



SAGICOR LIFE JAMAICA LIMITED  
Annual Report 2012

BEHIND EVERY  
PROMISE,  
A PARTNER



Wise Financial Thinking for Life

# Welcome to Sagicor Jamaica!

For over 40 years, through various products, Sagicor has been helping clients pursue their financial goals.

We are a full service financial institution offering a wide range of products and services. Our financial solutions are designed to meet your short and long term Life & Health Insurance, Annuities, Pensions, Banking and Investment needs.

## OUR VISION

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

## OUR PHILOSOPHY

To provide quality products and services to our customers while delivering strong return on our shareholders' investments

## OUR VALUES

Our Values dictate who we are... our SCRIPT guides our action.

Sagicor values

**S**ervice  
**C**ommunication  
**R**espect  
**I**ntegrity  
**P**erformance  
**T**eamwork

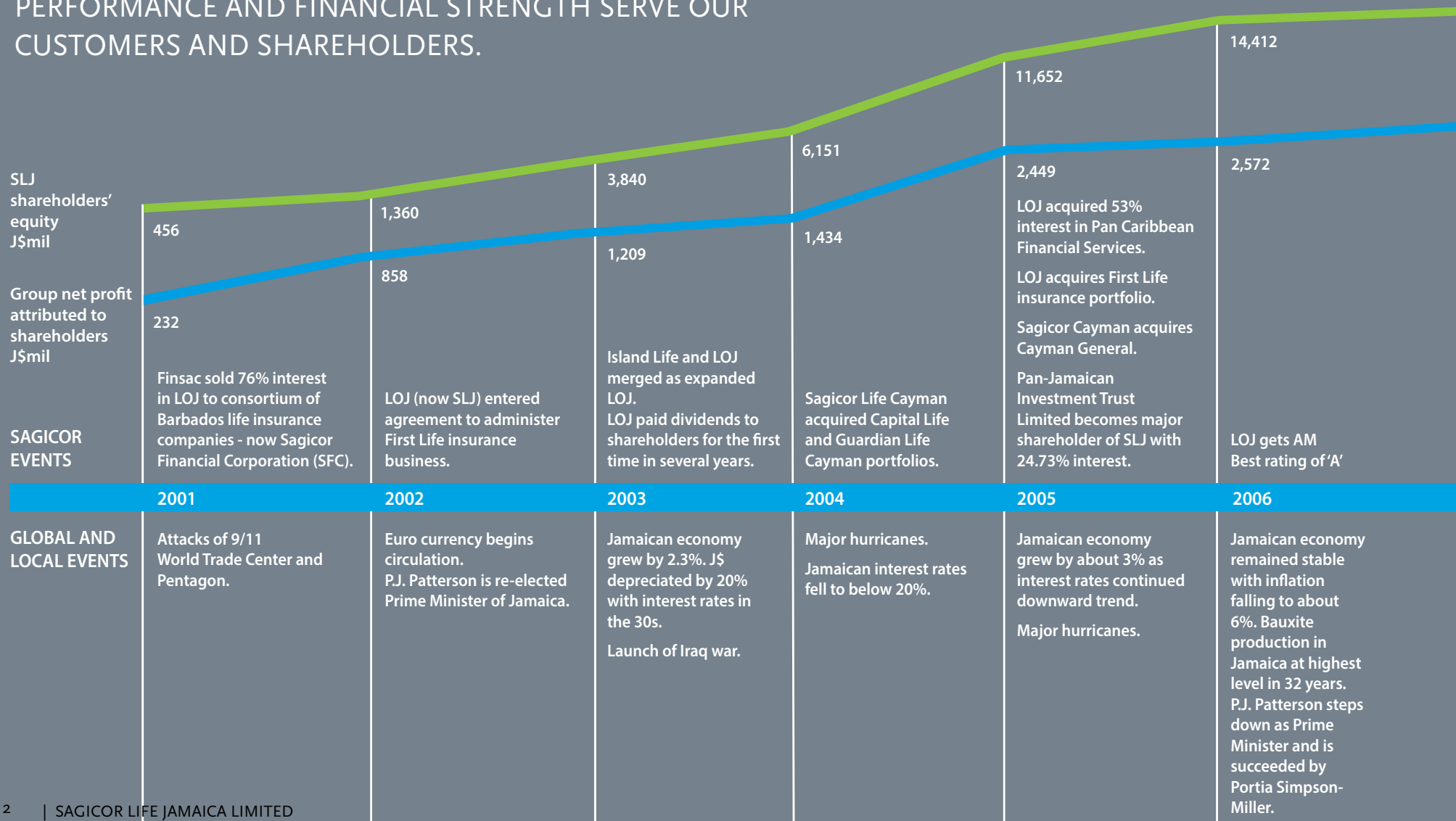


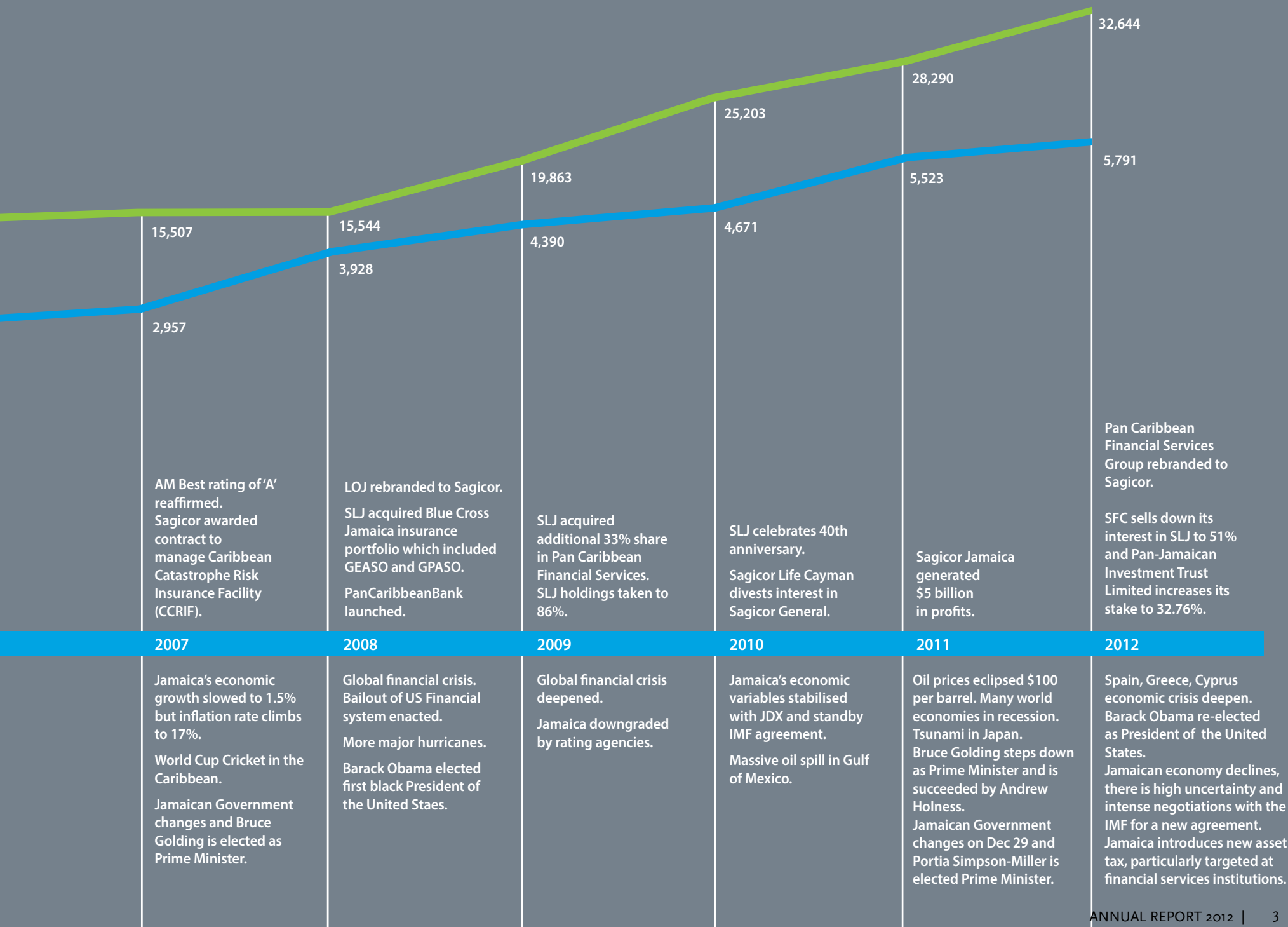


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Form of Proxy	

SAGICOR MAINTAINED ITS TRACK RECORD OF UNBROKEN PROFITABILITY DESPITE CHALLENGING ECONOMIC CONDITIONS BOTH GLOBALLY AND LOCALLY. OUR SOLID PERFORMANCE AND FINANCIAL STRENGTH SERVE OUR CUSTOMERS AND SHAREHOLDERS.





