing	2012 average
Barbados dollar	2.0000	2.0000	2.0000	2.0000
Eastern Caribbean dollar	2.7000	2.7000	2.7000	2.7000
Jamaica dollar	105.9952	99.7566	92.6766	88.4376
Trinidad & Tobago dollar	6.4386	6.4064	6.3814	6.4030
Pound sterling	0.60500	0.64036	0.61850	0.63056

2.3 Foreign currency translation (continued)

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

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

(c) Transactions and balances

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

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

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

2.4 Segments

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

2.5 Investment property

Investment property consists of freehold lands and freehold properties which are held for rental income and / or capital appreciation. Investment property is recorded initially at cost. In subsequent financial years, investment property is recorded at fair values as determined by independent valuation, with the appreciation or depreciation in value being taken to investment income. Fair value represents the price (or estimates thereof) that would be agreed upon in an orderly transaction between market participants at valuation date.

Investment property includes property partially owned by the Group and held under joint operations with third parties for which the Group recognises its share of the joint operation's assets, liabilities, revenues, expenses and cash flows.

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

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

Rental income is recognised on an accruals basis.

2.6 Property, plant and equipment

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

2.6 Property, plant and equipment (continued)

Owner-occupied property is re-valued at least every three years to its fair value as determined by independent valuation. Fair value represents the price (or estimates thereof) that would be agreed upon in an orderly transaction between market participants at valuation date. Revaluation of a property may be conducted more frequently if circumstances indicate that a significant change in fair value has occurred. Movements in fair value are reported in other comprehensive income, unless there is a cumulative depreciation in respect of an individual property, which is then recorded in income. Accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset.

Owner-occupied property includes property held under joint operations with third parties for which the Group recognises its share of the joint operation's assets, liabilities, revenues, expenses and cash flows. On the disposal of owner-occupied property, the amount included in the fair value reserve is transferred to retained earnings.

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

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

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

Lands are not depreciated.

2.6 Property, plant and equipment (continued)

An impairment loss is recognised for the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

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

2.7 Intangible assets

(a) Goodwill

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

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

Goodwill is tested annually for impairment and whenever there is an indication of impairment. Goodwill is carried at cost less accumulated impairment. An impairment loss is recognised for the amount by which the carrying amount of goodwill exceeds its recoverable amount. The recoverable amount is the higher of an operating segment's (or operation's) fair value less costs to sell and its value in use.

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

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2.7 Intangible assets (continued)

(b) Other intangible assets

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

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

On acquisition, the useful life of the asset is estimated. If the estimated useful life is definite, then the cost of the asset is amortised over its life, and is tested for impairment when there is evidence of same. If the estimated useful life is indefinite, the asset is tested annually for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The estimated useful lives of recognised intangible assets are as follows:

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

2.8 Financial assets

a) Classification

The Group classifies its financial assets into four categories:

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

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

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

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

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

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

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

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

2.8 Financial assets (continued)

(b) Recognition and measurement

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

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

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

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

(c) Fair value

Fair value amounts represent the price (or estimates thereof) that would be agreed upon in an orderly transaction between market participants at valuation date.

2.8 Financial assets (continued)

(d) Impaired financial assets

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

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

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

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

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

2.8 Financial assets (continued)

(e) Securities purchased for re-sale

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

(f) Finance leases

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

(g) Embedded derivatives

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

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

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

2.9 Real estate developed or held for resale

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

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

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

2.10 Policy contracts

(a) Classification

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

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

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

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

2.10 Policy contracts (continued)

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

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

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

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

(b) Recognition and measurement

(i) Property and casualty insurance contracts

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

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

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

2.10 Policy contracts (continued)

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

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

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

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

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

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

2.10 Policy contracts (continued)

(ii) *Health insurance contracts*

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

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

Claims are recorded on settlement. Reserves are recorded as described in note 2.11.

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

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

(iii) *Long-term traditional insurance contracts*

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

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

2.10 Policy contracts (continued)

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

Reserves for future policy liabilities are recorded as described in note 2.11.

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

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

(iv) <u>Long-term universal life and unit linked insurance contracts</u>

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

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

2.10 Policy contracts (continued)

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

Policy benefits are recognised on the notification of death, disability or critical illness, on the receipt of a withdrawal request, on the termination or maturity date of the contract, or on the annuity payment date. Reserves for future policy liabilities are recorded as described in note 2.11.

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

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

(v) <u>Reinsurance contracts assumed</u>

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

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

(vi) <u>Reinsurance contracts held</u>

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

2.10 Policy contracts (continued)

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

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

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

(vii) Deposit administration and other investment contracts

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

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

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

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

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.

2.10 Policy contracts (continued)

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

(c) Embedded derivatives

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

The Group does not separately measure embedded derivatives that are closely related to the host insurance contract or that meet the definition of an insurance contract. Options to surrender an insurance contract for a fixed amount are also not measured separately. In these cases, the entire contract liability is measured as set out in note 2.11.

(d) Liability adequacy tests

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

2.11 Actuarial liabilities

(a) Life insurance and annuity contracts

The determination of actuarial liabilities of long-term insurance contracts has been done using Canadian accepted actuarial standards (recognizing local conditions). These liabilities consist of the amounts that, together with future premiums and investment income, are required to provide for future policy benefits, expenses and taxes on insurance and annuity contracts. Canadian standards may change from time to time, but infrequently.

2.11 Actuarial liabilities (continued)

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

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

Under this methodology, assets of each insurer are selected to back its actuarial liabilities. Changes in the carrying value of these assets may generate corresponding changes in the carrying amount of the associated actuarial liabilities. These assets include available for sale securities, whose unrealised gains or losses in fair value are recorded in other comprehensive income. The fair value reserve for actuarial liabilities has been established in the statement of equity for the accumulation of changes in actuarial liabilities which are recorded in other comprehensive income and which arise from recognised unrealised gains or losses in fair value of available for sale securities.

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

(b) Health insurance contracts

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

2.12 Financial liabilities

During the ordinary course of business, the Group issues investment contracts or otherwise assumes financial liabilities that expose the Group to financial risk. The recognition and measurement of the Group's principal types of financial liabilities are disclosed in note 2.10(b) (vii) and in the following paragraphs.

(a) Securities sold for re-purchase

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

(b) Deposit liabilities

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

(c) Loans and other debt obligations

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

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

(d) Fair value

Fair value amounts represent the price (or estimates thereof) that would be agreed upon in an orderly transaction between market participants at valuation date.

2.13 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.

2.14 Derivative financial instruments and hedging activities

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

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

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

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

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

2.15 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.16 Presentation of current and non-current assets and liabilities

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

2.17 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 less the fair value of plan assets. 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 on government bonds for the maturity dates and currency of the related liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the other comprehensive income and retained earnings or minority interest in the period in which they arise. Past service costs are charged to income in the period in which they arise.

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. Contributions are recognised in income in the period in which they are due.

(b) Other retirement benefits

Certain Group subsidiaries provide supplementary health 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. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the other comprehensive income and retained earnings or minority interest in the period in which they arise.

2.17 Employee benefits (continued)

(c) Profit sharing and bonus plans

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

(d) Equity compensation benefits

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

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

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

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

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

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

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

2.17 Employee benefits (continued)

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

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

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

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

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

(e) Termination benefits

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

2.18 Taxes

(a) Premium taxes

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

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

(b) Asset tax

During 2012, the Government of Jamaica introduced an asset tax. For insurance, securities dealers and deposit taking institutions, the tax is 0.14% of adjusted assets held at the end of the year.

(c) Income taxes

The Group is subject to taxes on income in the jurisdictions in which business operations are conducted. Rates of taxation in the principal jurisdictions for the current year are set out in the next table.

Amounts expressed in US$000

2.18 Taxes (continued)

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

(i) Current income taxes

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

(ii) Deferred income taxes

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to do so. Deferred tax, related to fair value re-measurement of available for sale investments and cash flow hedges which are recorded in other comprehensive income, is recorded in other comprehensive income and is subsequently recognised in income together with the deferred gain or loss.

2.19 Common and preference shares (continued)

(a) Common shares

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

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

(b) Preference shares

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

The redemption value is recognised as a contractual liability, and is measured initially at its discounted fair value. The discount rate reflects as of July 18, 2011: (i) the rate of interest applicable to a similar liability with a contractual dividend rate, and (ii) the interest premium required by the shareholder for an instrument with a non-contractual dividend. The liability component is disclosed in note 16.

The preference shareholders' rights to receive dividends is recognised within shareholders' equity, and is measured initially as the residual fair value of the preference shares in their totality after deducting the liability for the redemptive value. The equity component is initially recorded as a preference share reserve in note 22.
Incremental costs directly attributable to the issue of the preference shares are allocated between the liability for the redemption value and the equity reserve in proportion to their initial carrying amounts.
After initial recognition, the liability component is accreted to its ultimate redemption value using the effective interest yield method, with the accretion being recorded as a finance cost in the statement of income. After initial recognition, the preference share reserve is transferred to retained earnings pro-rata to the dividends declared over the period to redemption.

2.19 Common and preference shares (continued)

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

(c) Dividends

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

2.20 Participating accounts

(a) "Closed" participating account

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

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

2.20 Participating accounts (continued)

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

(b) "Open" participating account

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

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

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

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

2.20 Participating accounts (continued)

(c) Financial statement presentation

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

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

2.21 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, insurance beneficiaries or depositors.

2.22 Interest income and expenses

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

2.23 Fees and other revenue

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

2.24 Cash Flows

The following classifications apply to the cash flow statement.

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

Cash and cash equivalents comprise:

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

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

2.25 Future accounting developments and reporting changes

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

IFRS (Effective Date)	Subject / Comments
IFRS 7 – Financial Instruments: Disclosures IAS 32 - Financial Instruments Presentation (January 1, 2014)	<u>Offsetting Financial Assets and Financial Liabilities</u> These amendments clarify the presentation of certain offsetting requirements and amend the disclosure to include information on the effect of netting arrangements.
IFRS 9 – Financial Instruments (January 1, 2018)	Classification and measurement of financial instruments IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value. The determination is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. IFRS 9 has amended the treatment, applicable to financial liabilities designated at fair value, of changes in own credit risk. Such changes are to be recorded in other comprehensive income unless part of a hedging relationship. Amendments have been made to hedge accounting with the most significant improvements applying to the hedging of non-financial risk. New requirements for the impairment of financial assets are to be finalised. In addition, limited amendments to the classification and measurement requirements are to be incorporated.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

3.1 Impairment of financial assets

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

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

3.2 Recognition and measurement of intangible assets

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

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

3.3 Impairment of intangible assets

(a) Goodwill

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

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

(b) Other intangible assets

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

3.4 Valuation of actuarial liabilities

(a) Canadian Actuarial Standards (recognizing local conditions)

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

3.4 Valuation of actuarial liabilities (continued)

The actuarial liabilities are determined as the present value of liability cash flows discounted at effective interest rates resulting in a value equivalent to the market value of assets supporting these policy liabilities under an adverse economic scenario.

The AA identifies a conservative economic scenario forecast, and together with the existing investment portfolio as at the date of the actuarial valuation and assumed reinvestment of net asset and policy liability cash flows, calculates the actuarial liabilities required at the date of valuation to ensure that sufficient monies are available to meet the liabilities as they become due in future years.

The methodology produces the total reserve requirement for each policy group fund. In general, the methodology is used to determine the net overall actuarial liabilities required by the insurer. Actuarial liabilities are computed by major group of policies and 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, and other individual components in the actuarial liabilities.

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

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

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

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

3.4 Valuation of actuarial liabilities (continued)

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

3.5 Property and casualty insurance contracts

The property and casualty insurance contracts issued by Sagicor at Lloyd's insurance syndicate 1206 (the principal business of the discontinued operation) up to and including the 2013 underwriting year of account contain material accounting judgements which may affect the Group's results until the close of the run-off period contracted with the purchaser of the discontinued operation. The significant judgements are summarised in the following sections.

(a) Policy benefits payable

The estimation of the ultimate liability arising from claims incurred under property and casualty insurance contracts is subject to several sources of uncertainty that need to be considered in determining the amount that the insurer will ultimately pay for such claims. Reserving for claims payable, involves the use of statistical techniques of estimation. These techniques generally involve projecting from past experience, the development of claims over time to form a view of the likely ultimate claims to be experienced, having regard to variations in business written and the underlying terms and conditions.

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

3.5 Property and casualty contracts (continued)

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

A variety of standard actuarial reserving methods are utilised to estimate claim liabilities , including claims development, expected claims ratio, Bornhuetter-Ferguson and frequency-severity methodologies. An independent actuary is engaged to confirm the claim liabilities recognised by the syndicate as of the date of the financial statements. The ultimate liability arising from claims incurred under property and casualty insurance contracts may be mitigated by recovery arising from reinsurance contracts held.

(b) Premium income

The syndicate writes a significant proportion of its premium by delegated authority to insurance intermediaries. Due to delays in the notification of complete and accurate premium income written, the premium income earned and the associated reinsurance, claims expense and commission balances may have to be estimated. Accordingly, premium income written has to be re-assessed for the underwriting years up to and including the 2013 underwriting year of account until the end of the run-off period and adjustments made to the ultimate results of this business.

(c) Carrying value of the assets and liabilities of the discontinued operation

As of December 31, 2013, the liability of the discontinued operation is the estimated residual liability due to the purchaser arising from the estimated results of the syndicate for the underwriting years of account up to and including 2013 until the end of the run-off period. The reported liability is also impacted by movements in various foreign exchange rates as the insured risks are denominated in a number different currencies.

As of December 31, 2012, the assessment of fair value less costs to sell of the discontinued operation was determined on the basis of the terms of sale offered and from the outstanding bids received.

Amounts expressed in US$000

4 SEGMENTS

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

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

In accordance with the relevant financial reporting standard, the Group has determined that there are three principal subsidiary Groups within continuing operations which represent the reportable operating segments of Sagicor. These segments and other Group companies are set out in the following sections. Details of the discontinued operating segment are set out in note 38.

(a) Sagicor Life

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

4 SEGMENTS (continued)

Sagicor Life Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Life Inc	Life and health insurance, annuities and pension administration services	Barbados	100%
Sagicor Capital Life Insurance Company Limited	Life and health insurance, annuities and pension administration services	Barbados	100%
Sagicor Life Aruba NV	Life and health insurance, annuities and pension administration services	Aruba	100%
Capital Life Insurance Company Bahamas Limited	Life insurance	The Bahamas	100%
Sagicor Panamá, SA	Life and health insurance	Panamá	100%
Nationwide Insurance Company Limited	Life insurance	Trinidad & Tobago	100%
Associates			
RGM Limited	Property ownership and management	Trinidad & Tobago	33%
FamGuard Corporation Limited	Investment holding company	Bahamas	20%
Principal operating company: Family Guardian Insurance Company Limited	Life and health insurance and annuities	Bahamas	20%
Primo Holding Limited	Property investment	Barbados	38%

Amounts expressed in US$000

4 SEGMENTS (continued)

(b) Sagicor Jamaica

This segment comprises Group subsidiaries conducting life, health, annuity, property and casualty insurance business, and pension administration services and financial services in Jamaica and Cayman Islands. In December 2013, the segment was reorganised under a newly incorporated publicly listed holding company, Sagicor Group Jamaica Limited. The reorganisation has no immediate effect on the effective shareholders' interest. The companies comprising this segment are as follows.

Sagicor Jamaica Segment Companies	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Group Jamaica Limited	Group holding company	Jamaica	51%
Sagicor Life Jamaica Limited	Life and health insurance and annuities	Jamaica	51% [1]
Sagicor Life of the Cayman Islands Limited	Life insurance	The Cayman Islands	51% [1]
Sagicor Pooled Investment Funds Limited	Pension fund management	Jamaica	51% [1]
Employee Benefits Administrator Limited	Pension administration services	Jamaica	51% [1]
Sagicor Re Insurance Limited	Property and casualty insurance	The Cayman Islands	51% [1]
Sagicor Insurance Brokers Limited	Insurance brokerage	Jamaica	51% [1]
Sagicor International Administrators Limited	Group insurance administration	Jamaica	51% [1]
Sagicor Insurance Managers Limited	Captive insurance management services	The Cayman Islands	51% [1]

4 SEGMENTS (continued)

Sagicor Jamaica Segment Companies (continued)	Principal Activities	Country of Incorporation	Effective Shareholders' Interest
Sagicor Property Services Limited	Property management	Jamaica	51% [1]
Sagicor Investments Jamaica Limited	Investment banking	Jamaica	44% [2]
Sagicor Bank Jamaica Limited	Commercial banking	Jamaica	44% [2]
Sagicor Costa Rica SCR, S.A.	Life insurance	Costa Rica	25.5% [3]
LOJ Holdings Limited	Insurance holding company	Jamaica	100%
Sagicor St Lucia Limited	Financial services holding company	St Lucia	51% [1]

[1] 59% prior to July 13, 2012.

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

[3] Joint venture company which obtained regulatory approval to conduct insurance business in February 2013.