AM Best rating of 'A' reaffirmed. Sagicor awarded contract to manage Caribbean Catastrophe Risk Insurance Facility (CCRIF).

LOJ rebranded to Sagicor. SLJ acquired Blue Cross Jamaica insurance portfolio which included GEASO and GPASO. PanCaribbeanBank launched.

SLJ acquired additional 33% share in Pan Caribbean Financial Services. SLJ holdings taken to 86%.

SLJ celebrates 40th anniversary. Sagicor Life Cayman divests interest in Sagicor General.

Sagicor Jamaica generated \$5 billion in profits.

Pan Caribbean Financial Services Group rebranded to Sagicor.

SFC sells down its interest in SLJ to 51% and Pan-Jamaican Investment Trust Limited increases its stake to 32.76%.

Jamaica's economic growth slowed to 1.5% but inflation rate climbs to 17%.  
World Cup Cricket in the Caribbean.  
Jamaican Government changes and Bruce Golding is elected as Prime Minister.

Global financial crisis. Bailout of US Financial system enacted.  
More major hurricanes.  
Barack Obama elected first black President of the United States.

Global financial crisis deepened.  
Jamaica downgraded by rating agencies.

Jamaica's economic variables stabilised with JDX and standby IMF agreement.  
Massive oil spill in Gulf of Mexico.

Oil prices eclipsed \$100 per barrel. Many world economies in recession. Tsunami in Japan.  
Bruce Golding steps down as Prime Minister and is succeeded by Andrew Holness.  
Jamaican Government changes on Dec 29 and Portia Simpson-Miller is elected Prime Minister.

Spain, Greece, Cyprus economic crisis deepen. Barack Obama re-elected as President of the United States.  
Jamaican economy declines, there is high uncertainty and intense negotiations with the IMF for a new agreement.  
Jamaica introduces new asset tax, particularly targeted at financial services institutions.



## STATEMENT OF THE CHAIRMAN & THE PRESIDENT

Left: Dr. The Hon. R.D. Williams, Chairman  
Right: Richard O. Byles, President & CEO

On behalf of the Board of Directors of Sagicor Life Jamaica (SLJ), we are pleased to share with you the 2012 performance of our Group of Companies.

Our Team delivered net profits of \$5.79 billion, which is 5% above 2011 and our thirteenth consecutive year of profit growth. Revenues were \$31.48 billion, an improvement of 10% over 2011. We provided \$10.36 billion of insurance and annuity benefits to our customers and their families in 2012. In addition we managed the GEASO and GPASO

health business and the largest pool of pension funds in Jamaica. These are major businesses from which we pay out another \$17.4 billion annually. Our investment funds outperformed their respective benchmarks for the most part and some were the best performers in their asset class.

In 2012 we made significant progress in laying a platform to deliver continued growth in the near term:

- Once again we had excellent new business sales, outperforming the individual and group insurance markets and growing our share by 3% and 5% respectively.
- With respect to innovation, we launched five new insurance and banking products in 2012 and all were well received by the market.
- We successfully rebranded Pan Caribbean Financial Services to Sagicor, opening the opportunity for significant sales and marketing synergies.

## STATEMENT OF THE CHAIRMAN & THE PRESIDENT (CONT'D)

- We received approval from the Costa Rica Regulator to operate an insurance company in that country in joint venture with a Costa Rican partner, Capital and Advice S.A. We expect to have product approvals in 2013 and to begin operations in Q2 of that year.
- Team morale in the group improved further. The annual, independently administered staff survey indicates that 76% of our Team members consider themselves to be highly engaged in their jobs.
- Customer experience across the group continued to improve with 85% of our surveyed customers expressing satisfaction with our services across all our major product lines.
- We further strengthened the recognition of and affinity for the Sagicor brand through a wide array of product promotions and social initiatives focused primarily on sport, health and education.

### Strong Balance Sheet

Underpinning our promise to deliver promised benefits to our customers is a strong balance sheet. In 2012 our assets grew 9% to \$175 billion and the capital of SLJ improved by 15% to \$32.6 billion after paying a dividend of \$2.11 billion to our 8,312 shareholders. SLJ continues to exceed the risk-adjusted capital required by our regulators.

### Sound Governance

We are pleased to report that the Board of Directors and its various Committees met regularly and executed their responsibilities with diligence. They deliberated on matters of proper governance, management performance, business strategy and risk management.

### Spending Time, Shaping Lives

We are proud of our nation-building efforts during the year Jamaica celebrated its 50th year of Independence. It is especially pleasing to highlight a few programmes which emphasise the development of our youth. We donated to the Sigma Corporate Run, which saw 16,000 persons running, wheeling and walking in aid of Chain of Hope Jamaica for the Bustamante Hospital for Children's Cardiac Programme. The event raised over \$33 million. As we have done for several years, Sagicor sponsored the JTA/Sagicor National Primary, All-age and Junior High Schools' Athletics Championships.

We were also proud to assist some of Jamaica's young, bright minds with furthering their education. This year we awarded 177 students with scholarships and renewals for outstanding performances at the primary and secondary levels. Throughout 2012, team members continued to give back to various communities as they volunteered their time at Reading Days, Career Days and various projects executed at their adopted schools.

### Our Condolence

The Board extends its deep sympathy to the family of the Hon. Maurice Facey, Chairman of Pan-Jamaican Investment Trust Ltd, one of the largest shareholders in Sagicor. In 2004 Mr. Facey agreed to the sale of the insurance portfolios of First Life Jamaica Ltd and 53% of Pan Caribbean Financial Service Ltd (now Sagicor Investments Jamaica Ltd) in exchange for a large shareholding in Sagicor. Those investments have proven to be very successful for Sagicor.

### Thank you

We thank our customers for the confidence placed in us to provide for all their financial needs through Health Insurance, Life Insurance, Annuities, Pensions Management, and Commercial and Investment Banking. We thank our entire Team of 1,600 individuals and our business partners for their continuing support and professionalism.

### Outlook for 2013

For the second time in three years, Jamaica finds itself in a dire economic situation that requires drastic action, including another debt exchange. The NDX of February 2013 and the subsequent private exchange in March will significantly impact our financial performance in 2013. On exchange of the old GOJ notes for new notes at par value with longer maturities and lower coupon rates, the Group will realise capital losses and there

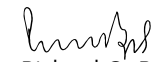
will be lower interest income going forward. However, our assessment is that the negative impact of the NDX will not impair the solvency of member companies within the Group.