Amounts expressed in US$000

4 SEGMENTS (continued)

(c) Sagicor Life USA

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

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

4 SEGMENTS (continued)

(d) Head office function and other operating companies

These comprise the following:

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

Amounts expressed in US$000

4.1 Statement of income by segment

2013	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Adjustments	Total
Net premium revenue	257,892	292,959	87,650	18,527	-	657,028
Interest income	70,612	118,386	49,609	10,204	-	248,811
Other investment income	2,532	7,705	20,661	(187)	(172)	30,539
Fees and other revenues	7,714	43,575	27,178	24,556	82	103,105
Gain arising on business combinations, acquisitions or divestitures	119	-	-	(119)	-	-
Inter-segment revenues	11,960	1,416	-	11,831	(25,207)	-
	350,829	464,041	185,098	64,812	(25,297)	1,039,483
Net policy benefits	171,950	157,930	88,486	7,049	-	425,415
Net change in actuarial liabilities	10,452	74,951	24,361	-	-	109,764
Interest expense	12,574	39,599	1,541	3,897	-	57,611
Administrative expenses	61,999	73,017	31,163	36,702	1,078	203,959
Commissions and premium and asset taxes	36,075	42,630	24,865	8,239	-	111,809
Finance costs	-	-	58	(243)	17,328	17,143
Depreciation and amortisation	5,388	4,654	1,266	3,922	-	15,230
Inter-segment expenses	349	1,055	865	13,472	(15,741)	-
	298,787	393,836	172,605	73,038	2,665	940,931
Segment income / (loss) before taxes	52,042	70,205	12,493	(8,226)	(27,962)	98,552
Income taxes	(7,049)	(5,631)	(4,372)	(1,872)	-	(18,924)
Net income / (loss) from continuing operations	44,993	64,574	8,121	(10,098)	(27,962)	79,628
Net income/(loss) attributable to shareholders from continuing operations	39,988	32,143	8,121	(30,479)	(10,635)	39,138
Total comprehensive income/(loss) attributable to shareholders from continuing operations	40,251	(1,130)	(377)	(28,620)	(10,639)	(515)

Amounts expressed in US$000

4.1 Statement of income by segment (continued)

2012 restated	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office & Other	Adjustments	Total
Net premium revenue	239,444	259,630	147,435	18,494	-	665,003
Interest income	69,022	132,095	44,654	8,807	-	254,578
Other investment income	12,851	20,581	7,353	(313)	(24)	40,448
Fees and other revenues	11,116	34,117	36,099	22,952	(31)	104,253
Inter-segment revenues	7,344	1,267	-	23,172	(31,783)	-
	339,777	447,690	235,541	73,112	(31,838)	1,064,282
Net policy benefits	155,863	148,032	80,457	8,025	-	392,377
Net change in actuarial liabilities	41,519	52,872	84,150	-	-	178,541
Interest expense	13,610	46,369	5,182	3,304	-	68,465
Administrative expenses	60,923	73,597	24,647	30,776	806	190,749
Commissions and premium taxes	37,298	42,494	12,429	8,361	-	100,582
Finance costs	-	-	-	(243)	18,140	17,897
Depreciation and amortisation	5,081	5,475	1,544	3,801	-	15,901
Inter-segment expenses	345	770	756	8,809	(10,680)	-
	314,639	369,609	209,165	62,833	8,266	964,512
Segment income / (loss) before taxes	25,138	78,081	26,376	10,279	(40,104)	99,770
Income taxes	(4,716)	(9,670)	(8,420)	(1,644)	-	(24,450)
Net income / (loss) from continuing operations	20,422	68,411	17,956	8,635	(40,104)	75,320
Net income/(loss) attributable to shareholders from continuing operations	32,947	36,020	17,956	(11,876)	(21,946)	53,101
Total comprehensive income/(loss) attributable to shareholders from continuing operations	33,178	26,723	16,489	(14,487)	(22,001)	39,902

4.1 Statement of income by segment (continued)

The principal minority interests in the Group are in respect of Sagicor Group Jamaica Limited (Sagicor Jamaica).

Out of the total net income attributable to minority interests of $35,485 (2012 - $34,744), Sagicor Jamaica contributed $32,431 (2012 - $32,391).

4.2 Variations in segment income

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

(i) Investment gains

Fair value investment gains are recognised on:

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

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

(ii) Allowances for impairment of financial investments

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

(iii) Gain on recapture of reinsurance contract held

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

4.2 Variations in segment income (continued)

(iv) Foreign exchange gains and losses

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

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

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

Amounts expressed in US$000

4.2 Variations in segment income (continued)

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

	2013					2012				
Variations in income by segment	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head Office and Other	Total	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head Office and Other	Total
Investment gains / (losses)	7,559	8,249	20,649	87	36,544	6,112	20,118	8,421	(145)	34,506
Impairment of financial investments	(11,276)	(450)	(246)	(590)	(12,562)	(184)	(381)	(1,162)	(337)	(2,064)
Recapture of reinsurance contract held	-	-	-	-	-	-	-	32,155	-	32,155
Foreign exchange gains / (losses)	1,286	10,376	-	(280)	11,382	(228)	6,940	-	(34)	6,678
Gains on acquisitions/divestitures	119	-	-	(119)	-	-	-	-	-	-
Decrease / (increase) in actuarial liabilities from changes in assumptions	14,009	15,080	39,365	-	68,454	6,535	2,377	(15,224)	-	(6,312)

Amounts expressed in US$000

4.3 Other comprehensive income

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

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

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

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

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

	Variations in other comprehensive income by segment					
	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head Office and other	Adjustments	Total
2013						
Unrealised investment (losses)	(8,273)	(8,712)	(30,155)	(302)	-	(47,442)
Changes in actuarial liabilities	5,567	-	24,878	-	-	30,445
Retranslation of foreign currency operations	(819)	(35,606)	-	(12)	(4)	(36,441)
Gains/(losses) on defined benefit plans	1,191	(12,901)	-	2,235	-	(9,475)
2012						
Unrealised investment gains	6,893	9,574	21,414	142	-	38,023
Changes in actuarial liabilities	(1,786)	-	(20,492)	-	-	(22,278)
Retranslation of foreign currency operations	84	(18,439)	-	8	(55)	(18,402)
(Losses) on defined benefit plans	(2,823)	(1,739)	-	(3,405)	-	(7,967)

Amounts expressed in US$000

4.4 Statement of financial position by segment

	Sagicor Life	Sagicor Jamaica	Sagicor Life USA	Head office and other	Sagicor Europe	Adjustments	Total
2013							
Financial investments	1,187,903	1,687,893	1,182,892	133,078	-	-	4,191,766
Other external assets	392,282	183,066	300,721	229,917	-	-	1,105,986
Inter-segment assets	126,211	9,324	151	49,649	-	(185,335)	-
Total assets	1,706,396	1,880,283	1,483,764	412,644	-	(185,335)	5,297,752
Policy liabilities	1,170,526	608,883	1,051,588	54,757	-	-	2,885,754
Other external liabilities	86,789	906,187	203,498	435,314	-	-	1,631,788
Liabilities of discontinued operation	-	-	-	55,024	-	-	55,024
Inter-segment liabilities	23,479	5,846	40,581	115,429	-	(185,335)	-
Total liabilities	1,280,794	1,520,916	1,295,667	660,524	-	(185,335)	4,572,566
Net assets	425,602	359,367	188,097	(247,880)	-	-	725,186
2012 restated							
Financial investments	1,149,739	1,631,731	1,139,525	120,331	-	-	4,041,326
Other external assets	323,387	231,027	78,982	168,603	-	-	801,999
Assets of discontinued operation	-	-	-	46,948	658,784	-	705,732
Inter-segment assets	136,586	29,596	433	147,545	-	(314,160)	-
Total assets	1,609,712	1,892,354	1,218,940	483,427	658,784	(314,160)	5,549,057
Policy liabilities	1,119,326	566,860	834,241	53,875	-	-	2,574,302
Other external liabilities	82,730	936,314	166,941	354,659	-	-	1,540,644
Liabilities of discontinued operation	-	-	-	-	630,977	-	630,977
Inter-segment liabilities	27,025	10,930	29,847	136,989	109,369	(314,160)	-
Total liabilities	1,229,081	1,514,104	1,031,029	545,523	740,346	(314,160)	4,745,923
Net assets	380,631	378,250	187,911	(62,096)	(81,562)	-	803,134

Amounts expressed in US$000

4.4 Statement of financial position by segment (continued)

The principal minority interests in the Group are in respect of Sagicor Group Jamaica Limited (Sagicor Jamaica). Out of the total minority interests in the statement of financial position of $218,751 (2012 - $226,433), Sagicor Jamaica contributed $178,920 (2012 - $189,109).

4.5 Additions to non-current assets by segment

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

	2013	2012
Sagicor Life	5,986	9,153
Sagicor Jamaica	3,946	12,442
Sagicor Life USA	1,124	1,259
Head office and other	11,548	7,398
	22,604	30,252

4.6 Products and services

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

	2013	2012
Life, health and annuity insurance contracts issued to individuals	591,698	653,497
Life, health and annuity insurance and pension administration contracts issued to groups	299,497	257,691
Property and casualty insurance	33,956	32,380
Banking, investment management and other financial services	94,530	101,368
Farming and unallocated revenues	19,802	19,346
	1,039,483	1,064,282

4.7 Geographical areas

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

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

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

	External revenue		Non-current assets	
	2013	2012	2013	2012
Barbados	148,901	138,593	195,204	190,765
Jamaica	426,141	406,988	59,672	87,589
Trinidad & Tobago	140,704	132,967	78,167	72,471
Other Caribbean	138,514	150,092	29,983	29,132
USA	185,223	235,642	2,977	3,130
	1,039,483	1,064,282	366,003	383,087

Amounts expressed in US$000

5 INVESTMENT PROPERTY

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

	2013	2012
Balance, beginning of year	115,224	122,185
Additions at cost	1,424	356
Transfer from / (to) property, plant and equipment	884	(1,500)
Disposals	(18,040)	(1,630)
Change in fair values	982	(2,536)
Effects of exchange rate changes	(2,105)	(1,651)
Balance, end of year	98,369	115,224

Investment property includes $15,223 (2012 - $27,159) which represents the Group's proportionate interest in joint operations summarised in the following table.

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

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

6 ASSOCIATES AND JOINT VENTURE

The movements in the investment in associates and joint ventures during the year and the aggregate balances and results of associates and joint venture companies are summarised in the following table.

	2013	2012 restated
Movement during the year:		
Investment, beginning of year as restated	42,433	33,686
Additions	266	6,280
Disposals and divestitures	(28)	-
Dividends received	(1,348)	(1,005)
Share of:		
Income before taxes	3,519	3,686
Amortisation of intangible assets identified on acquisition	(181)	(177)
Income taxes	(364)	(271)
Other comprehensive income	923	412
Effects of exchange rate changes	(1,018)	(178)
Investment, end of year	44,202	42,433
Aggregate balances and results:		
Total assets	532,852	485,026
Total liabilities	374,794	335,540
Total revenue	139,858	135,126
Net income for the year	14,413	13,823

During the year the Group adopted retroactively the equity basis of accounting for its joint venture investment in Sagicor Costa Rica SCR, S.A. (note 48).

Amounts expressed in US$000

7 PROPERTY, PLANT AND EQUIPMENT

	2013					2012				
	Owner-occupied property		Office furnishings, equipment & vehicles	Operating lease vehicles & equipment	Total	Owner-occupied properties		Office furnishings, equipment & vehicles	Operating lease vehicles & equipment	Total
	Lands	Land & buildings				Land	Land & buildings			
Net book value, beginning of year	38,428	65,124	31,978	10,288	145,818	38,504	62,886	26,268	9,359	137,017
Additions at cost	-	1,418	11,777	6,704	19,899	-	2,440	14,677	4,736	21,853
Transfer (to) / from investment property	-	(884)	-	-	(884)	-	1,500	-	-	1,500
Transfer to intangible assets (note 8)	-	-	(1,801)	-	(1,801)	-	-	(504)	-	(504)
Other transfers	-	296	228	-	524	-	-	19	-	19
Transfers to real estate developed or held for sale	-	-	-	-	-	(76)	-	-	-	(76)
Disposals	-	(963)	(1,045)	(1,361)	(3,369)	-	-	(207)	(1,396)	(1,603)
Change in fair values	-	3,451	-	-	3,451	-	(196)	-	-	(196)
Depreciation charge	-	(809)	(6,126)	(2,694)	(9,629)	-	(891)	(7,174)	(2,413)	(10,478)
Effects of exchange rate changes	-	(1,352)	(1,118)	-	(2,470)	-	(615)	(557)	2	(1,170)
Transfer to assets of discontinued operation	-	-	-	-	-	-	-	(544)	-	(544)
Net book value, end of year	38,428	66,281	33,893	12,937	151,539	38,428	65,124	31,978	10,288	145,818
Represented by:										
Cost or valuation	38,428	67,253	99,453	18,188	223,322	38,428	66,327	96,981	15,607	217,343
Accumulated depreciation	-	(972)	(65,560)	(5,251)	(71,783)	-	(1,203)	(65,003)	(5,319)	(71,525)
	38,428	66,281	33,893	12,937	151,539	38,428	65,124	31,978	10,288	145,818

Owner-occupied lands are largely utilised for farming operations.

Owner-occupied land and buildings consist largely of commercial office buildings.

Amounts expressed in US$000

8 INTANGIBLE ASSETS

8.1 Analysis of intangible assets and changes for the year

	2013				2012				
	Goodwill	Customer & broker relationships	Software	Total	Goodwill	Customer & broker relationships	Syndicate capacity & licences	Software	Total
Net book value, beginning of year	50,338	20,801	8,473	79,612	57,743	29,203	20,034	13,807	120,787
Additions at cost	-	-	1,015	1,015	-	-	-	3,584	3,584
Transfer from property, plant and equipment (note 7)	-	-	1,801	1,801	-	-	-	504	504
Amortisation	-	(2,094)	(3,326)	(5,420)	-	(3,040)	(46)	(3,810)	(6,896)
Disposals and divestitures	-	-	-	-	(1,473)	-	-	(33)	(1,506)
Effects of exchange rate changes	(2,390)	(2,487)	(238)	(5,115)	(1,502)	(1,392)	916	89	(1,889)
Transfer to assets of discontinued operation	-	-	-	-	(4,430)	(3,970)	(20,904)	(5,668)	(34,972)
Net book value, end of year	47,948	16,220	7,725	71,893	50,338	20,801	-	8,473	79,612
Represented by:									
Cost or valuation	49,761	32,577	33,288	115,626	52,151	37,237	-	33,685	123,073
Accumulated depreciation and impairments	(1,813)	(16,357)	(25,563)	(43,733)	(1,813)	(16,436)	-	(25,212)	(43,461)
	47,948	16,220	7,725	71,893	50,338	20,801	-	8,473	79,612

Amounts expressed in US$000

8.2 Impairment of intangible assets

Goodwill arises from past acquisitions and is allocated to cash generating units (CGUs). Goodwill is tested annually for impairment. The recoverable amount of a CGU is determined as the higher of its value in use or its fair value less costs to sell. Annually, the management of each operating segment or other operating company prepares financial projections for the next three years.

For those CGU's which the fair value less costs to sell methodology is used, the financial projections are used as inputs to determine maintainable earnings over time to which is applied an appropriate earnings multiple. For those CGU's which the value in use methodology is used, cash flows are extracted from the financial projections to which are applied appropriate discount factors and residual growth rates, or alternatively, the cash flows from the financial projections are extended to 50 years using an actuarial appraisal value technique which incorporates appropriate discount rates and solvency capital requirements.

The Group obtains independent professional advice in order to select the relevant discount factors, residual growth rates and earnings multiples.

The carrying values of goodwill and the impairment test factors used are considered in the following sections.

(a) Sagicor Life operating segment

	2013	2012
Carrying value of goodwill	27,031	27,120

8.2 Impairment of intangible assets (continued)

(i) Year ended December 31, 2013

An actuarial appraisal value technique was adopted to test goodwill impairment. The principal assumptions included the following:

- Discount rate of 9% for individual life and annuity inforce business,
- New individual life and annuity business was included for the ten year period 2014 to 2023,
- Annual growth rate for new individual life and annuity business varying between 7.5% and 10.0% from 2014 to 2018, and 2.0% from 2019 to 2023,
- Discount rate of 13% for new individual life and annuity business,
- Required Minimum Continuing Capital and Surplus Ratio (MCCSR) of 200%.

Sensitivity

The excess of the appraisal value over carrying value of the operating segment was also tested by varying the discount rates and capital ratios. The results are set out in the following tables. Negative amounts illustrate the extent of possible impairment.