The challenges over the next seven years, as we work ourselves away from this fiscal cliff, are only equalled by the opportunities they present. Opportunity to implement meaningful reforms of the public sector and the tax system. Opportunity to implement a public sector pension system. Opportunity to help frame fiscal rules which will prevent any GOJ spending in excess of fiscally prudent levels.

Following on this debt exchange the business community and Jamaicans as a whole need to be more involved in monitoring the recovery programme to ensure we remain steadfast in achieving the targets over the next seven years. In this respect, Sagicor intends to play an active role on the Oversight Committee proposed by the Minister of Finance. The truth is, no matter how hard you try to build a great company, if it exists in a weak and fragile economy, it will always carry excessive asset risk. Sagicor is determined to play its part in creating an economic environment that will allow our company to achieve and maintain its full potential.








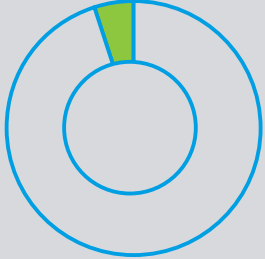


Dr. The Hon. R.D. Williams  
Chairman



Richard O. Byles  
President & CEO

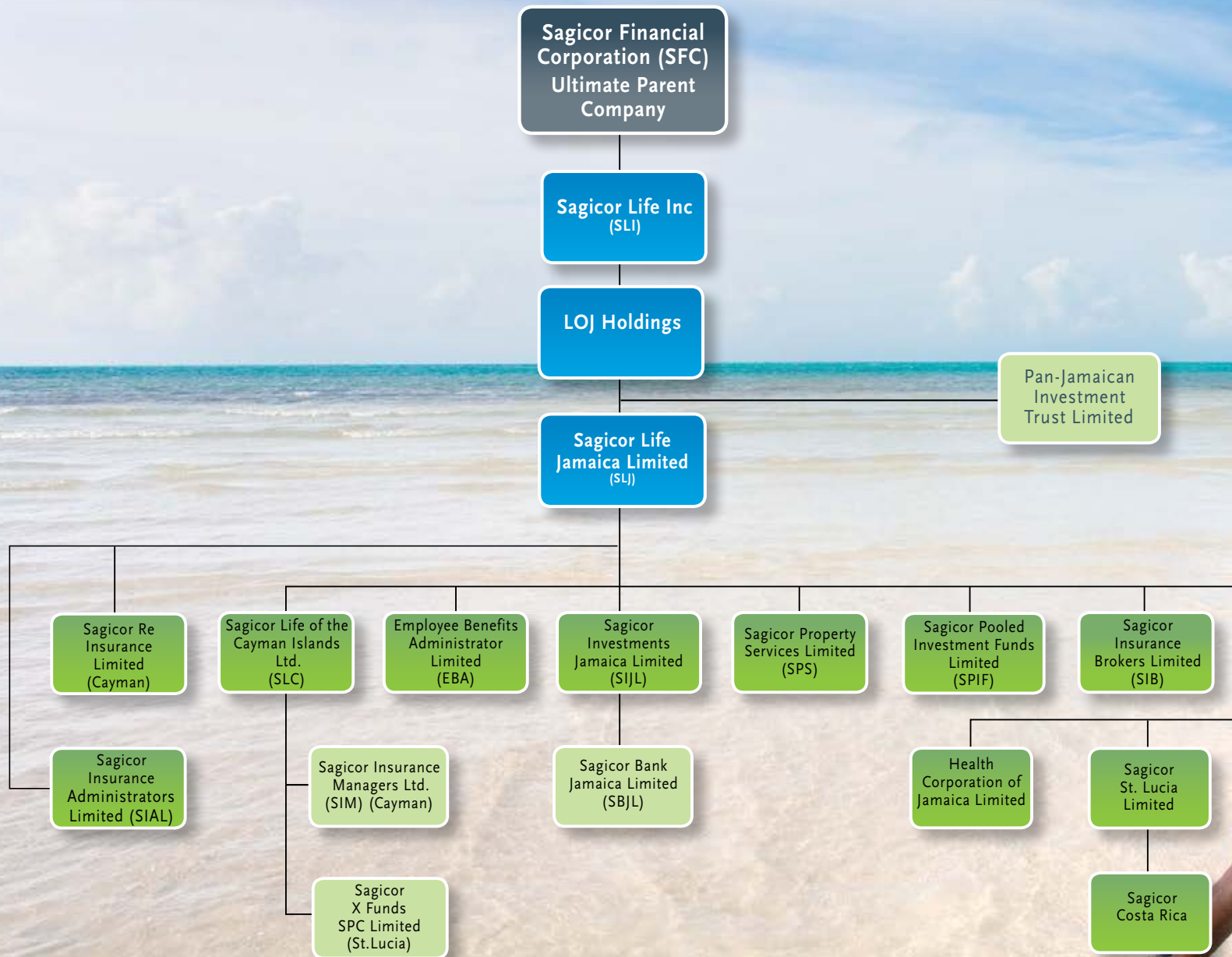
## PERFORMANCE BY BUSINESS LINE

CHALLENGING OUR INDUSTRY • REWARDING OUR SHAREHOLDERS

Employee Benefits	Treasury & Asset Management	Individual Insurance	Banking
			
<p><b>Errol McKenzie</b> Executive Vice President</p>	<p><b>Rohan Miller</b> Executive Vice President</p>	<p><b>Mark Chisholm</b> Executive Vice President</p>	<p><b>Donovan Perkins</b> President and CEO</p>
<b>CONTRIBUTION TO GROUP REVENUE</b>			
 <p>The Employee Benefits Division provides group health, life and personal accident insurance to institutional clients for their employees. The Division also provides pension funds administration services and annuity products to corporate clients. The Division focuses on building financial security programmes that balance the needs of both employer and employees. Sagicor Life Jamaica is the largest provider of these services in Jamaica.</p>	 <p>The Treasury &amp; Asset Management Division exists to assist individual investors in attaining their personal goals. We allow you to follow your own investment philosophy by tailoring products to meet your goals and match your appetite for risk. The Sagicor Life Treasury &amp; Asset Management Division manages the investments portfolios for all Group Companies with the exception of Sagicor Investments Jamaica Limited.