Barbados, Eastern Caribbean, Dutch Caribbean, Bahamas and Central America			MCCSR target ratio		
			Low	Mid	High
Discount rate	Inforce	New business	175%	200%	225%
Low	7%	11%	287,682	288,003	288,328
Mid	9%	13%	147,260	143,777	140,256
High	11%	15%	55,107	49,250	43,331

Amounts expressed in US$000

8.2 Impairment of intangible assets (continued)

Trinidad and Tobago			MCCSR target ratio		
			Low	Mid	High
Discount rate	Inforce	New business	175%	200%	225%
Low	7%	11%	88,823	85,931	83,007
Mid	9%	13%	25,633	20,909	16,134
High	11%	15%	(10,089)	(10,089)	(10,089)

(ii) Year ended December 31, 2012

The fair value less cost to sell methodology was adopted to test goodwill impairment. The after tax multiple used for the segment comprising Barbados, Eastern Caribbean, Dutch Caribbean, Bahamas and Central America was 10.7 which was derived from a pre-tax factor of 8.91 using an iterative method. The after tax multiple used for the segment comprising Trinidad and Tobago was 17.3 which was derived from a pre-tax factor of 14.05 using an iterative method.

(b) Sagicor Jamaica operating segment

	2013	2012
Carrying value of goodwill	16,048	18,349

The fair value less cost to sell methodology was adopted to test goodwill impairment in both years. The after tax multiple used for the segment was 7.1 (2012 - 7.40) which was derived from a pre-tax factor of 6.36 (2012 - 6.28) using an iterative method.

8.2 Impairment of intangible assets (continued)

Sensitivity

The possible impairment of goodwill is sensitive to changes in earnings multiples and after tax earnings. This is illustrated in the following table.

	2013 test		
After tax earnings multiples	7.1	6.4	5.6
Reduction in forecast earnings	n/a	10%	10%
Excess of recoverable amount (of 51% interest)	32,268	Nil	n/a
Impairment (of 51% interest)	Nil	Nil	(16,048)

(c) Other operating companies

	2013	2012
Carrying value of goodwill	4,869	4,869

The Group recognised goodwill on the acquisition of its interests in Sagicor General Insurance Inc and Globe Finance Inc. The value in use methodology has been used to test goodwill impairment in both years. For 2013, the after tax discount factors were 14.0% and 13.1% respectively and the residual growth rates were 3.8% and 2.1% respectively. For 2012, the corresponding after tax discount factors were 13.5% and 11.3% respectively and the residual growth rates were 4.9% and 4.2% respectively.

Amounts expressed in US$000

9 FINANCIAL INVESTMENTS

9.1 Analysis of financial investments

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
Held to maturity securities:				
Debt securities	20,200	20,466	20,004	21,835
Available for sale securities:				
Debt securities	2,074,114	2,074,114	2,020,084	2,020,084
Equity securities	92,375	92,375	80,361	80,361
	2,166,489	2,166,489	2,100,445	2,100,445
Financial assets at fair value through income:				
Debt securities	148,306	148,306	116,941	116,941
Equity securities	103,185	103,185	85,193	85,193
Derivative financial instruments (note 41.6)	45,215	45,215	52,081	52,081
Mortgage loans	36,838	36,838	40,212	40,212
Securities purchased for re-sale	162	162	177	177
	333,706	333,706	294,604	294,604
Loans and receivables:				
Debt securities	949,156	981,486	966,893	996,087
Mortgage loans	220,769	221,427	224,140	224,673
Policy loans	134,236	141,464	125,297	137,324
Finance loans and finance leases	165,050	161,631	154,708	163,270
Securities purchased for re-sale	40,713	40,713	19,357	19,357
Deposits	161,447	161,447	135,878	135,878
	1,671,371	1,708,168	1,626,273	1,676,589
Total financial investments	4,191,766	4,228,829	4,041,326	4,093,473

9.1 Analysis of financial investments (continued)

	2013	2012
Non-derivative financial assets at fair value through income comprise:		
Assets designated at fair value upon initial recognition	288,491	242,523
Debt securities comprise:		
Government and government-guaranteed debt securities	1,609,133	1,622,960
Collateralised mortgage obligations	195,858	196,103
Corporate debt securities	1,289,061	1,237,510
Other securities	97,724	67,349
	3,191,776	3,123,922

9.2 Pledged assets

Debt and equity securities include $213,703 (2012 - $100,261) as collateral for loans payable and other funding instruments.

Collateral for the obligation to the Federal Home Loan Bank of Dallas (FHLB) which is included in other funding instruments (note 17), consists of an equity holding in the FHLB with a market value of $7,143 (2012 - $6,353), and mortgages and mortgage backed securities having a total market value of $160,250 (2012 - $146,733).

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, 2013, these pledged assets totalled $643,127 (2012 - $679,872). Of these assets pledged as security, $30,934 (2012 – $42,551) represents collateral for securities sold under agreements to repurchase in instances when the transferee has the right by contract or by custom to sell or re-pledge the collateral.

Amounts expressed in US$000

9.3 Returns accruing to the benefit of contract-holders

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

	2013	2012
Debt securities	93,864	72,414
Equity securities	97,255	77,045
Mortgage loans	36,838	40,212
Securities purchased for re-sale	162	177
	228,119	189,848

9.4 Reclassification of financial investments

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

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

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

9.4 Reclassification of financial investments (continued)

The following disclosures are in respect of these reclassified assets.

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
Government debt securities maturing after September 2018	51,342	49,344	53,033	53,642
Other debt securities	3,458	4,095	6,357	6,898
	54,800	53,439	59,390	60,540

	2013	2012
Cumulative net fair value loss, beginning of year	(4,783)	(11,449)
Net fair value (losses) / gains subsequent to restatement	(2,716)	6,984
Disposals	-	(42)
Effect of exchange rate changes	177	(276)
Cumulative net fair value loss, end of year	(7,322)	(4,783)

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

Amounts expressed in US$000

10 REINSURANCE ASSETS

	2013	2012
Reinsurers' share of:		
Actuarial liabilities (note 13.1)	285,250	56,683
Policy benefits payable (note 14.2)	28,325	25,080
Provision for unearned premiums (note 14.3)	20,153	20,323
Other items	2,699	600
	336,427	102,686

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

11 INCOME TAX ASSETS

	2013	2012
Deferred income tax assets (note 33)	4,808	1,674
Income and withholding taxes recoverable	24,227	31,399
	29,035	33,073

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

12 MISCELLANEOUS ASSETS AND RECEIVABLES

	2013	2012 restated
Net defined benefit assets (note 31)	495	576
Real estate developed or held for resale	14,626	17,234
Prepaid and deferred expenses	15,688	14,568
Premiums receivable	36,318	35,712
Other assets and accounts receivable	81,024	31,067
	148,151	99,157

Other accounts receivable includes:

(i) $50,104 (2012 - nil) representing the liquidation of collateral for a banker's letter of credit facility (see note 38); and

(ii) $4,636 (2012 - $9,315) due from managed funds.

Real estate developed for resale includes $6,699 (2012 - $8,418) which is expected to be realised within one year of the financial statements date.

Amounts expressed in US$000

13 ACTUARIAL LIABILITIES

13.1 Analysis of actuarial liabilities

	Gross liability		Reinsurers' share	
	2013	2012	2013	2012
Contracts issued to individuals:				
Life insurance - participating policies	319,075	319,266	106	37
Life insurance and annuity - non-participating policies	1,424,285	1,182,192	260,031	30,237
Health insurance	7,115	2,345	517	626
Unit linked funds	133,882	132,798	-	-
Reinsurance contracts held	23,037	20,365	-	-
	1,907,394	1,656,966	260,654	30,900
Contracts issued to groups:				
Life insurance	38,575	42,524	1,448	1,518
Annuities	343,291	306,020	22,981	24,189
Health insurance	35,059	35,397	167	76
	416,925	383,941	24,596	25,783
Total actuarial liabilities	2,324,319	2,040,907	285,250	56,683

The following notes are in respect of the foregoing table:

- Life insurance includes coverage for disability and critical illness.
- Actuarial liabilities include $101,731(2012 - $109,344) in assumed reinsurance.
- The liability for reinsurance contracts held occurs because the reinsurance premium costs exceed the mortality costs assumed in determining the gross liability of a policy contract.

13.2 Movement in actuarial liabilities

	Gross liability		Reinsurers' share	
	2013	2012	2013	2012
Balance, beginning of year	2,040,907	1,876,477	56,683	169,159
Amounts assumed on business and portfolio acquisitions (note 13.2(a))	33,910	(2,360)	-	-
Changes in actuarial liabilities:				
Recorded in income	338,331	171,803	228,567	(9,984)
Recorded in other comprehensive income	(43,840)	33,313	1	-
Recapture of reinsurance contract held (note 13.2(b))	-	-	-	(101,105)
Other movements	(886)	(9,907)	-	-
Effect of exchange rate changes	(44,103)	(21,023)	(1)	59
Transfers to discontinued operation	-	(7,396)	-	(1,446)
Balance, end of year	2,324,319	2,040,907	285,250	56,683
Analysis of changes in actuarial liabilities				
Arising from increments and decrements of inforce policies and from the issuance of new policies	403,700	197,670	228,609	(9,984)
Arising from changes in assumptions for mortality, lapse, expenses, investment yields and asset default	(68,454)	6,312	(41)	-
Other changes:				
Actuarial modelling, refinements, improvements and corrections	(5,928)	7,265	-	-
Other items	(34,827)	(6,131)	-	-
Total	294,491	205,116	228,568	(9,984)

Amounts expressed in US$000

13.2 Movement in actuarial liabilities (continued)

(a) Acquisition of insurance portfolio

During the year, Sagicor Life Inc acquired the British American Insurance Company Limited (BAICO) Eastern Caribbean insurance portfolio. This was accounted for as a portfolio acquisition. The insurance portfolio acquired by Sagicor was made up of group pensions and traditional life policies issued by BAICO in the Eastern Caribbean. The obligation to pay certain unpaid amounts to policyholders under these policies (being claims, maturities, surrenders and bonuses) has been assumed by Sagicor with the transfer of the insurance portfolio, and the Eastern Caribbean Governments funded the payment of these in accordance with the terms of the policies. The payment of claims will be subject to the claimant meeting the requirements of the policy terms, and signing an appropriate release.

The effects of this transaction in the financial statements are set out below.

	Fair Value
Net assets acquired:	
Financial investments	5,598
Miscellaneous assets and receivables	594
Cash resources	36,299
Actuarial liabilities	(33,910)
Other insurance liabilities	(7,185)
Total net assets	1,396
Purchase consideration and related costs	5,600
Loss arising on net assets acquired	4,204

13.2 Movement in actuarial liabilities (continued)

(b) Recapture of reinsurance contract held

During 2012, Sagicor Life Insurance Company (SLIC) recaptured the 62.5% share of a block of life insurance and annuity contracts it had previously ceded to ScottishRe Life Corporation. In return for the recapture of insurance liabilities, SLIC received assets which included financial investments held in trust under the terms of the reinsurance contract. The effects of this transaction in the financial statements are set out below.

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

The gain on recapture reflects the difference in the pricing of the reinsurance contract on a USA statutory insurance basis and the measurement of reinsured liabilities in accordance with note 2.11. As a result, the assets transferred on the recapture exceeded carrying value of the reinsured liabilities.

Amounts expressed in US$000

13.3 Assumptions – life insurance and annuity contracts

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

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

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

(b) Assumptions for mortality and morbidity

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

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

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

(c) Assumptions for lapse

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

13.3 Assumptions – life insurance and annuity contracts

(d) Assumptions for investment yields

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

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

Ultimate rate of return	2013	2012
Barbados	6.0%	5.25%
Jamaica	5.0%	5.0%
Trinidad & Tobago	4.25%	5.0%
Other Caribbean	4.5% - 6.0%	4.5% - 5.5%
USA	1.75% - 3.96%	2.95%

(e) Assumptions for operating expenses and taxes

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

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

Amounts expressed in US$000

13.3 Assumptions – life insurance and annuity contracts (continued)

(f) Asset defaults

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

(g) Margins for adverse deviations

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

Provisions for adverse deviations	2013	2012
Mortality and morbidity	81,199	79,456
Lapse	64,469	55,994
Investment yields and asset default	45,851	76,613
Operating expenses and taxes	19,777	19,005
Other	2,846	3,472
	214,142	234,540

13.4 Assumptions – health insurance contracts

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

14 OTHER INSURANCE LIABILITIES

14.1 Analysis of other insurance liabilities

	2013	2012
Dividends on deposit and other policy balances	70,036	70,032
Policy benefits payable	90,834	83,814
Provision for unearned premiums	33,564	33,353
	194,434	187,199

14.2 Policy benefits payable

	Gross liability		Reinsurers' share	
	2013	2012	2013	2012
Analysis of policy benefits payable:				
Life insurance and annuity benefits	64,498	58,450	12,400	9,744
Health claims	2,687	2,632	2,759	3,257
Property and casualty claims	23,649	22,732	13,166	12,079
	90,834	83,814	28,325	25,080

Amounts expressed in US$000

14.2 Policy benefits payable (continued)

	Gross liability		Reinsurers' share	
	2013	2012	2013	2012
Movement for the year:				
Balance, beginning of year	83,814	494,198	25,080	115,801
Policy benefits assumed on business and portfolio acquisitions	7,185	39	-	-
Policy benefits incurred	457,010	654,443	33,997	68,053
Policy benefits paid	(454,975)	(629,362)	(30,576)	(64,140)
Recapture of reinsurance contract held	-	-	-	(932)
Effect of exchange rate changes	(2,200)	5,448	(176)	2,473
Transfers to discontinued operation	-	(440,952)	-	(96,175)
Balance, end of year	90,834	83,814	28,325	25,080

14.3 Provision for unearned premiums

	Gross liability		Reinsurers' share	
	2013	2012	2013	2012
Analysis of the provision:				
Property and casualty insurance	32,410	32,378	20,153	20,323
Health insurance	1,154	975	-	-
	33,564	33,353	20,153	20,323

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

14.3 Provision for unearned premiums (continued)

	Gross liability		Reinsurers' share	
	2013	2012	2013	2012
Movement for the year:				
Balance, beginning of year	33,353	224,756	20,323	41,608
Premiums written	71,875	377,410	47,914	105,014
Premium revenue	(71,661)	(421,261)	(48,086)	(108,176)
Effect of exchange rate changes	(3)	7,907	2	909
Transfers to discontinued operation	-	(155,459)	-	(19,032)
Balance, end of year	33,564	33,353	20,153	20,323

15 INVESTMENT CONTRACT LIABILITIES

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Deposit administration liabilities	119,512	119,512	119,589	119,589
Other investment contracts	133,115	135,876	122,523	128,079
	252,627	255,388	242,112	247,668
At fair value through income:				
Unit linked deposit administration liabilities	114,374	114,374	104,084	104,084
	367,001	369,762	346,196	351,752

Amounts expressed in US$000

16 NOTES AND LOANS PAYABLE

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
7.5% senior notes due 2016	145,178	156,924	145,865	156,245
6.5% convertible redeemable preference shares due 2016	100,417	115,339	93,636	99,696
4.6% notes due 2015	43,174	43,174	-	-
Finance lease payable	1,391	1,391	2,055	2,055
	290,160	316,828	241,556	257,996

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

Details of the 6.5% convertible redeemable preference shares due 2016 are set out in note 21.2. The initial fair value of the subscription proceeds was determined by discounting the ultimate redemption value ($120,000), at a rate of 6.5% for 5 years. The subsequent finance cost recognised is the amortisation of the difference between the ultimate redemption value and the initial carrying value, calculated on an effective interest method for the 5 years to maturity.

On December 18, 2013, the Company issued eighteen month $43,386 notes which are repayable in 2015. The notes carry a 4.6% annual rate of interest fixed for the period and interest is payable semi-annually. Issue costs amounted to $290. Financial covenants in respect of these notes are summarised in note 46.3(a).

17 DEPOSIT AND SECURITY LIABILITIES

	2013		2012	
	Carrying value	Fair value	Carrying value	Fair value
At amortised cost:				
Other funding instruments	313,439	316,632	245,675	250,822
Customer deposits	219,192	235,393	198,008	210,228
Securities sold for re-purchase	524,232	525,267	591,064	591,654
Bank overdrafts	1,933	1,933	1,954	1,954
	1,058,796	1,079,225	1,036,701	1,054,658
At fair value through income:				
Structured products	17,371	17,371	9,216	9,216
Derivative financial instruments (note 41.6)	29,916	29,916	46,512	46,512
	47,287	47,287	55,728	55,728
	1,106,083	1,126,512	1,092,429	1,110,386

Other funding instruments consist of loans from banks and other financial institutions and include balances of $157,608 (2012 - $131,009) due to the Federal Home Loan Bank of Dallas (FHLB). The Group participates in the FHLB program in which funds received from the Bank are invested in mortgages and mortgage backed securities.