</p>	 <p>Individual Insurance Division provides individual clients with Life and Health Insurance policies, Individual Pensions, Investment opportunities, and other insurance related solutions through our wide range of products, and a large distribution network of Financial Advisors and Broker/Agency channels in Jamaica and the Cayman Islands.</p>	 <p>The Sagicor Investments Group (formerly Pan Caribbean Financial Services Group) is focused on helping you make the most of your money. Through a diverse network of investment and banking solutions for both individuals and corporations, its hallmark is offering smart, insightful advice that matches personal objectives with the best financial opportunities available today.</p>



# Sagicor Today



## GROUP 10-YEAR FINANCIAL STATISTICS

YEAR END RESULTS TO DECEMBER 31, 2012

### THE GROUP

		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>SALES</b>											
<b>Insurance Amounts</b>											
Individual Life - Sums Assured	\$m	137,571	150,624	116,311	119,432	86,120	75,435	67,603	54,426	40,702	34,834
Group Life - Sums Assured	\$m	1,710	2,358	1,462	5,053	5,212	4,180	1,427	1,793	6,675	867
<b>Total New Insurance Amount</b>	<b>\$m</b>	<b>139,281</b>	<b>152,982</b>	<b>117,773</b>	<b>124,485</b>	<b>91,332</b>	<b>79,615</b>	<b>69,030</b>	<b>56,219</b>	<b>47,377</b>	<b>35,701</b>

<b>New Annualised Premiums</b>											
Individual Life	\$m	2,530	2,110	1,998	1,943	1,432	1,352	1,401	1,131	853	637
Group Life and Health	\$m	636	184	194	311	604	327	223	207	274	136
Group Health Single Premiums	\$m		56	356	-	1,447					
Annuities	\$m	1,820	1,139	1,279	1,302	810	831	605	387	417	213
Bulk Annuities Single Premiums	\$m	428	2,153	-	1,699	6,141					
Group Pensions	\$m	212	-	111	-	-	418	7	2	18	50
<b>Total New Annualised Premiums</b>	<b>\$m</b>	<b>5,625</b>	<b>5,642</b>	<b>3,938</b>	<b>5,255</b>	<b>10,434</b>	<b>2,928</b>	<b>2,236</b>	<b>1,727</b>	<b>1,562</b>	<b>1,036</b>

### IN FORCE:

<b>Insurance Amount</b>											
Individual Life - Sums Assured	\$m	813,598	734,195	666,096	622,513	527,376	442,844	378,018	321,222	260,354	166,357
Group Life - Sums Assured	\$m	553,171	491,577	468,407	571,731	424,576	376,715	348,574	283,115	186,740	86,482
Property and Casualty	\$m	29,058	22,957	19,584	134,787	118,864	100,081	73,413	62,388		
<b>Total Insurance Amounts in Force</b>	<b>\$m</b>	<b>1,395,827</b>	<b>1,248,729</b>	<b>1,154,087</b>	<b>1,329,031</b>	<b>1,070,815</b>	<b>919,640</b>	<b>800,005</b>	<b>666,725</b>	<b>447,094</b>	<b>252,839</b>
Number of Individual Life policies in force		397,673	380,591	364,725	354,795	335,931	322,884	307,365	294,178	271,577	264,731
Number of New Individual Life policies		61,877	57,450	51,741	52,624	47,547	43,081	42,685	36,107	33,014	21,881