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

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

Amounts expressed in US$000

18 PROVISIONS

	2013	2012
Net defined benefit liabilities (note 31)	74,767	58,376
Other provisions	316	245
	75,083	58,621

19 INCOME TAX LIABILITIES

	2013	2012
Deferred income tax liabilities (note 33)	22,532	26,373
Income taxes payable	6,693	7,240
	29,225	33,613

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

20 ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2013	2012
Amounts due to policyholders	16,830	16,191
Amounts due to reinsurers	22,929	15,995
Other accounts payable and accrued liabilities	91,478	82,239
	131,237	114,425

21 COMMON AND PREFERENCE SHARES

The Company is authorised to issue:

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

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

21.1 Common shares

	2013		2012	
	Number in 000's	Share capital	Number in 000's	Share capital
Issued and fully paid:				
Balance, beginning of year	303,917	301,600	303,917	301,600
Shares issued	-	-	-	-
Balance, end of year	303,917	301,600	303,917	301,600
Treasury shares:				
Shares held for LTI and ESOP, end of year (note 30.1)	(3,583)	(6,150)	(3,028)	(5,542)
Total	300,334	295,450	300,889	296,058

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

Amounts expressed in US$000

21.2 Convertible redeemable preference shares

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

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

The preference shares are accounted for as a compound financial instrument and were initially recognised in the statement of financial position as a financial liability (note 16) and also as equity (note 22). The preference shares are listed on the Barbados and Trinidad & Tobago stock exchanges. Put option rights in respect of the preference shares are disclosed in note 46.3(b).

21.3 Dividends

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

	2013		2012	
	Per share	Total	Per share	Total
Dividends declared and paid:				
Preference shares	6.50 ¢	7,800	6.50 ¢	7,800
Common shares	4.0 ¢	12,035	4.0 ¢	12,035
		19,835		19,835

21.3 Dividends (continued)

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

	2013		2012	
	Per share	Total	Per share	Total
Dividends proposed:				
Preference shares - May 15	3.25 ¢	3,900	3.25 ¢	3,900
Common shares - final for current year	2.0 ¢	6,018	2.0 ¢	6,018
		9,918		9,918

21.4 Restrictions on common share dividends

The Company's Articles of Incorporation include the following limitations on the payment of common share dividends.

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

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

Amounts expressed in US$000

22 RESERVES

	<<<<<< Fair value reserves >>>>>>						
	Owner occupied property	Available for sale assets	Actuarial liabilities	Currency translation reserves	Preference share reserve	Other reserves	Total reserves
2013							
Balance, beginning of year	22,978	59,946	(47,224)	(77,864)	23,005	35,570	16,411
Other comprehensive income from continuing operations allocated to reserves	3,109	(51,624)	30,445	(18,343)	-	-	(36,413)
Other comprehensive income from discontinued operation	-	476	-	18,796	-	-	19,272
Transactions with holders of equity instruments:							
Allocated to reserve for equity compensation benefits	-	-	-	-	-	2,169	2,169
Eliminated from reserve for equity compensation benefits	-	-	-	-	-	(46)	(46)
Transfers to retained earnings and other movements	(654)	-	-	-	(6,262)	698	(6,218)
Balance, end of year	25,433	8,798	(16,779)	(77,411)	16,743	38,391	(4,825)
2012							
Balance, beginning of year	23,419	36,389	(26,197)	(72,590)	29,267	30,577	20,865
Other comprehensive income from continuing operations allocated to reserves	163	23,832	(21,027)	(9,681)	-	-	(6,713)
Other comprehensive income from discontinued operation	-	(399)	-	543	-	-	144
Transactions with holders of equity instruments:							
Allocated to reserve for equity compensation benefits	-	-	-	-	-	5,369	5,369
Eliminated from reserve for equity compensation benefits	-	-	-	-	-	(875)	(875)
Change in ownership of subsidiaries (note 37)	(604)	124	-	3,864	-	(2,356)	1,028
Transfers to retained earnings and other movements	-	-	-	-	(6,262)	2,855	(3,407)
Balance, end of year	22,978	59,946	(47,224)	(77,864)	23,005	35,570	16,411

Other reserves comprise reserves for equity compensation benefits of $16,533 (2012 - $14,410) and statutory reserves of $21,858 (2012 - $21,160).

Amounts expressed in US$000

23 PARTICIPATING ACCOUNTS

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

	Closed participating account		Open participating account	
	2013	2012	2013	2012
Movement for the year:				
Balance, beginning of year	2,273	4,147	(12,606)	(1,946)
Total comprehensive income / (loss)	(5,432)	(1,874)	10,345	(10,412)
Return of transfer to support profit distribution to shareholders	-	-	(242)	(248)
Balance, end of year	(3,159)	2,273	(2,503)	(12,606)
Financial statement amounts:				
Assets	95,096	101,164	229,543	241,414
Liabilities	98,255	98,891	232,046	254,020
Revenues	8,110	13,263	23,441	31,343
Benefits	11,938	13,180	5,549	36,005
Expenses	1,447	1,766	6,873	5,288
Income taxes	159	258	580	634

The Group has the ability to reduce future policy bonuses and dividends in order to eliminate a deficit in a participating account.

24 PREMIUM REVENUE

	Gross premium		Ceded to reinsurers	
	2013	2012	2013	2012
Life insurance	358,876	362,563	34,627	38,910
Annuity	445,135	187,684	271,665	361
Health insurance	146,055	140,819	5,132	5,164
Property and casualty insurance	66,472	66,157	48,086	47,785
	1,016,538	757,223	359,510	92,220

Amounts expressed in US$000

25 NET INVESTMENT INCOME

	2013	2012
Investment income:		
Interest income	248,811	254,578
Dividend income	2,235	2,297
Rental income from investment property	3,723	5,437
Net investment gains	36,544	34,506
Share of operating income of associates and joint venture	3,519	3,686
Other investment income	250	128
	295,082	300,632
Investment expenses:		
Allowances for impairment losses	12,562	2,064
Direct operating expenses of investment property	1,284	1,607
Other direct investment expenses	1,886	1,935
	15,732	5,606
Net investment income	279,350	295,026

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

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

25 NET INVESTMENT INCOME (continued)

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

	2013	2012
Interest income:		
Debt securities	201,982	206,502
Mortgage loans	18,926	19,611
Policy loans	8,951	8,878
Finance loans and finance leases	15,270	15,145
Securities purchased for re-sale	1,094	781
Deposits	2,623	3,670
Other balances	(35)	(9)
	248,811	254,578
Net investment gains / (losses):		
Debt securities	7,685	29,471
Equity securities	16,741	5,871
Investment property	1,195	(2,489)
Other financial instruments	10,923	1,653
	36,544	34,506

Amounts expressed in US$000

26 FEES AND OTHER REVENUE

	2013	2012
Fee income – assets under administration	19,300	14,590
Fee income – deposit administration and policy funds	1,033	1,090
Commission income on insurance and reinsurance contracts	40,424	14,086
Gain on recapture of reinsurance contract held (note 13.2(b))	-	32,155
Other fees and commission income	15,150	15,813
Foreign exchange gains	11,382	6,678
Other operating and miscellaneous income	20,020	17,472
Loss arising on acquisition of insurance portfolio (note 13.2 (a))	(4,204)	-
Gain arising on acquisition of insurance business (note 37)	-	2,369
	103,105	104,253

27 POLICY BENEFITS AND CHANGE IN ACTUARIAL LIABILITIES

	Gross benefit		Ceded to reinsurers	
	2013	2012	2013	2012
Life insurance benefits	199,420	180,560	12,298	17,717
Annuity benefits	126,698	124,207	8,997	9,363
Health insurance claims	117,480	109,740	3,937	3,076
Property and casualty claims	15,814	16,218	8,765	8,192
Total policy benefits	459,412	430,725	33,997	38,348
Change in actuarial liabilities	338,331	169,033	228,567	(9,508)
Total policy benefits and change in actuarial liabilities	797,743	599,758	262,564	28,840

28 INTEREST EXPENSE

	2013	2012
Insurance contracts	2,912	2,810
Investment contracts	14,697	17,992
Other funding instruments	6,038	6,513
Customer deposits	7,310	7,297
Securities sold for re-purchase	26,218	31,774
Other items	436	2,079
	57,611	68,465

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

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

29 EMPLOYEE COSTS

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

	2013	2012
Administrative staff salaries, directors' fees and short-term benefits	85,666	80,568
Social security and defined contribution retirement costs	6,635	6,653
Equity-settled compensation benefits (note 30.1 to 30.3)	3,499	5,783
Defined benefit expense (note 31 (b))	12,493	9,047
	108,293	102,051

30 EQUITY COMPENSATION BENEFITS

30.1 The Company

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

(a) LTI plan – restricted share grants

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

30.1 The Company (continued)

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

	2013		2012	
	Number of grants '000	Weighted average price	Number of grants '000	Weighted Average price
Balance, beginning of year	2,618	US$1.25	1,413	US$1.44
Grants issued	2,183	US$1.03	1,521	US$1.09
Grants vested	(1,229)	US$1.17	(316)	US$1.27
Grants lapsed/forfeited	(48)	US$1.30	-	-
Balance, end of year	3,524	US$1.14	2,618	US$1.25

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

	2013		2012	
	Number in 000's	$000	Number in 000's	$000
Balance, beginning of year	112	92	16	24
Shares acquired	561	622	300	249
Shares distributed	-	-	(204)	(181)
Balance, end of year	673	714	112	92

30.1 The Company (continued)

(b) LTI plan – share options

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

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

	2013		2012	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	11,255	US$1.86	9,899	US $1.92
Options granted	2,269	US$1.15	1,538	US $1.53
Options lapsed/forfeited	(234)	US$1.68	(182)	US $1.94
Balance, end of year	13,290	US$1.75	11,255	US $1.86
Exercisable at the end of the year	8,228	US$1.99	6,419	US $2.06
Share price at grant date	US $1.15 – 2.50		US $1.48 – 2.50	
Fair value of options at grant date	US$0.28 – 0.69		US $0.39 – 0.69	
Expected volatility	19.3% – 35.8%		19.3% - 35.8%	
Expected life	7.0 years		7.0 years	
Expected dividend yield	2.6% - 3.5%		2.6% - 3.1%	
Risk-free interest rate	4.8% - 6.8%		4.8% – 6.8%	

30.1 The Company (continued)

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

(c) ESOP

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

	2013		2012	
	Number in 000's	$000	Number in 000's	$000
Balance, beginning of year	2,916	5,450	2,950	5,528
Shares acquired	-	-	-	-
Shares distributed	(6)	(14)	(34)	(78)
Balance, end of year	2,910	5,436	2,916	5,450

30.2 Sagicor Group Jamaica Limited

(a) Long-term incentive plan

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

Amounts expressed in US$000

30.2 Sagicor Group Jamaica Limited (continued)

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

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

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

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

	2013		2012	
	Number of options '000	Weighted average exercise price	Number of options '000	Weighted average exercise price
Balance, beginning of year	44,590	J$6.39	48,122	J$6.18
Options granted	30,918	J$10.58	7,968	J$7.52
Options exercised	(1,524)	J$4.82	(8,165)	J$5.98
Options lapsed/forfeited	(1,836)	J$6.50	(3,335)	J$6.99
Balance, end of year	72,148	J$8.22	44,590	J$6.39
Exercisable at the end of the year	55,885	J$7.92	25,821	J$6.49

30.2 Sagicor Group Jamaica Limited (continued)

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

	2013	2012
Fair value of options outstanding	J$72,148,000	J$44,590,000
Share price at grant date	J$5.97 – 11.14	J$4.20 – 7.92
Exercise price	J$5.97 – 11.14	J$4.20 – 7.92
Standard deviation of expected share price returns	25.0%	25.0%
Remaining contractual term	0.25 - 7 years	1 - 6 years
Risk-free interest rate	8.04%	7.65%

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

(b) Employee share purchase plan

Sagicor Life Jamaica has in place a share purchase plan which enables its administrative and sales staff to purchase shares at a discount. The proceeds from shares issued under this plan totalled $285 (2012 – $748).

30.3 Sagicor Investments Jamaica Limited

In December 2013, the Sagicor Group of companies in Jamaica decided to harmonize compensation plans across the group and; considering the pending delisting of the subsidiary Sagicor Investments Jamaica Limited (SIJL), all outstanding options in SIJL as at December 2013 were converted to corresponding Sagicor Group Jamaica Limited (SGJ) options with equivalent monetary value. From December 2013 all Executives of the Group participate in the SGJ LTI plan.

Amounts expressed in US$000

31 EMPLOYEE RETIREMENT BENEFITS

The Group maintains a number of defined contribution and defined benefit retirement benefit plans for eligible sales agents and administrative employees. The plans for sales agents and some administrative employees provide defined contribution benefits. The plans for administrative employees in Barbados, Jamaica, Trinidad, Eastern Caribbean and certain other Caribbean countries provide defined benefits based on final salary and number of years active service Also, in these countries, retired employees may be eligible for medical and life insurance benefits which are partially or wholly funded by the Group. The principal defined benefit retirement plans are as follows:

Funded Plans	Unfunded Plans
Sagicor Life Barbados & Eastern Caribbean Pension	Sagicor Life Trinidad Pension
Sagicor Life Jamaica Pension	Sagicor Life (Heritage Life of Barbados - Barbados & Eastern Caribbean) Pension
Sagicor Investments Jamaica Pension	Group medical and life plans

The above plans also incorporate employees of the Company and other subsidiaries, whose attributable obligations and attributable assets are separately identified for solvency, contribution rate and reporting purposes.

The assets of the Sagicor Life Trinidad and Sagicor Life (Heritage Life of Barbados) pension plans are held under deposit administration contracts with Sagicor Life Inc and because these assets form part of the Group's assets, these plans are presented as unfunded in accordance with IAS 19 (revised).

The above pension plans are registered with the relevant regulatory authorities in the Caribbean and are governed by Trust Deeds which conform with the relevant laws. The plans are managed by the Group under the direction of appointed Trustees.

The group medical and life obligations arise from employee benefit insurance plans where benefits are extended to retirees.

All disclosures in following sections of this note relate only to defined retirement benefit plans.

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(a) Amounts recognised in the statement of financial position

	2013	2012 restated
Present value of funded pension obligations	162,772	148,194
Fair value of retirement plan assets	(136,084)	(131,476)
	26,688	16,718
Present value of unfunded pension obligations	32,164	30,679
Present value of unfunded medical and life benefits	15,420	10,403
Net liability	74,272	57,800
Represented by:		
Amounts held on deposit by the Group as deposit administration contracts	42,143	39,972
Other recognised liabilities	32,624	18,404
Total recognised liabilities (note 18)	74,767	58,376
Recognised assets (note 12)	(495)	(576)
Net liability	74,272	57,800

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

Amounts expressed in US$000

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(b) Movements in balances

	2013			2012 restated		
	Retirement obligations	Retirement plan assets	Total	Retirement obligations	Retirement plan assets	Total
Net liability / (asset), beginning of year	189,276	(131,476)	57,800	174,977	(132,386)	42,591
Current service cost	7,067	-	7,067	5,687	-	5,687
Interest expense / (income)	14,021	(11,490)	2,531	12,889	(11,182)	1,707
Past service cost and gains / losses on settlements	2,895	-	2,895	1,653	-	1,653
Net expense recognised in income	23,983	(11,490)	12,493	20,229	(11,182)	9,047
(Gains) / losses from changes in assumptions	16,634	(1,805)	14,829	(881)	96	(785)
(Gains) / losses from changes in experience	(6,923)	1,567	(5,356)	6,436	1,254	7,690
Return on plan assets excluding interest income	-	1,330	1,330	-	1,062	1,062
Net losses recognised in other comprehensive income	9,711	1,092	10,803	5,555	2,412	7,967
Contributions made by the Group	184	(5,088)	(4,904)	187	(5,255)	(5,068)
Contributions made by employees and retirees	5,308	(4,177)	1,131	5,515	(4,088)	1,427
Benefits paid	(8,860)	7,292	(1,568)	(7,757)	6,606	(1,151)
Other items	3,840	(2,897)	943	(416)	4,062	3,646
Effect of exchange rate movements	(13,086)	10,660	(2,426)	(9,014)	8,355	(659)
Other movements	(12,614)	5,790	(6,824)	(11,485)	9,680	(1,805)
Net liability / (asset), end of year	210,356	(136,084)	74,272	189,276	(131,476)	57,800

Amounts expressed in US$000

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(c) Retirement plan assets

	2013	2012
Equity unit linked pension funds under Group management:		
Sagicor Equity Fund (Barbados)	(27,921)	(25,825)
Sagicor Bonds Fund (Barbados)	(17,955)	(17,261)
Sagicor Pooled Investment Funds (Jamaica):		
Equity Funds	(15,768)	(18,044)
Mortgage & Real Estate Fund	(12,730)	(10,122)
Fixed Income Fund	(12,894)	(12,279)
Foreign Currency Funds	(12,043)	(11,135)
Money Market Fund	(9,433)	(14,031)
Other Funds	(5,220)	(3,627)
	(113,964)	(112,324)
Other assets	(22,120)	(19,152)
Total plan assets	(136,084)	(131,476)

The equity unit linked pension funds are funds domiciled in Barbados and Jamaica. Annual reports of these funds are available to the public.