		2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
<b>FINANCIAL POSITION &amp; STRENGTH:</b>											
Total Assets <sub>1</sub>	\$m	175,014	161,099	143,159	135,466	117,791	87,070	79,058	70,911	20,274	16,363
Pension Funds under Management <sub>2</sub>	\$m	79,725	74,399	64,569	55,336	46,709	50,705	41,825	35,991	26,473	20,026
Other Funds under Management	\$m	40,683	22,304	20,081	19,610	19,418	25,001	20,531	20,330		
<b>Total Assets Under Management</b>	<b>\$m</b>	<b>295,423</b>	<b>257,802</b>	<b>227,809</b>	<b>210,412</b>	<b>183,918</b>	<b>162,776</b>	<b>141,414</b>	<b>127,232</b>	<b>46,747</b>	<b>36,389</b>
Invested Assets	\$m	139,565	133,651	118,500	105,551	88,612	67,548	60,383	52,849	11,798	9,273
Policyholders' Funds (including Segregated Funds)	\$m	52,968	47,917	42,735	42,047	35,290	20,893	18,042	17,357	11,763	10,534
Shareholders' Equity	\$m	32,644	28,290	25,203	19,863	15,544	15,507	14,412	11,652	6,151	3,840
Market Capitalisation	\$m	37,986	37,610	25,650	25,575	21,001	29,985	32,863	36,649	28,744	9,831
<b>OPERATING RESULTS:</b>											
Total Revenue	\$m	31,475	28,670	25,657	27,873	28,391	16,964	14,769	12,123	7,050	5,603
Total Policyholder Benefits and reserves <sub>3</sub>	\$m	13,763	12,316	10,469	12,333	15,197	6,260	5,224	4,095	2,385	1,913
Total Commissions, Expenses, and Taxes	\$m	11,724	10,599	10,317	10,654	8,652	7,283	6,491	5,158	3,231	2,482
Net profit, attributable to Shareholders	\$m	5,791	5,523	4,671	4,390	3,928	2,957	2,572	2,449	1,434	1,209
<b>FINANCIAL RATIOS:</b>											
Return on average assets	%	4	4	4	4	4	4	4	7	10	13
Return on average shareholders' equity	%	19	21	21	25	25	20	20	27	29	47
Share price	\$	10.10	10.00	6.82	6.80	5.60	8.00	8.81	9.86	11.30	3.90
Earnings per share	\$	1.54	1.47	1.24	1.17	1.05	0.79	0.69	0.71	0.57	0.53
Price earnings ratio		6.56	6.81	5.49	5.81	5.33	10.13	10.76	13.89	19.82	7.36
Dividends per share	\$	0.56	0.65	0.43	0.57	0.44	0.30	0.27	0.20	0.10	0.16
Administration Expenses and Depreciation to Revenue	%	22 <sub>4</sub>	23 <sub>4</sub>	24 <sub>4</sub>	22 <sub>4</sub>	23 <sub>4</sub>	23	24	24	26	27
Commissions and Related Sales Expenses to net premium income	%	17 <sub>4</sub>	17 <sub>4</sub>	17 <sub>4</sub>	16 <sub>4</sub>	17 <sub>4</sub>	18	18	17	20	19

Footnotes: 1 - Includes Segregated Funds  
3 - Includes movement in Actuarial Liabilities

2 - Includes Sagicor Pooled Funds and Self-Directed Funds  
4 - These ratios reflect a 10% weighting for single premiums

## Sagicor Sigma Funds

### Offering a world of investment opportunities for all classes of investors

Sagicor Life Jamaica assumed investment management functions for the Sagicor Sigma Funds (“Sagicor Sigma”) in 2012. In September 2012, five additional funds were launched, bringing the total funds offering to ten.

Sagicor Sigma had the number one performing fund in Jamaica in 2008, 2009, 2011, and 2012. In 2012 Sagicor Sigma had the top two performing unit trust portfolios, namely Sigma Corporate and Sigma Liberty, seeing returns of 10.3% and 8.5% respectively.

Sagicor Sigma offers not only the most affordable Unit Trust in the Market with a minimum \$500 investment, but also the most diverse, to suit individuals with varying risk appetites covering the main asset classes of local and international fixed income and stocks, and real estate. There are funds

satisfying a variety of investment objectives: preservation of capital, capital growth, income, exchange rate hedge, liquidity, ease of management, and tax minimisation.

Unit trusts are open-ended investments; therefore the underlying value of the assets is always directly represented by the total number of units issued multiplied by the unit price. Each fund has a specified investment objective to determine the management aims and limitations. Each time money is invested, new units are created to match the prevailing unit buying price; each time units are redeemed the assets sold match the prevailing unit selling price. In this way, there is no supply or demand created for units and they remain a direct reflection of the underlying assets. Unit trust trades are attractive as they do not accrue any commission.

**#1** performing Unit Trust  
for 2008, 2009, 2011 & 2012

The Sagicor Sigma Funds was the number one performing Unit Trust fund in Jamaica in 2008, 2009, 2011, and 2012, and has the top three performing unit trust portfolios for 2013. Sagicor Sigma has launched five new investment options. The addition brings the total Sagicor Sigma Funds offerings to ten.

GROWING INVESTOR

# WEALTH

Sagikor **SIGMA**  
Funds  
*The power to earn more.*







*Seated Left - Right*

*Dr. The Hon. R.D. Williams  
CHAIRMAN*

*Richard O. Byles  
PRESIDENT & CEO*

*Marjorie Fyffe-Campbell*

*Standing Left - Right*

*Prof. Sir Hilary Beckles*

*Jacqueline Coke-Lloyd*

*Dr. Dodridge Miller*

*Stephen B. Facey*

*Richard Downer*

*Paul Hanworth*

*Jeffrey Cobham*

*Paul Facey*

*Peter Clarke*

# Our Board of Directors

## OUR BOARD OF DIRECTORS

**DR. THE HON. R.D. WILLIAMS** OJ, CD, Hon. LLD, JP  
Citizen of Jamaica / Director since 1969



Dr. the Hon. R. Danvers (Danny) Williams is the founder of Life of Jamaica Limited, now Sagicor Life Jamaica, serving as President & CEO on two separate occasions. He is the Chairman of the Corporate Governance & Ethics Committee and the Human Resource & Compensation Committee and sits on the Investments Committee. He also serves on the boards of a number of Sagicor Jamaica Group member companies.