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(d) Significant actuarial assumptions

The significant actuarial assumptions for the principal geographic areas as of December 31, 2013 were as follows:

Pension plans	Barbados & Eastern Caribbean	Jamaica	Trinidad
Discount rate - local currency benefits	7.75%	9.50%	4.50%
Discount rate - US$ indexed benefits	n/a	6.50%	n/a
Expected return on plan assets	7.75%	9.50%	4.50%
Future promotional salary increases	2.50%	0.00%	0.0%
Future inflationary salary increases	3.00%	6.00%	3.50%
Future pension increases	3.00%	2.00%	0.00%
Future increases in National Insurance Scheme Ceilings	3.50%	n/a	0.00%
Mortality table	UP94 with projection scale AA	GAM1994 with 5 year improvement	UP94 with projection scale AA
Termination of active members	3% up to age 30, reducing to 1% at age 50, 0% at age 51	10% up to age 30, reducing to 5% at age 50, 0% at age 51	3% up to age 30, reducing to 1% at age 50, 0% at age 51
Early retirement	100% at the earliest possible age receive unreduced benefits	n/a	100% at the earliest possible age receive unreduced benefits

Amounts expressed in US$000

31 EMPLOYEE RETIREMENT BENEFITS (continued)

Group medical and life plans	Jamaica
Long term increase in health costs	8.00%

(e) Sensitivity of actuarial assumptions

The sensitivity of the pension retirement benefit obligations to individual changes in actuarial assumptions is summarised below:

	Barbados & Eastern Caribbean	Jamaica	Trinidad
Base pension obligation	69,621	89,184	10,258
Change in absolute assumption	Increase / (decrease) in pension obligations		
Decrease discount rate by 1.0%	10,885	12,226	1,641
Increase discount rate by 1.0%	(8,320)	(9,357)	(1,194)
Decrease salary growth rate by 0.5%	(2,253)	(3,207)	(374)
Increase salary growth rate by 0.5%	3,600	3,778	442
Increase average life expectancy by 1 year	80	819	12

31 EMPLOYEE RETIREMENT BENEFITS (continued)

(f) Amount, timing and uncertainty of future cash flows

In addition to the annual actuarial valuations prepared for the purpose of annual financial statement reporting, full actuarial valuations of pension plans are conducted every 3 years. These full valuations contain recommendations for Group and employee contribution levels which are implemented by the Group as the recommendations are made.

For the 2014 financial year, the total Group contributions to its defined benefit plans pension plans are estimated at $7,920.

Amounts expressed in US$000

32 INCOME TAXES

Group companies operating in Caribbean countries are largely taxed according to the taxation rules of the country where the operations are carried out. The principal rates of taxation are summarised in note 2.18(c). The income tax expense and the income subject to taxation in the statement of income are set out in the following table.

	2013	2012
Income tax expense:		
Current tax	16,315	16,049
Deferred tax	2,245	8,130
Share of tax of associates	364	271
	18,924	24,450
Sources of income subject to tax:		
Investment income subject to direct taxation	105,638	106,764
Net (loss) / income subject to direct taxation	(109,296)	72,877
Total (loss) / income subject to taxation	(3,658)	179,641

32 INCOME TAXES (continued)

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

	2013	2012
Total (loss) / income subject to taxation	(3,658)	179,641
Taxation at the applicable rates on income subject to tax	(7,346)	38,428
Adjustments to current tax for items not subject to / allowed for tax	11,228	(21,399)
Other current tax adjustments	(21)	(255)
Adjustments for current tax of prior periods	770	(275)
Movement in unrecognised deferred tax asset	11,792	5,464
Deferred tax relating to the origination of temporary differences	(91)	(16)
Deferred tax relating to changes in tax rates or new taxes	8	(15)
Deferred tax that arises from the write down / (reversal of a write down) of a tax asset	(524)	(277)
Other taxes	3,108	2,795
	18,924	24,450

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

Amounts expressed in US$000

33 DEFERRED INCOME TAXES

	2013	2012
Analysis of deferred income tax assets:		
Defined benefit liabilities	3,271	490
Unrealised losses on financial investments	(1,525)	-
Unused tax losses	1,586	1,453
Off-settable tax liabilities in respect of policy liability timing differences and other items	(953)	(953)
Other items	2,429	684
Total deferred income tax assets (note 11)	4,808	1,674
Deferred income tax assets to be recovered within one year	2,083	1,473
Unrecognised tax balances:		
Tax losses	204,404	169,366
Potential deferred income tax assets	51,050	43,174
Expiry period for unrecognised tax losses:		
2013	-	2,601
2014	9,160	9,181
2015	14,337	14,370
2016	18,795	18,807
2017	21,063	21,078
2018	25,750	23,552
After 2018	115,299	70,772
No specified expiry date	-	9,005
	204,404	169,366

33 DEFERRED INCOME TAXES (continued)

Analysis of deferred income tax liabilities	2013	2012
Accelerated tax depreciation	1,773	2,370
Policy liabilities taxable in the future	40,577	28,923
Defined benefit assets	39	33
Accrued interest	902	1,293
Unrealised gains on financial investments	2,175	23,558
Off-settable tax assets in respect of unused tax losses and other items	(23,524)	(31,130)
Other items	590	1,326
Total (note 19)	22,532	26,373
Deferred income tax liabilities to be settled within one year	7,124	9,978

34 EARNINGS PER COMMON SHARE

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

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

	2013	2012 restated
Net (loss) / income attributable to common shareholders	(36,370)	11,067
Finance costs attributable to preference share subscription	6,483	6,483
Amortisation of issue expenses allocated to preference share reserve	(221)	(221)
Preference share dividends declared	(7,800)	(7,800)
(Loss) / earnings attributable to common shareholders	(37,908)	9,529
Weighted average number of shares in issue in thousands	301,591	301,690
Basic (loss) / earnings per common share	(12.6)¢	3.2¢
Attributable to:		
Continuing operations	12.5 ¢	17.1 ¢
Discontinued operation	(25.1)¢	(13.9) ¢

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

34 EARNINGS PER COMMON SHARE (continued)

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

	2013	2012 restated
Earnings attributable to common shareholders	(37,908)	9,529
Weighted average number of shares in issue in thousands	301,591	301,690
LTI restricted share grants	3,024	1,625
ESOP shares	2,535	2,328
Adjusted weighted average number of shares in issue	307,150	305,643
Fully diluted (loss) / earnings per common share	(12.6)¢	3.1 ¢
Attributable to:		
Continuing operations	12.2¢	16.2 ¢
Discontinued operation	(24.8) ¢	(13.1) ¢

Amounts expressed in US$000

35 OTHER COMPREHENSIVE INCOME (OCI)

Schedule to OCI from continuing operations

	2013					2012 restated				
	OCI tax expense	After tax OCI is attributable to				OCI tax expense	After tax OCI is attributable to			
		Shareholders	Participating policyholders	Minority interests	Total		Shareholders	Participating policyholders	Minority interests	Total
Items that may be reclassified subsequently to income:										
Available for sale assets:										
Gains / (losses) arising on revaluation	19,218	(43,215)	(15)	(4,212)	(47,442)	(9,596)	32,919	1,251	3,853	38,023
(Gains) / losses transferred to income	1,643	(8,409)	-	(6,360)	(14,769)	3,247	(9,087)	-	(4,041)	(13,128)
Net change in actuarial liabilities	(13,396)	30,445	-	-	30,445	11,035	(21,027)	(1,251)	-	(22,278)
Retranslation of foreign currency operations	-	(18,343)	(77)	(18,021)	(36,441)	-	(9,681)	239	(8,960)	(18,402)
Other items	-	-	-	-	-	(19)	(19)	-	-	(19)
	7,465	(39,522)	(92)	(28,593)	(68,207)	4,667	(6,895)	239	(9,148)	(15,804)
Items that will not be reclassified subsequently to income:										
Gains / (losses) arising on revaluation of owner-occupied property	(32)	3,109	-	704	3,813	41	163	-	(319)	(156)
Defined benefit gains / (losses)	1,328	(3,240)	-	(6,235)	(9,475)	-	(6,467)	-	(1,500)	(7,967)
	1,296	(131)	-	(5,531)	(5,662)	41	(6,304)		(1,819)	(8,123)
Total OCI movements	8,761	(39,653)	(92)	(34,124)	(73,869)	4,708	(13,199)	239	(10,967)	(23,927)
Allocated to equity reserves		(36,413)					(6,713)			
Allocated to retained earnings		(3,240)					(6,486)			
		(39,653)					(13,199)			

Amounts expressed in US$000

36 CASH FLOWS

36.1 Operating activities

	2013	2012
Adjustments for non-cash items, interest and dividends:		
Interest and dividend income	(251,046)	(256,875)
Net investment gains	(36,544)	(34,506)
Net increase in actuarial liabilities	109,764	178,541
Gain on recapture of insurance portfolio	-	(32,155)
Interest expense and finance costs	74,754	86,362
Depreciation and amortisation	15,230	15,901
Increase in provision for unearned premiums	390	212
Other items	11,711	(4,227)
	(75,741)	(46,747)
Net increase in investments and operating assets:		
Investment property	16,616	1,274
Debt securities	(270,725)	(142,401)
Equity securities	(23,156)	(50,219)
Mortgage loans	2,785	6,995
Policy loans	(3,332)	(913)
Finance loans and finance leases	(24,504)	2,893
Securities purchased for re-sale	(24,547)	(3,413)
Deposits	(24,426)	(5,513)
Other assets and receivables	(115)	(2,260)
	(351,404)	(193,557)

36.1 Operating activities (continued)

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

	2013	2012
Investment property:		
Disbursements	(1,424)	(356)
Disposal proceeds	18,040	1,630
	16,616	1,274
Debt securities:		
Disbursements	(1,115,332)	(915,967)
Disposal proceeds	844,607	773,566
	(270,725)	(142,401)
Equity securities:		
Disbursements	(90,976)	(116,964)
Disposal proceeds	67,820	66,745
	(23,156)	(50,219)
Net increase in operating liabilities:		
Insurance liabilities	2,007	4,251
Investment contract liabilities	38,667	37,631
Other funding instruments	57,330	(13,591)
Deposits	47,636	15,528
Securities sold for re-purchase	(24,712)	(27,019)
Other liabilities and payables	62,451	(2,816)
	183,379	13,984

Amounts expressed in US$000

36.2 Investing activities

	2013	2012
Property, plant and equipment:		
Purchases	(19,899)	(21,591)
Disposal proceeds	1,615	1,748
	(18,284)	(19,843)

36.3 Financing activities

	2013	2012
Other notes and loans payable:		
Proceeds	43,096	2,055
Repayments	(664)	-
	42,432	2,055

36.4 Cash and cash equivalents

	2013	2012
Cash resources	226,370	183,996
Call deposits and other liquid balances	67,998	44,382
Bank overdrafts	(1,933)	(1,954)
Other short-term borrowings	(33,835)	(31,927)
Cash and cash equivalents of discontinued operation (note 38)	-	19,067
	258,600	213,564

37 SUBSIDIARY ACQUISITION AND OWNERSHIP CHANGES

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

On September 28, 2012, Sagicor Life Insurance Company (SLIC) completed its acquisition of PEMCO Life Insurance Company (PEMCO Life), a life insurance company based in the State of Washington, USA. Details of the acquisition are set out below.

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

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

Amounts expressed in US$000

38 DISCONTINUED OPERATION

On July 29, 2013, the Company entered into an agreement to sell Sagicor Europe and its subsidiaries to AmTrust Financial Services, Inc. (AmTrust), subject to regulatory approvals. Final regulatory approvals were obtained on December 23, 2013, on which date the sale was completed.

The operations of the Sagicor Europe operating segment are presented as discontinued operations in these financial statements. This segment comprised the following companies.

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

(1) Lloyd's of London corporate underwriting member participating in Syndicate 1206
(2) Lloyd's of London corporate underwriting member participating in Syndicate 44

38 Discontinued operation (continued)

The Group's effective shareholder's interest in these companies prior to divestment was 100% and the effective legal interest was 93%.

The consideration for the sale was £56,178,000 ($91,913), representing the assumption by AmTrust of indebtedness of Sagicor Europe and its subsidiaries to Sagicor.

The terms of the sale required the Company to take certain actions and provide certain commitments which included:

- The purchase prior to the sale by Sagicor of the legal 7% shareholding interest held by the minority shareholders;
- Future price adjustments to the consideration, representing adjusted profits or losses from January 1, 2013 in the run-off of the 2011, 2012 and 2013 underwriting years of account of syndicates 1206 and 44, the total price adjustments subject to a limit.

Immediately prior to the sale, Sagicor purchased the minority shareholdings for $1,157. The minority shareholders were participating employees who had subscribed in cash for shares of Sagicor Europe. Each participating employee had contracted with Sagicor Europe and the Company under a share subscription agreement. Under the provisions of these agreements, participating employees could exercise a put option to the Company to acquire their shares at the prevailing fair value. The first tranches of put options vested in 2012 and 2013 representing 7% of the total shareholding and were exercised for cash consideration of $1,305. The put options were accounted for as cash settled share based payment arrangements.

As of December 31, 2013, the price adjustments have been estimated at £33,289,000 ($55,024) which has been recorded as a liability to AmTrust. The anticipated settlement dates are as follows:

	March 31, 2014	March 31, 2016	March 31, 2019	Total
Payable / (recovery)	34,262	33,758	(12,996)	55,024

The price adjustments have a limit of a further £41,223,000 ($68,137) which is the Group's maximum possible contingent liability for future price adjustments.

Amounts expressed in US$000

38 Discontinued operation (continued)

The price adjustments are subject to insurance risk (as indicated in note 3.5) and to investment and foreign currency risk as the results of run-off of the underwriting years up to 2013 could vary if there are future deviations in projected underwriting returns, investment returns and foreign exchange rates.

After accounting for its status as a discontinued operation and for the details of the sale, the net loss recognised in the statement of income and the statement of comprehensive income is as follows.

Statement of income	Period to December 23, 2013	2012
Loss from operations	(33,247)	(31,790)
Write-down of carrying value of investment in Sagicor Europe	(21,123)	(10,244)
Expenses incurred on sale	(2,900)	-
Available for sale asset fair value loss realised on sale	(623)	-
Currency translation loss realised on sale	(17,615)	-
Net loss	(75,508)	(42,034)
Other comprehensive income:		
Items that may be reclassified subsequently to income:		
Fair value reserve for available for sale assets:		
Net fair value movements prior to sale	(147)	(399)
Cumulative loss transferred to income on sale	623	-
Net currency translation movements prior to sale	1,181	543
Currency translation loss transferred to income on sale	17,615	-
Other comprehensive loss	19,272	144
Total comprehensive loss	(56,236)	(41,890)

38 Discontinued operation (continued)

Details of the loss from operations were as follows.

	Period to December 23, 2013	2012
Revenue		
Premium revenue	313,537	372,382
Reinsurance premium expense	(47,559)	(60,959)
	265,978	311,423
Net investment income	4,330	8,227
Fees and other revenue	(4,139)	3,810
	266,169	323,460
Benefits and expenses		
Policy benefits and change in actuarial liabilities	212,648	230,353
Policy benefits and change in actuarial liabilities reinsured	(31,216)	(29,896)
	181,432	200,457
Administrative expenses, depreciation and amortisation	41,951	39,105
Brokerage commissions	77,455	99,529
	300,838	339,091
Loss before taxes and undernoted items	(34,669)	(15,631)
Income tax	10,366	(4,484)
Finance costs for Funds at Lloyd's	(11,548)	(9,717)
Foreign exchange and cash-settled compensation	2,604	(1,958)
Loss from operations	(33,247)	(31,790)

Amounts expressed in US$000

38 Discontinued operation (continued)

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

	Gross premium		Ceded to reinsurers	
	2013	2012	2013	2012
Direct property	134,072	96,965	24,719	21,159
Direct motor	(6,269)	51,483	(5)	4,853
Direct accident and liability	133,406	141,321	15,813	20,379
Reinsurance assumed	29,762	61,671	6,084	14,001
	290,971	351,440	46,611	60,392

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

	Gross benefit		Ceded to reinsurers	
	2013	2012	2013	2012
Direct property	97,901	46,938	30,908	13,526
Direct motor	(2,799)	36,214	(5,146)	(4,507)
Direct accident and liability	83,266	112,495	2,066	16,230
Reinsurance assumed	29,206	29,590	3,250	4,466
	207,574	225,237	31,078	29,715

38 Discontinued operation (continued)

Net cash flows from the discontinued operation were as follows:

	Period to December 23, 2013	Year ended December 31, 2012
Operating activities	(20,653)	(50,668)
Investing activities	(167)	(1,821)
Financing activities	1,150	-
Cash on disposal	(61,069)	-
Effects of exchange rate changes	1,857	481
	(78,882)	(52,008)

The assets and liabilities held for sale of the discontinued operation as of December 31, 2012 are set out in the following tables.