In 1972 Dr. Williams was awarded the National Honour of Commander of the Order of Distinction (CD) and in 1993 was conferred with the Order of Jamaica (OJ) for voluntary service to his community. He served the Government of Jamaica for three years (from 1977 to 1980) as a Senator, Minister of State and Minister of Industry and Commerce, respectively. In 2005 he received an honorary Doctorate of Laws (LLD) from the University of Technology. Dr. Williams currently serves on the boards of several major Jamaican companies, organisations and foundations. He is Director Emeritus of Jamaica Broilers Group Limited and Chairman of the Jamaica College Foundation.

**JEFFREY COBHAM** B.A., Dip. Mgmt.  
Citizen of Barbados / Director since 2003



Mr. Jeffrey Cobham sits on the boards of Sagicor Property Services Limited, Sagicor Life of the Cayman Islands Ltd., Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited), and several other companies. He chairs the Audit Committee of Sagicor Life Jamaica Limited.

He also sits on the boards of Salada Foods Jamaica Limited and Pulse Investments Limited.

He is the Chancellor's representative to the UWI's Mona Campus Council and sits on its Finance and General Purposes, and Audit Committees.

**RICHARD O. BYLES** B.Sc., M.Sc.  
Citizen of Jamaica / Director since 2004



Mr. Richard Byles is President and CEO of Sagicor Life Jamaica Limited.

Mr. Byles holds a Bachelor's degree in economics from the University of the West Indies and a Master's in National Development from the University of Bradford, England.

He is the Board Chairman of Sagicor Investments Limited (formerly Pan Caribbean Financial Services Limited) Sagicor Life of the Cayman Islands Limited and Desnoes & Geddes Ltd. brewers of Red Stripe. He is also a director of Pan-Jamaican Investment Trust Limited.

**RICHARD DOWNER** CD, FCA  
Citizen of Jamaica / Director since 2008



Mr. Richard Downer, a former Senior Partner of PricewaterhouseCoopers in Jamaica, currently serves on the Board and the Audit, Investments & Risk Committees. He is a director of Sagicor Financial Services Limited, chairman of its Audit Committee and a director of Sagicor Bank. He is a member of the Rating Committee of CariCRIS Limited and a director of ICD Limited and Dolphin Cove Limited.

Mr. Downer has served on other private sector boards including Victoria Mutual Building Society and Lascelles deMercado and Co. Ltd. In the public sector he has served as Executive Director of the Bureau of Management Support in the Office of the Prime Minister of Jamaica and a director of the Bank of Jamaica and was Chairman of the Coffee Industry Board for eight years. He has also served on the boards and audit committees of the National Education Trust, the Overseas Examination Commission and the Tourism Enhancement Fund. He has advised the governments of sixteen countries on privatisation

**PROF. SIR HILARY BECKLES**, B.A. (Hons) PhD  
Citizen of Barbados / Director since 2006



Professor Sir Hilary M. Beckles earned his PhD from Hull University, United Kingdom and received an Honorary Doctorate of Letters from the same university in 2003. He is currently the Principal of the Cave Hill Campus of UWI, since 2002. He is a member of the Board of Directors of both Sagicor Financial Corporation (SFC) and Cable and Wireless (Barbados) Limited, and also serves on the editorial boards of several academic journals. Sir Hilary has published widely on Caribbean economic history, cricket history and culture, and higher education. He has lectured in Africa, Asia, Europe and the Americas.

**PAUL FACEY**  
Citizen of Jamaica / Director since 2005



Mr. Paul Facey is the Vice President - Investments at Pan-Jamaican Investment Trust Limited. He has a wide range of experience in banking, investment, manufacturing, retail and distribution. He is a member of the Audit Committee and the Investments & Risk Committee.

He holds a B.Sc in marketing and Management from the University of South Florida and an MBA in Finance from Florida International University of Business School.



**MARJORIE FYFFE-CAMPBELL** B.Sc. M.Sc.  
Citizen of Jamaica / Director since 2003



Mrs. Marjorie Fyffe Campbell is a Management Executive with over twenty-two years' experience in Finance and Accounting at the Executive Management level. She is a graduate of the University of the West Indies with a B.Sc. and an M.Sc. in Accounting, and is a Member of the Institute of Chartered Accountants of Jamaica. She is a former President and Chief Executive Officer of the Urban Development Corporation, Jamaica. Mrs. Fyffe-Campbell is a part-time Lecturer in Financial and Management Accounting at the Mona School of Business of the University of the West Indies, where she is pursuing a Doctorate in Business Administration with emphasis on corporate governance.