	2012
Assets	
Property, plant and equipment	544
Intangible assets	24,727
Financial investments (1)	346,735
Reinsurance assets (2)	116,653
Income tax assets	12,037
Miscellaneous assets and receivables	186,319
Cash resources	18,717
	705,732

Amounts expressed in US$000

38 Discontinued operation (continued)

	2012
Liabilities	
Insurance liabilities [(2)]	603,807
Provisions	3,271
Accounts payable and accrued liabilities	23,899
	630,977

(1) Financial investments included $48,918 in deposits which were pledged as collateral for the letter of credit facility (note 39). Financial investments included debt securities totalling $188,425 which were carried at fair value and classified as Level 1 financial instruments (see note 41.5).

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

Under the terms of sale, the banker's letter of credit facility and the reinsurance financing facility were cancelled. The banker's letter of credit was secured by $50,104 which was returned to Sagicor in January 2014. These funds are included in other receivables (note 12). As a result of the sale, Sagicor has no Funds at Lloyd's in respect of the 2013 and prior underwriting years of account.

The banker's letter of credit facility had financial covenants with respect to tangible net worth, interest coverage ratio, financial strength and permitted liens. These covenants were satisfied except for the interest coverage ratio for the year ended December 31, 2012 and for the financial strength coverage from February 2013 until the cancellation of the letter of credit in December 2013. During this latter period, the Bank issued a waiver of the financial strength obligation.

39 CONTINGENT LIABILITIES

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

	2013	2012
Customer guarantees and letters of credit [(1)]	12,372	8,993
Letter of credit facility (note 38)	-	84,236
	12,372	93,229

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

(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 US$000

40 FAIR VALUE OF PROPERTY

Investment and owner-occupied property are carried at fair value as determined by independent valuations using internationally recognised valuation techniques. Direct sales comparisons, when such data is available, and income capitalisation methods, when appropriate, are included in the assessment of fair values. The highest and best use of a property may also be considered in determining its fair value.

Some tracts of land are currently used for farming operations or are un-developed or are leased to third parties. In determining the fair value of all lands, their potential for development within a reasonable period is assessed, and if such potential exists, the fair value reflects that potential. These lands are mostly in Barbados and the Group has adopted a policy of orderly development and transformation to realise their full potential over time.

The fair value hierarchy has been applied to the valuations of the Group's property. The different levels of the hierarchy are as follows:

- Level 1 - fair value is determined by quoted un-adjusted prices in active markets for identical assets;
- Level 2 - fair value is determined by inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly;
- Level 3 - fair value is determined from inputs that are not based on observable market data.

The results of applying the fair value hierarchy to the Group's property as of December 31, 2013 are as follows:

	Level 1	Level 2	Level 3	Total
Investment property	-	-	98,369	98,369
Owner-occupied lands	-	-	38,428	38,428
Owner-occupied land and buildings	-	-	66,281	66,281
	-	-	203,078	203,078

40 Fair value of property (continued)

For Level 3 investment property, reasonable changes in fair value would affect net income. For Level 3 owner occupied property, reasonable changes in fair value would affect other comprehensive income. The following table represents the movements in Level 3 property for the current year.

	Investment property	Owner-occupied property		Total
		Lands	Land and buildings	
Balance, beginning of year	115,224	38,428	65,124	218,776
Additions	1,340	-	1,408	2,748
Transfers in / (out)	875	-	(616)	259
Fair value changes recorded in net investment income	980	-	(91)	889
Fair value changes recorded in other comprehensive income	-	-	3,388	3,388
Disposals and divestitures	(16,978)	-	(1,581)	(18,559)
Effect of exchange rate changes	(3,072)	-	(1,351)	(4,423)
Balance, end of year	98,369	38,428	66,281	203,078

41 FINANCIAL RISK

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

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

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

41.1 Credit risk

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

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

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

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

41.1 Credit risk (continued)

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

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

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

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

	2013		2012	
	$000	%	$000	%
Investment portfolios	3,620,468	76.7	3,463,330	81.7
Lending portfolios	556,893	11.8	544,357	12.8
Reinsurance assets	316,274	6.7	82,363	1.9
Other financial assets	162,557	3.4	118,860	2.8
Total financial statement exposures	4,656,192	98.6	4,208,910	99.2
Loan commitments	40,728	0.9	21,073	0.5
Customer guarantees and letters of credit	12,372	0.2	8,993	0.3
Other	13,626	0.3	-	-
Total off financial statement exposures	66,726	1.4	30,066	0.8
Total	4,722,918	100.0%	4,238,976	100.0%

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

41.1 Credit risk (continued)

The Group's largest exposures to individual counterparty credit risks as of December 31, 2013 and 2012 are set out below. The individual ratings reflect the rating of the counterparty listed below, while the amounts include exposures with subsidiaries of the counterparty.

	Sagicor Risk Rating	2013	Sagicor Risk Rating	2012
Investment portfolios:				
Government of Jamaica	5	869,609	5	964,133
Government of Trinidad and Tobago	2	148,897	2	135,768
Government of Barbados	4	301,385	4	281,570
The Bank of Nova Scotia	1	74,886	1	67,213
Government of St Lucia	5	70,370	4	48,205
The Federal National Mortgage Association	1	88,020	1	86,054
The Federal Home Loan Mortgage Corporation	1	66,444	1	64,689
Lending portfolios:				
Value Assets International S.A. and Egret Limited	4	59,452	4	52,546
Reinsurance assets:				
Guggenheim Partners (1)	5	229,433	n/a	n/a

(1) The reinsurance asset held in the name of Guggenheim Partners are secured by assets held in trust totalling $230,255 (2012 - $nil).

41.1 Credit risk (continued)

(a) Investment portfolios

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

Investment portfolios					
Risk Rating	Classification	2013		2012	
		Exposure $000	Exposure %	Exposure $000	Exposure %
1	Minimal risk	484,677	13%	472,923	14%
2	Low risk	677,896	19%	640,588	18%
3	Moderate risk	792,690	22%	688,242	20%
4	Acceptable risk	432,679	12%	450,759	13%
5	Average risk	1,182,436	33%	1,136,269	33%
6	Higher risk	15,849	0%	39,772	1%
7	Special mention	6,461	0%	3,103	0%
8	Substandard	9,535	0%	4,247	0%
TOTAL RATED EXPOSURES		3,602,223	99%	3,435,903	99%
UN-RATED EXPOSURES		18,245	1%	27,427	1%
TOTAL		3,620,468	100%	3,463,330	100%

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

41.1 Credit risk (continued)

(b) Lending portfolios

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

Lending portfolios					
Risk Rating	Classification	2013		2012	
		Exposure $000	Exposure %	Exposure $000	Exposure %
1	Minimal risk	134,565	24%	125,296	23%
2	Low risk	101,367	18%	127,126	23%
3	Moderate risk	122,481	22%	125,575	23%
4	Acceptable risk	37,076	7%	13,490	2%
5	Average risk	54,500	10%	51,103	9%
6	Higher risk	13,250	2%	10,459	2%
7	Special mention	904	0%	3,720	1%
8	Substandard	10,977	2%	13,474	2%
9	Doubtful	2,381	0%	3,325	1%
10	Loss	2,469	0%	4,271	1%
TOTAL RATED EXPOSURES		479,970	85%	477,839	87%
UN-RATED EXPOSURES		76,923	15%	66,518	13%
TOTAL		556,893	100%	544,357	100%

Amounts expressed in US$000

41.1 Credit risk (continued)

Exposure to credit risk is also managed in part by obtaining collateral and guarantees for lending portfolios. For mortgage loans, the collateral is real estate property, and the approved loan limit is 75% to 100% of collateral value. For finance loans and finance leases, the collateral often comprises a vehicle or other form of security and the approved loan / lease limit is 80% to 90% of the collateral value. Unsecured finance loans and finance leases are only granted when the initial amount is less than $15.

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

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

	2013	2012
Barbados	206,762	200,061
Jamaica	123,276	122,865
Trinidad & Tobago	78,364	85,679
Other Caribbean	91,217	75,043
USA	57,274	60,709
	556,893	544,357

(c) Past due and impaired financial assets

A financial asset is past due when a counterparty has failed to make payment when contractually due. The Group is most exposed to the risk of past due assets with respect to its debt securities, mortgage loans, finance loans and finance leases.

Debt securities are assessed for impairment when amounts are past due, when the borrower is experiencing cash flow difficulties, or when the borrower's credit rating has been downgraded.

41.1 Credit risk (continued)

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

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

	Debt securities	Mortgage loans	Finance loans & leases
2013			
Neither past due nor impaired	3,175,967	167,522	143,909
Past due up to 3 months, but not impaired	6,587	55,945	16,937
Past due up to 12 months, but not impaired	250	11,444	193
Past due up to 5 years, but not impaired	-	4,034	-
Past due over 5 years, but not impaired	-	6,881	-
Total past due but not impaired	6,837	78,304	17,130
Impaired assets	8,972	11,781	4,011
Total carrying value	3,191,776	257,607	165,050
Accumulated allowances on impaired assets	9,759	3,034	2,682
Accrued interest on impaired assets	4,096	319	132

Amounts expressed in US$000

41.1 Credit risk (continued)

	Debt securities	Mortgage loans	Finance loans & leases
2012			
Neither past due nor impaired	3,107,172	173,060	116,082
Past due up to 3 months, but not impaired	11,927	56,458	33,820
Past due up to 12 months, but not impaired	250	9,516	104
Past due up to 5 years, but not impaired	174	5,763	-
Past due over 5 years, but not impaired	39	6,731	-
Total past due but not impaired	12,390	78,468	33,924
Impaired assets	4,360	12,824	4,702
Total carrying value	3,123,922	264,352	154,708
Accumulated allowances on impaired assets	2,492	2,704	3,143
Accrued interest on impaired assets	20	398	90

The Group is also exposed to impaired premiums receivable. Property and casualty insurers frequently provide settlement terms to customers and intermediaries which extend up to 3 months. However, under the terms of insurance contracts, insurers can usually lapse an insurance policy for non-payment of premium, or if there is a claim, recover any unpaid premiums from the claim proceeds.

(d) Repossessed assets

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

41.1 Credit risk (continued)

(e) Renegotiated assets

The Group may renegotiate the terms of any financial investment to facilitate borrowers in financial difficulty. Arrangements to waive, adjust or postpone scheduled amounts due may be entered into. The Group classifies these amounts as past due, unless the original agreement is formally revised, modified or substituted.

41.2 Liquidity risk

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

Asset liability matching is a tool used by the Group to mitigate liquidity risks particularly in operations with significant maturing short-term liabilities. For long-term insurance contracts, the Group has adopted a policy of investing in assets with cash flow characteristics that closely match the cash flow characteristics of its policy liabilities. The primary purpose of this matching is to ensure that cash flows from these assets are synchronised with the timing and the amounts of payments that must be paid to policyholders.

Group companies monitor cash inflows and outflows in each operating currency. Through experience and monitoring, the Group is able to maintain sufficient liquid resources to meet current obligations.

Investment property may be held to back insurance liabilities. As these assets are relatively illiquid, the insurers hold less than 5% of their total assets in investment property.

Amounts expressed in US$000

41.2 Liquidity risk (continued)

(a) Insurance liabilities

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

	Expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
2013				
Actuarial liabilities	159,515	547,912	1,616,892	2,324,319
Other insurance liabilities	92,323	12,567	55,980	160,870
Total	251,838	560,479	1,672,872	2,485,189
2012				
Actuarial liabilities	123,584	415,676	1,501,647	2,040,907
Other insurance liabilities	85,276	13,177	55,393	153,846
Total	208,860	428,853	1,557,040	2,194,753

Amounts expressed in US$000

41.2 Liquidity risk (continued)

(b) Financial liabilities and commitments

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

	2013 - Contractual un-discounted cash flows				2012 - Contractual un-discounted cash flows			
	On demand or within 1 year	1 to 5 years	After 5 years	Total	On demand or within 1 year	1 to 5 years	After 5 years	Total
Financial liabilities:								
Investment contract liabilities	301,539	61,773	10,759	374,071	292,711	34,865	20,375	347,951
Notes and loans payable	13,968	331,571	-	345,539	11,972	299,589	-	311,561
Deposit and security liabilities:								
Other funding instruments	283,099	33,510	9,010	325,619	197,734	47,736	9,965	255,435
Customer deposits	178,566	48,357	-	226,923	160,947	35,654	14,882	211,483
Structured products	9,548	7,823	-	17,371	2,018	8,525	-	10,543
Securities sold for re-purchase	503,906	23,755	-	527,661	601,348	342	-	601,690
Derivative financial instruments	28,730	5,877	-	34,607	21,706	25,719	-	47,425
Bank overdrafts	1,933	-	-	1,933	1,954	-	-	1,954
Accounts payable and accrued liabilities	109,316	21,649	844	131,809	120,479	-	987	121,466
Total financial liabilities	1,430,605	534,315	20,613	1,985,533	1,410,869	452,430	46,209	1,909,508
Off financial statement commitments:								
Loan commitments	14,265	8,187	1,253	23,705	6,402	13,835	836	21,073
Non-cancellable operating lease and rental payments	7,001	16,581	5,908	29,490	5,895	12,678	6,511	25,084
Guarantees, acceptances and other financial facilities	10,321	1,917	134	12,372	4,133	4,506	355	8,994
Total off financial statements commitments	31,587	26,685	7,295	65,567	16,430	31,019	7,702	55,151
Total	1,462,192	561,000	27,908	2,051,100	1,427,299	483,449	53,911	1,964,659

Amounts expressed in US$000

41.2 Liquidity risk (continued)

(c) Financial and insurance assets

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

	2013 – Contractual or expected discounted cash flows				2012 – Contractual or expected discounted cash flows			
	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total	Maturing within 1 year	Maturing 1 to 5 years	Maturing after 5 years	Total
Debt securities	375,659	810,560	2,005,557	3,191,776	304,367	894,282	1,925,273	3,123,922
Mortgage loans	27,096	31,945	198,566	257,607	22,428	34,910	207,014	264,352
Policy loans	5,387	14,851	113,998	134,236	14,759	14,219	96,319	125,297
Finance loans and finance leases	47,044	73,670	44,336	165,050	68,233	57,550	28,925	154,708
Securities purchased for re-sale	40,875	-	-	40,875	19,497	37	-	19,534
Deposits	147,406	11,434	2,607	161,447	134,423	371	1,084	135,878
Derivative financial instruments	40,362	4,853	-	45,215	27,683	24,398	-	52,081
Reinsurance assets: share of actuarial liabilities	29,966	102,656	152,628	285,250	6,422	17,327	32,934	56,683
Reinsurance assets: other	27,260	3,539	225	31,024	21,614	3,830	236	25,680
Premiums receivable	36,318	-	-	36,318	35,712	-	-	35,712
Other assets and accounts receivable	79,625	534	865	81,024	34,382	377	321	35,080
Cash resources	226,370	-	-	226,370	183,996	-	-	183,996
Total	1,083,368	1,054,042	2,518,782	4,656,192	873,516	1,047,301	2,292,106	4,212,923

41.3 Interest rate risk

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

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

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

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

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

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

41.3 Interest rate risk (continued)

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

Amounts expressed in US$000

41.3 Interest rate risk (continued)

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

	2013					2012				
	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Other insurance liabilities	45,521	5,133	55,981	54,235	160,870	42,473	4,979	55,393	51,001	153,846
Investment contract liabilities	300,215	57,617	9,169	-	367,001	292,524	33,822	19,788	62	346,196
Notes and loans payable	683	292,813	-	(3,336)	290,160	664	243,827	-	(2,935)	241,556
Deposit and security liabilities:										
Other funding instruments	278,196	27,362	7,699	182	313,439	197,426	42,236	5,724	289	245,675
Customer deposits	174,979	43,133	-	1,080	219,192	157,514	31,715	7,970	809	198,008
Structured products	8,640	6,016	-	2,715	17,371	-	5,708	-	3,508	9,216
Securities sold for re-purchase	497,455	23,162	-	3,615	524,232	585,923	318	-	4,823	591,064
Derivative financial instruments	-	26,168	-	3,748	29,916	-	43,143	-	3,369	46,512
Bank overdrafts	1,933	-	-	-	1,933	1,954	-	-	-	1,954
Accounts payable and accrued liabilities	10,050	-	-	121,187	131,237	5,408	-	-	109,017	114,425
Total	1,317,672	481,404	72,849	183,426	2,055,351	1,283,886	405,748	88,875	169,943	1,948,452

Amounts expressed in US$000

41.3 Interest rate risk (continued)

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

	2013					2012 restated				
	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total	Exposure within 1 year	Exposure 1 to 5 years	Exposure after 5 years	Not exposed to interest	Total
Debt securities	497,918	860,716	1,788,189	44,953	3,191,776	542,794	764,741	1,766,182	50,205	3,123,922
Equity securities	14,811	-	-	180,749	195,560	26,498	-	-	139,056	165,554
Mortgage loans	122,658	34,703	96,436	3,810	257,607	92,925	30,698	136,495	4,234	264,352
Policy loans	4,368	14,599	110,682	4,587	134,236	13,643	13,993	93,949	3,712	125,297
Finance loans and leases	46,137	73,647	44,236	1,030	165,050	54,248	57,140	42,209	1,111	154,708
Securities purchased for re-sale	40,713	-	-	162	40,875	19,472	-	-	62	19,534
Deposits	146,554	11,529	2,282	1,082	161,447	133,522	371	759	1,226	135,878
Derivative financial instruments	-	24,847	-	20,368	45,215	-	45,695	-	6,386	52,081
Reinsurance assets: other	1,842	-	225	28,957	31,024	-	-	236	25,444	25,680
Premiums receivable	2,435	-	-	33,883	36,318	137	-	-	35,575	35,712
Other assets and accounts receivable	1,683	207	27	79,107	81,024	1,777	264	-	33,039	35,080
Cash resources	163,043	-	-	63,327	226,370	97,020	-	-	86,976	183,996
Total	1,042,162	1,020,248	2,042,077	462,015	4,566,502	982,036	912,902	2,039,830	387,026	4,321,794

Amounts expressed in US$000

41.3 Interest rate risk (continued)

The table below summarises the average interest yields on financial assets and liabilities held during the year in respect of continuing operations.

	2013	2012
Financial assets:		
Debt securities	6.6%	7.1%
Mortgage loans	7.5%	7.6%
Policy loans	7.1%	8.1%
Finance loans and finance leases	10.0%	10.2%
Securities purchased for re-sale	3.7%	5.1%
Deposits	1.8%	2.4%
Financial liabilities		
Investment contract liabilities	5.3%	7.2%
Notes and loans payable	7.2%	7.9%
Other funding instruments	2.2%	2.6%
Deposits	3.6%	3.8%
Securities sold for re-purchase	4.8%	5.4%

a) Sensitivity

Sensitivity to interest rate risk is considered by operating subsidiaries. The effects of changes in interest rates of assets backing actuarial liabilities are disclosed in note 43.4. The Group's property and casualty operations are not exposed to a significant degree of interest rate risk, since the majority of its interest bearing instruments has short-term maturities. The sensitivity of the Group's principal operating subsidiaries engaged in banking, investment management and other financial services are considered in the following paragraphs.

41.3 Interest rate risk (continued)

Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited

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

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

2013				2012			
Change in interest rate		Effect on net income	Effect on TCI	Change in interest rate		Effect on net income	Effect on TCI
JMD	USD			JMD	USD		
- 1%	- 0.5%	(2,287)	8,831	- 1%	- 0.5%	(2,930)	5,712
+2.5%	+ 2%	6,174	(27,580)	+ 4%	+2.5%	12,400	(15,865)

41.4 Foreign exchange risk

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

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

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

41.4 Foreign exchange risk (continued)

2013	US$ 000 equivalents of balances denominated in						
	Barbados $	Jamaica $	Trinidad $	Eastern Caribbean $	US $	Other Currencies	Total
ASSETS							
Financial investments[1]	485,069	566,073	294,036	122,584	2,298,468	229,976	3,996,206
Reinsurance assets	8,291	664	10,617	2,277	292,327	2,098	316,274
Receivables [1]	12,051	24,730	9,761	6,365	9,885	54,550	117,342
Cash resources	25,244	12,884	24,929	7,420	129,525	26,368	226,370
Total monetary assets	530,655	604,351	339,343	138,646	2,730,205	312,992	4,656,192
Other assets [2]	209,384	190,941	96,006	34,280	100,589	10,360	641,560
Total assets of continuing operations	740,039	795,292	435,349	172,926	2,830,794	323,352	5,297,752
LIABILITIES							
Actuarial liabilities	412,830	288,580	303,083	70,562	1,162,915	86,349	2,324,319
Other insurance liabilities[1]	65,868	18,538	25,696	11,225	26,263	13,280	160,870
Investment contracts	35,797	69,879	116,304	44,852	92,551	7,618	367,001
Notes and loans payable	17,372	-	-	-	272,788	-	290,160
Deposit and security liabilities	92,762	260,637	1,946	11,865	699,248	39,625	1,106,083
Provisions	30,339	25,088	11,780	961	1,119	5,796	75,083
Accounts payable and accruals	29,701	30,540	16,541	6,543	42,090	5,822	131,237
Total monetary liabilites	684,669	693,262	475,350	146,008	2,296,974	158,490	4,454,753
Other liabilities [2]	13,765	3,738	20,378	3,151	20,216	1,541	62,789
Total liabilities of continuing operations	698,434	697,000	495,728	149,159	2,317,190	160,031	4,517,542
Net position	41,605	98,292	(60,379)	23,767	513,604	163,321	780,210

[1] Monetary balances only

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

41.4 Foreign exchange risk (continued)

2012 restated	US$ 000 equivalents of balances denominated in						
	Barbados $	Jamaica $	Trinidad $	Eastern Caribbean $	US $	Other Currencies	Total
ASSETS							
Financial investments[1]	454,135	650,945	298,187	105,539	2,135,364	231,602	3,875,772
Reinsurance assets	6,739	1,097	10,023	1,843	59,492	3,169	82,363
Receivables [1]	9,818	27,078	8,984	8,290	5,851	6,758	66,779
Cash resources	11,398	12,423	34,713	5,694	95,700	24,068	183,996
Total monetary assets	482,090	691,543	351,907	121,366	2,296,407	265,597	4,208,910
Other assets [2]	210,969	210,196	90,711	29,275	82,505	10,759	634,415
Total assets of continuing operations	693,059	901,739	442,618	150,641	2,378,912	276,356	4,843,325
LIABILITIES							
Actuarial liabilities	406,386	316,058	286,238	43,626	905,565	83,034	2,040,907
Other insurance liabilities[1]	64,951	20,080	25,472	8,901	26,477	7,965	153,846
Investment contracts	34,969	74,214	109,957	39,525	79,848	7,683	346,196
Notes and loans payable	16,199	-	-	-	225,357	-	241,556
Deposit and security liabilities	65,719	300,716	2,174	10,261	654,747	58,812	1,092,429
Provisions	28,994	10,900	10,887	1,145	848	5,847	58,621
Accounts payable and accruals	30,288	24,681	11,522	8,271	33,786	5,877	114,425
Total monetary liabilities	647,506	746,649	446,250	111,729	1,926,628	169,218	4,047,980
Other liabilities [2]	14,367	7,501	19,799	2,615	20,965	1,719	66,966
Total liabilities of continuing operations	661,873	754,150	466,049	114,344	1,947,593	170,937	4,114,946
Net position	31,186	147,589	(23,431)	36,297	431,319	105,419	728,379

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

Amounts expressed in US$000

41.4 Foreign exchange risk (continued)

(a) Sensitivity

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

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

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

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

- Currency risk of reported results of foreign operations

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

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

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

The operating currency whose value noticeably fluctuate against the USD is the Jamaica dollar (JMD). The theoretical impact of JMD currency risk on reported results and of the Group's investment in foreign operations is considered in the following section.

41.4 Foreign exchange risk (continued)

JMD currency risk

The effect of a 10% depreciation in the JMD relative to the USD arising from JMD reporting units as of December 31, 2013 and for the year then ended are considered in the following table.

	Amounts denominated in		Total	Effect of a 10%
	JMD	USD	amounts	depreciation
Financial position:				
Assets	887,102	760,513	1,647,615	(88,710)
Liabilities	709,769	557,731	1,267,500	(70,977)
Net position	177,333	202,782	380,115	(17,733)
Represented by:				
Currency risk of the Group's investment in foreign operations				(17,733)
Income statement:				
Revenue	459,242	41,522	500,764	(24,378)
Benefits	(193,623)	(61,015)	(254,638)	19,362
Expenses	(110,897)	(2,019)	(112,916)	11,090
Income taxes	(5,632)	-	(5,632)	563
Net income	149,090	(21,512)	127,578	6,637
Represented by:				
Currency risk relating to the future cash flows of monetary balances				21,546
Currency risk of reported results of foreign operations				(14,909)
				6,637

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

41.5 Fair value of financial instruments

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

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

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

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

A financial instrument is classified as Level 2 if:

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

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

41.5 Fair value of financial instruments (continued)

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

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

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

A financial instrument is classified as Level 3 if:

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

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

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

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

Amounts expressed in US$000

41.5 Fair value of financial instruments (continued)

(a) Financial instruments carried at fair value

	2013				2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Available for sale securities:								
Debt securities	327,742	1,734,391	11,981	2,074,114	294,056	1,690,840	35,188	2,020,084
Equity securities	59,898	22,834	9,643	92,375	39,863	31,516	8,982	80,361
	387,640	1,757,225	21,624	2,166,489	333,919	1,722,356	44,170	2,100,445
Investments at fair value through income:								
Debt securities	22,674	57,235	68,397	148,306	23,161	93,780	-	116,941
Equity securities	20,268	76,992	5,925	103,185	6,678	70,907	7,608	85,193
Derivative financial instruments	-	28,488	16,727	45,215	-	45,892	6,189	52,081
Mortgage loans	-	-	36,838	36,838	-	-	40,212	40,212
Securities purchased for re-sale	-	-	162	162	-	-	177	177
	42,942	162,715	128,049	333,706	29,839	210,579	54,186	294,604
Total assets	430,582	1,919,940	149,673	2,500,195	363,758	1,932,935	98,356	2,395,049
Total assets by percentage	17%	77%	6%	100%	15%	81%	4%	100%
Investment contracts:								
Unit linked deposit administration liabilities	-	-	114,374	114,374	-	-	104,084	104,084
Deposit and security liabilities:								
Structured products	-	-	17,371	17,371	-	-	9,216	9,216
Derivative financial instruments	-	29,916	-	29,916	-	46,512	-	46,512
	-	29,916	17,371	47,287	-	46,512	9,216	55,728
Total liabilities	-	29,916	131,745	161,661	-	46,512	113,300	159,812
Total liabilities by percentage	0%	19%	81%	100%	0%	29%	71%	100%

Amounts expressed in US$000

41.5 Fair value of financial instruments (continued)

Balances totalling $165 have been transferred from Level 1 to Level 2 in 2013 (2012 - $10,018). There have been no other material transfers between Level 1 and Level 2 instruments during 2013 and 2012.

For Level 3 instruments, reasonable changes in inputs which could be applied to the valuation of available for sale securities would affect other comprehensive income. Reasonable changes in inputs which could be applied to the valuations of investments designated at fair value are largely offset in income, since the changes in fair value are borne by contract holders. Changes in the valuations of structured products reflect changes in the underlying securities and are borne by the contract holders. The following table presents the movements in Level 3 instruments for the year.

	2013				2012	2013			2012
	Available for sale securities	Investments at fair value through income	Derivative instruments	Total assets	Total assets	Policy liabilities	Structured products	Total liabilities	Total liabilities
Balance, beginning of year	44,170	94,106	6,189	144,465	136,758	104,084	9,216	113,300	96,184
Additions	3,768	37,321	8,834	49,923	42,300	-	-	-	-
Issues	-	-	-	-	-	11,147	9,313	20,460	15,254
Transfers in	-	-	-	-	2	-	-	-	-
Settlements	-	-	-	-	-	(5,379)	-	(5,379)	(4,295)
Fair value changes recorded within net investment income	1,288	(463)	12,303	13,128	6,199	-	-	-	-
Fair value changes recorded within interest expense	-	-	-	-	-	5,524	-	5,524	5,922
Fair value changes recorded in other comprehensive income	28	-	-	28	41	-	-	-	-
Disposals	(2,509)	(18,687)	(10,599)	(31,795)	(37,758)	-	-	-	-
Transfers out of Level 3	(20,599)	-	-	(20,599)	-	-	-	-	-
Effect of exchange rate changes	(4,522)	(955)	-	(5,477)	(3,077)	(1,002)	(1,158)	(2,160)	235
Balance, end of year	21,624	111,322	16,727	149,673	144,465	114,374	17,371	131,745	113,300
Fair value changes recorded in investment income for instruments held at end of year	-	118	7,388	7,506	(230)	-	-	-	-
Fair value changes recorded in interest expense for instruments held at end of year	-	-	-	-	-	5,524	-	5,524	5,922

Amounts expressed in US$000

41.5 Fair value of financial instruments (continued)

(b) Financial instruments carried at amortised cost

The carrying values of the Group's non-traded financial assets and financial liabilities carried at amortised cost approximate their fair value in notes 10, 12, and 20. The fair value hierarchy of other financial instruments carried at amortised cost as of December 31, 2013 is set out in the following tables.

	Level 1	Level 2	Level 3	Total
Held to maturity securities:				
Debt securities	-	20,466	-	20,466
Loans and receivables:				
Debt securities	-	349,140	632,346	981,486
Mortgage loans	-	22,302	199,125	221,427
Policy loans	-	-	141,464	141,464
Finance loans and finance leases	-	-	161,631	161,631
Securities purchased for resale	-	-	40,713	40,713
	-	371,442	1,175,279	1,546,721
	-	391,908	1,175,279	1,567,187

41.5 Fair value of financial instruments (continued)

	Level 1	Level 2	Level 3	Total
Investment contracts:				
Deposit administration liabilities	-	1,930	117,582	119,512
Other investment contracts	-	-	135,876	135,876
	-	1,930	253,458	255,388
Notes and loans payable:				
Convertible redeemable preference shares	-	115,339	-	115,339
Notes and lease payables	-	200,098	1,391	201,489
	-	315,437	1,391	316,828
Deposit and security liabilities				
Other funding instruments	-	-	316,632	316,632
Customer deposits	-	95,261	140,132	235,393
Securities sold for repurchase	-	-	525,267	525,267
	-	95,261	982,031	1,077,292
	-	412,628	1,236,880	1,649,508

Amounts expressed in US$000

41.5 Fair value of financial instruments (continued)

(c) Equity price risk

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

Sensitivity

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

The effects of an across the board 20% change in equity prices of the Group's available for sale equity securities as of December 31, 2013 on total comprehensive income before tax (TCIBT) are as follows.

Available for sale equities	Carrying value	20% change on TCIBT
Listed on Caribbean stock exchanges and markets	19,659	3,932
Listed on US stock exchanges and markets	65,081	13,016
Listed on other exchanges and markets	7,635	1,527
	92,375	18,475

41.6 Derivative financial instruments and hedging activities

The Group's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed to ensure that they remain within acceptable risk levels, with matching deals being utilised to achieve this where necessary. When entering into derivative transactions, the Group employs its credit risk management procedures to assess and approve potential credit exposures.

41.6 Derivative financial instruments and hedging activities (continued)

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

	Contract / notional amount	Fair value	
		Assets	Liabilities
2013			
Derivatives held for trading:			
Currency forwards	2,763	2,683	2,763
Cross currency swap	24,965	24,965	26,313
Equity indexed options	317,699	17,568	840
	345,427	45,216	29,916
2012			
Derivatives held for trading:			
Currency forwards	2,644	2,775	2,644
Cross currency swap	42,643	42,643	43,394
Equity indexed options	120,040	6,663	474
	165,327	52,081	46,512

41.6 Derivative financial instruments and hedging activities (continued)

(i) Currency forwards and swaps

Currency forwards represent commitments to buy and sell foreign currencies on a gross basis at future dates at specified prices. The credit risk is evaluated for each contract and is collateralised where deemed necessary. The currency forward contracts are settled on a gross basis. Inforce at December 31, 2013 and 2012 is a contract to buy US dollars and sell Euros which expires in November 2014.

(ii) Cross currency swap

A Group company entered into a currency swap with an initial notional principal amount of Euro 45 million maturing in February 2015. Under the terms of this swap, the Group company pays Euro at a rate of 5% and receives 4.26% in US dollars on the notional principal amount.

The Group company obtains principal and interest in Euros on a promissory note included in debt securities classified as financial assets at fair value through income in note 9.

(iii) Equity indexed options

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

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

41.6 Derivative financial instruments and hedging activities (continued)

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

42 INSURANCE RISK – PROPERTY & CASUALTY CONTRACTS

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

Sagicor General Insurance is the principal insurer within the Group's continuing operations that issues property and casualty insurance contracts. It operates mainly in Barbados and Trinidad and Tobago.

The principal insurance risks affecting property and casualty contracts are disclosed in the following sections.

42.1 Underwriting risk

Risks are priced to achieve an adequate return on capital on the insurer's business as a whole. This return is expressed as a premium target return. Budgeted expenses and reinsurance costs are included in the pricing process. Various pricing methodologies, including benchmark exposure rates and historic experience are used and are generally applied by class of insurance. All methods produce a technical price, which is compared against the market to establish a price margin.

Amounts expressed in US$000

42.1 Underwriting risk (continued)

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

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

42.2 Claims risk

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

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

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

42.2 Claims risk (continued)

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

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

Claims risk may be concentrated in geographic locations, altering the risk profile of the insurer. The most significant exposure for this type of risk arises where a single event could result in a large number of claims. Concentration of risk is mitigated through risk selection, line sizes, event limits, quota share reinsurance and excess of loss reinsurance.

Total insurance coverage on insurance policies provides a quantitative measure of absolute risk. However, claims arising in any one year are a very small proportion in relation to the total insurance coverage provided. The total amounts insured by the Group at December 31, gross and net of reinsurance, are summarised by class of insurance.

Total insurance coverage		2013	2012
Property	Gross	5,999,030	5,999,415
	Net	1,347,863	1,347,844
Motor	Gross	346,662	346,662
	Net	173,331	173,331
Accident and liability	Gross	2,053,672	2,053,702
	Net	995,697	995,697
Total	Gross	8,399,364	8,399,779
	Net	2,516,891	2,516,872

42.2 Claims risk (continued)

The insurer assesses its exposures by modelling realistic disaster scenarios of potential catastrophic events. Claims arising from wind storms, earthquakes and floods and events triggering multi-coverage corporate liability claims are considered to be the potential sources of catastrophic losses arising from insurance risks. A realistic disaster scenario modelled for 2013 is presented below and results in estimated gross and net losses.

	Gross loss	Net loss
A Barbados and St. Lucia windstorm having a 200 year return period.	294,483	5,000

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

42.3 Reinsurance risk

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

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

The Group selects reinsurers which have well established capability to meet their contractual obligations and which generally have a Sagicor credit risk rating of 1 or 2. Insurers also place reinsurance coverage with various reinsurers to limit their exposure to any one reinsurer.

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

42.3 Reinsurance risk (continued)

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

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

Retention limits represent the level of risk retained by the insurer. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. Claim amounts in excess of reinsurance treaty limits revert to the insurer. Principal features of retention program used by Sagicor General for its property insurance class is summarised in the following table.

Type of risk	Retention by insurers - currency amounts in thousands
Property	• maximum retention of $5,250 for a single event; • maximum retention of $5,000 for a catastrophic event; • quota share retention to maximum of 30% in respect of treaty limits; • quota share retention is further reduced to a maximum of $750 per event.

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

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

- Hurricane with a 250 year return period affecting Barbados and St. Lucia and an earthquake with a 250 year return period affecting Trinidad within a 24 hour period.

42.3 Reinsurance risk (continued)

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

Risk Rating	Classification	Exposure $000	Exposure %
1	Minimal risk	208,430	34%
2	Low risk	381,617	62%
3	Moderate risk	23,118	4%
4	Acceptable risk	-	0%
5	Average risk	-	0%
6	Higher risk	-	0%
7	Special mention	-	0%
8	Substandard	-	0%
TOTAL		613,165	100%

43 INSURANCE RISK – LIFE, ANNUITY & HEALTH CONTRACTS

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

43.1 Contracts without investment returns

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

43.1 Contracts without investment returns (continued)

(a) Product design and pricing risk

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

Risks are priced to achieve an adequate return on capital on the insurer's business as a whole. In determining the pricing of an insurance contract, the insurer considers the nature and amount of the risk assumed, and recent experience and industry statistics of the benefits payable. Pricing inadequacy may arise either from the use of inadequate experience and statistical data in deriving pricing factors or from market softening conditions.

The underwriting process has established pricing guidelines, and may include specific medical tests and enquiries which determine the insurer's assessment of the risk. Insurers may also establish deductibles and coverage limits for health risks which will limit the potential claims incurred. Term life and critical illness risks have limitations of insured amounts. The pricing of a contract therefore consists of establishing appropriate premium rates, deductibles and coverage limits.

(b) Mortality and morbidity risk

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

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

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

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

Amounts expressed in US$000

43.1 Contracts without investment returns (continued)

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

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

2013 Premium revenue by location of insureds	Gross	Ceded	Net
Barbados	20,911	1,087	19,824
Jamaica	77,480	1,799	75,681
Trinidad & Tobago	21,629	745	20,884
Other Caribbean	25,853	1,343	24,510
USA	182	158	24
Total	146,055	5,132	140,923

(c) Sensitivity of incurred claims

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

	2013		2012	
	Liability	5% increase in liability	Liability	5% increase in liability
Actuarial liability	42,174	2,109	37,742	1,887
Claims payable	2,687	134	2,632	132
	44,861	2,243	40,374	2,019

43.2 Contracts with investment returns

Life and annuity insurance contracts with investment returns generally have durations of 5 or more years. The contract terms provide for the policyholder to pay either a single premium at contract inception, or periodic premiums over the duration of the contract. From the premium received, acquisition expenses and maintenance expenses are financed. Investment returns are credited to the policy and are available to fund surrender, withdrawal and maturity policy benefits. The principal risks associated with these policies are in respect of product design and pricing, mortality and longevity, lapse, expense and investment.

(a) Product design and pricing risk

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

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

(b) Mortality and longevity risk

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

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

Amounts expressed in US$000

43.2 Contracts with investment returns (continued)

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

Total insurance coverage on insurance policies provides a quantitative measure of absolute mortality risk. However, claims arising in any one year are a very small proportion in relation to the total insurance coverage provided. The total amounts insured by the Group at December 31, gross and net of reinsurance, are summarised by geographic area below.

Total insurance coverage		2013		2012	
		Individual contracts	Group contracts	Individual contracts	Group contracts
Barbados	Gross	3,443,539	1,575,665	3,218,071	1,732,691
	Net	3,095,266	1,508,962	2,861,245	1,581,292
Jamaica	Gross	6,495,724	4,362,914	6,765,112	3,676,730
	Net	6,262,554	4,349,803	6,478,833	3,676,730
Trinidad & Tobago	Gross	2,778,294	1,640,918	2,602,855	1,564,189
	Net	2,206,915	1,519,513	2,037,974	1,455,997
Other Caribbean	Gross	7,146,664	2,532,093	6,542,572	2,990,004
	Net	5,833,715	1,872,424	5,191,479	1,945,312
USA	Gross	3,954,741	57,145	3,942,610	64,262
	Net	1,731,024	53,909	1,709,847	59,076
Total	Gross	23,818,962	10,168,735	23,071,220	10,027,876
	Net	19,129,474	9,304,611	18,279,378	8,718,407

43.2 Contracts with investment returns (continued)

(c) Lapse risk

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

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

(d) Expense risk

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

(e) Investment risk

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

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

43.3 Reinsurance risk

To limit its exposure of potential loss on an insurance policy, the insurer may cede certain levels of risk to a reinsurer. The Group selects reinsurers which have well established capability to meet their contractual obligations and for new business a Sagicor credit risk rating of 1 or 2 is usually selected. Reinsurance ceded does not discharge the insurer's liability and failure by a reinsurer to honour its commitments could result in losses to the Group.

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

Type of insurance contract	Retention by insurers - currency amounts in thousands
Health insurance contracts with individuals	Retention per individual to a maximum of $75
Health insurance contracts with groups	Retention per individual to a maximum of $75
Life insurance contracts with individuals	Retention per individual life to a maximum of $500
Life insurance contracts with groups	Retention per individual life to a maximum of $330

43.4 Sensitivity arising from the valuation of actuarial liabilities

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

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

- the economic scenario used,
- the investments allocated to back the liabilities,
- the underlying assumptions used (note 13.3 (b) to (f)), and
- the margins for adverse deviations (note 13.3 (g)).

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

Under Canadian accepted actuarial standards, the AA is required to test the actuarial liability under economic scenarios. The scenarios developed and tested by insurers were as follows.

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

Amounts expressed in US$000

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

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

	Sagicor Life segment		Sagicor Jamaica segment		Sagicor Life USA segment	
	2013	2012	2013	2012	2013	2012
Base net actuarial liability	864,680	823,715	458,188	424,308	709,225	723,137
Scenario	**increase in liability**		**increase in liability**		**increase in liability**	
Worsening rate of lapse	108,682	79,214	42,921	45,106	24,967	19,077
High interest rate	(146,739)	(124,698)	(90,059)	(81,408)	(42,476)	(41,925)
Low interest rate	206,820	160,513	116,950	120,139	48,998	48,167
Worsening mortality / morbidity	35,006	25,937	25,871	27,030	15,276	14,618
Higher expenses	30,777	26,811	17,413	18,136	5,478	4,812

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43.5 Dynamic capital adequacy testing (DCAT)

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

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

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

The purpose of the DCAT is

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

Full DCAT is conducted periodically by some insurers within the Group.

Amounts expressed in US$000

44 FIDUCIARY RISK

The Group provides investment management and pension administration services to investment and pension funds which involve the Group making allocation, purchase and sale decisions in relation to a wide range of investments. These services give rise to fiduciary risk that may expose the Group to claims for mal-administration or under-performance of these funds.

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

	2013	2012
Pension and insurance fund assets	1,282,487	1,318,748
Mutual fund, unit trust and other investment fund assets	431,816	439,731
	1,714,303	1,758,479

Fee income under administration is discussed in Note 26.

45 STATUTORY RESTRICTIONS ON ASSETS

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

To satisfy the above requirements, invested assets and cash totalling $1,202,220 (2012 - $1,371,876) have been deposited with regulators or are held in trust to the order of regulators.

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

46 CAPITAL MANAGEMENT

The Group's objectives when managing capital, which is a broader concept than equity in the statement of financial position, are:

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

46.1 Capital resources

The principal capital resources of the Group are as follows:

	2013	2012
Shareholders' equity	512,097	587,034
Minority interest	218,751	226,433
Notes and loans payable	290,160	241,556
Total financial statement capital resources	1,022,008	1,055,023
Letter of credit facilities, net of collateral assets	-	35,318
Total off financial statement resources	-	35,318
Total capital resources	1,022,008	1,090,341

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

46.2 Capital adequacy

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

(a) Life insurers

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

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

The consolidated MCCSR for the Sagicor Group as of December 31 has been estimated as 259% (2012 – 250%). This is the principal standard of capital adequacy used to assess the overall strength of the Sagicor Group. However, because of the variations in capital adequacy standards across jurisdictions, the consolidated result should be regarded as applicable to the Group as a whole and not necessarily applicable to each individual segment, insurance subsidiary or insurance subsidiary branch.

46.2 Capital adequacy (continued)

(i) Sagicor Life Jamaica

Sagicor Life Jamaica is governed by the Jamaican MCCSR regime which requires an insurer to maintain a minimum ratio of 150%. For the years ended December 31, 2013 and 2012, this ratio was 180% and 163% respectively.

(ii) Sagicor Life Insurance Company (USA)

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

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

Sagicor Life Insurance Company looks to maintain at least 300% of the Company Action Level, and has maintained these ratios as of December 31, 2013 and 2012 respectively.

Amounts expressed in US$000

46.2 Capital adequacy (continued)

(b) Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited

Capital adequacy and the use of regulatory capital are monitored monthly by management employing techniques based on the guidelines developed by the Financial Services Commission (FSC), the Bank of Jamaica (BOJ), Basel II and the Risk Management and Compliance Unit. The required information is filed with the respective Regulatory Authorities at stipulated intervals. The BOJ and the FSC require each regulated entity to hold the minimum level of regulatory capital, and to maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

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

The table below summarises the capital adequacy ratios. During 2013 and 2012, all applicable externally imposed capital requirements were complied with.

	Sagicor Investments Jamaica		Sagicor Bank Jamaica	
	2013	2012	2013	2012
Actual capital base to risk weighted assets	15%	17%	17%	21%
Required capital base to risk weighted assets	10%	10%	10%	10%

46.3 Financial covenants

(a) 7.5% senior notes due 2016 and 4.6% notes due 2015

Under an indenture and a trust deed entered into by the Group on the issue of the senior notes and notes respectively (see note 16), the Group has to comply with permitted lien covenants, which will not allow the Company nor any of its subsidiaries to directly or indirectly, incur or permit to exist any lien to secure any indebtedness or any guarantee of indebtedness, other than permitted liens, without effectively providing that the senior notes and notes are secured equitably and rateably with (or, if the obligation to be secured by the lien is subordinated in right of payment to the senior notes and notes, prior to) the obligations so secured for so long as such obligations are so secured.

Permitted liens are liens existing on the dates of issue of the senior notes and notes respectively, certain liens which would arise in the course of normal business, and other liens whose outstanding principal amounts in aggregate outstanding principal amount do not exceed 10% of the consolidated net tangible assets (as is defined in the indenture and trust deed). As of December 31, 2013 and 2012, the Group satisfied these requirements.

Amounts expressed in US$000

46.3 Financial covenants (continued)

(b) International Finance Corporation (IFC)

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

(i) Price protection rights

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

(ii) Put option

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

47 RELATED PARTY TRANSACTIONS

Other than as disclosed in notes 5 12, 26, 30 and 44, there are no material related party transactions except as disclosed below.

Key management transactions and balances

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

Compensation	2013	2012
Salaries, directors' fees and other short-term benefits	21,027	19,044
Equity-settled compensation benefits	4,359	4,247
Pension and other retirement benefits	737	2,688
	26,123	25,979

	Mortgage loans	Other loans	Total loans
Balance, beginning of year	4,974	420	5,394
Advances	1,345	10,770	12,115
Repayments	(877)	(10,763)	(11,640)
Effects of exchange rate changes	(1)	(32)	(33)
Balance, end of year	5,441	395	5,836
Interest rates prevailing during the year	5% - 8.25%	5% - 17.7%	

Amounts expressed in US$000

48 CHANGE IN ACCOUNTING POLICIES

The restatements of the prior period financial statements arising from the change in accounting policy summarised in note 2(a) are set out in the following tables.

Statement of financial position	As previously stated	Effect of restatements	As restated
December 31, 2012			
Net defined benefit assets (note 12)	2,615	(2,039)	576
Associates and joint ventures (note 6)	36,559	5,874	42,433
Miscellaneous assets and receivables (note 12)	102,714	(4,133)	98,581
Impact to total assets	5,549,355	(298)	5,549,057
Net defined benefit liabilities (note 18)	43,168	15,208	58,376
Impact to total liabilities	4,730,715	15,208	4,745,923
Impact to total equity	818,640	(15,506)	803,134
January 1, 2012			
Net defined benefit assets (note 12)	3,356	(164)	3,192
Impact to total assets	5,364,073	(164)	5,363,909
Net defined benefit liabilities (note 18)	37,429	8,354	45,783
Impact to total liabilities	4,566,540	8,354	4,574,894
Impact to total equity	797,533	(8,518)	789,015

48 Change in accounting policy (continued)

Year ended December 31, 2012	As previously stated	Effect of restatements	As restated
Statement of income			
Defined benefit expense (note 31)	(10,589)	1,542	(9,047)
Net investment income (note 25)	295,148	(122)	295,026
Administrative expenses	(181,542)	(160)	(181,702)
Impact to net income from continuing operations	74,060	1,260	75,320
Impact to net income attributable to common shareholders from continuing operations	52,408	693	53,101
Basic earnings per common share from continuing operations in cents	16.8¢	0.3¢	17.1¢
Fully diluted earnings per common share from continuing operations in cents	16.8¢	(0.6)¢	16.2¢
Statement comprehensive income			
Defined benefit losses(note 35)	-	(7,967)	(7,967)
Other comprehensive income from continuing operations	(15,679)	(8,248)	(23,927)
Total comprehensive income attributable to common shareholders from continuing operations	45,676	(5,774)	39,902

Amounts expressed in US$000

48 Change in accounting policy (continued)

Statement of changes in equity	Retained Earnings	Total Shareholders' Equity	Minority Interests	Total Equity
Year ended December 31, 2012				
Balance, beginning of year as previously reported	290,222	607,135	188,197	797,533
Effect of change in accounting policy	(8,797)	(8,797)	279	(8,518)
Balance, beginning of year as restated	281,425	598,338	188,476	789,015
Net income from continuing operations, as previously reported	52,408	52,408	34,177	74,060
Effect of change in accounting policy	693	693	567	1,260
Net income from continuing operations, as restated	53,101	53,101	34,744	75,320
Total comprehensive income from continuing operations, as previously reported	(19)	(6,732)	(9,186)	(15,679)
Effect of change in accounting policy	(6,467)	(6,467)	(1,781)	(8,248)
Total comprehensive income from continuing operations, as restated	(6,486)	(13,199)	(10,967)	(23,927)
Balance, end of year, as previously reported	289,136	601,605	227,368	818,640
Effect of change in accounting policy	(14,571)	(14,571)	(935)	(15,506)
Balance, end of year, as restated	274,565	587,034	226,433	803,134

As there has been no change in share capital, reserves, participating accounts, results of discontinued operations and transactions with holders of equity instruments, these items have been excluded from the foregoing tables.

49 EVENTS AFTER DECEMBER 31, 2013

Acquisition of RBC Jamaica

On January 29, 2014, Sagicor Group Jamaica Limited signed an agreement to acquire all of the issued shares of RBC Royal Bank (Jamaica) Limited and RBTT Securities Jamaica Limited (collectively "RBC Jamaica") from Royal Bank of Canada. The acquisition is subject to regulatory approvals. As of December 2013, RBC Jamaica had total assets of approximately $509,000.