She sits on the following Board Committees: Audit, Human Resource & Compensation and Corporate Governance & Ethics. She is also a member of the Board of Directors of Sagicor Financial Corporation (SFC) and Sagicor Property Services Limited.

**STEPHEN B. FACEY** B.A., M. Arch  
Citizen of Jamaica / Director since 2005



Mr. Stephen B. Facey is the President and CEO of Pan-Jamaican Investment Trust Limited, Chairman of Jamaica Property Company Limited and a Director of Pan-Jamaican Investment Trust Limited, First Jamaica Investments Limited, Hardware & Lumber Limited, and the Kingston Restoration Company Limited. Mr Facey is a member of the following Board Committees: Investments & Risk, Corporate Governance & Ethics and the Human Resource & Compensation Committees.

Mr. Facey holds a B.A. in Architecture from the Rice University and a Master's in Architecture from the University of Pennsylvania.

He is the President of the New Kingston Civic Association.

**JACQUELINE COKE-LLOYD**  
Citizen of Jamaica/ Director since 2010



Jacqueline Coke-Lloyd was appointed to the Board of Directors effective March 25, 2010. She is presently the Principal Director of Make Your Mark Consultants with over 25 years of expertise in General Management, Human Resource Management and Industrial Relations. Mrs. Coke Lloyd is the former CEO of Jamaica Employers' Federation (JEF) where she served for ten (10) years. She is a graduate of the University of Technology Jamaica and the International Training Centre of the International Labour Organisation (ILO), Turin Italy. She serves on the Company's Human Resource & Compensation and Audit Committees.

**PAUL HANWORTH** M.A., M.Sc., A.C.A., C.P.A.  
Citizen of Jamaica / Director since 2008



Mr. Paul Hanworth currently serves on the Audit and Investments & Risk Committees. He is the Chief Financial Officer of Pan-Jamaican Investment Trust Limited and an entrepreneur with over 30 years of international experience in financial and strategic leadership. Prior to joining Pan-Jam, he worked with KPMG in the USA and England for 14 years, with Diageo in the USA and South Africa for 9 years, and with Mechala Group (now ICD Group) in Jamaica for 6 years. He also founded Jamaica's first specialty fine wine business in 2004 which he sold in 2012.

Mr. Hanworth is both a Certified Public Accountant (USA) and a Chartered Accountant (England & Wales), and holds an MSc in Management from the Hartford Graduate Centre and a M.A. (Hons) in Classics from Cambridge University. He is also a director of Hardware & Lumber Limited and British Caribbean Insurance Company Limited, as well as a number of other Jamaican privately held companies.

**PETER E. CLARKE**  
Citizen of Trinidad & Tobago / Director since 2012



Mr. Clarke is a financial consultant. He was appointed to the Board of Sagicor Life Jamaica in October, 2012. He is a director of Sagicor Financial Corporation and several other companies with the Group, including Sagicor Life Inc., Sagicor Asset Management Trinidad and Tobago Ltd., and Sagicor Investments Jamaica Ltd. He is a former Chairman of the Trinidad and Tobago Stock Exchange and a former director of the Trinidad and Tobago Chamber of Industry and Commerce.

He is the holder of a Bachelor of Arts degree in History from Yale University and a law degree from Downing College, Cambridge University.

**DR. DODRIDGE MILLER** FCCA, MBA, LLM, Hon. LLD  
Citizen of Barbados / Director since 2001



Dr. Dodridge Miller was appointed Group President and Chief Executive Officer of Sagicor Financial Corporation in July 2002. A citizen of Barbados, Mr. Miller is a Fellow of the Association of Chartered Certified Accountants (ACCA), and obtained his MBA from the University of Wales and Manchester Business School. He holds an LLM in Corporate West Indies and, in October 2008, he was conferred with an honorary Doctor of Laws degree by the University of the West Indies. He has more than 25 years' experience in the banking, insurance and financial services industries. Prior to his appointment as Group President and Chief Executive Officer, he held the positions of Treasurer and Vice President – Finance and Investment, Deputy Chief Executive Officer and Chief Operating Officer. Mr. Miller joined the Group in 1989. He is also the Chairman of Sagicor at Lloyd's, a Director of Sagicor Life Inc, Sagicor USA, Sagicor Investments Jamaica and a number of other subsidiaries within the Group.

# SAGICOR LIFE JAMAICA COMMEMORATES A VISIONARY

Life Insurance came into being on June 1, 1971 as the outcome of the vision developed by a visionary, passionate entrepreneur that entrepreneur was the Hon. R. Denny Williams, O.J., C.D., a visionary who saw the need to create an indigenous insurance company that Jamaicans could own and become an integral part of.

Denny served as President & CEO for two separate occasions and under his guidance, Life of Jamaica, now Sagicor Life Jamaica, became recognized for innovation in the life insurance industry. Its reputation for innovative products and outstanding service quickly became second to none; its marketing savvy made it the market leader among life insurance companies in Jamaica; and it became the first insurance company listed on the Jamaica Stock Exchange. Forty-two years later, the Company has extended its interests far beyond life insurance. A financial giant and now part of a wider Caribbean conglomerate, it offers a myriad of financial solutions designed to protect the dreams and aspirations of all JAMAICANS.

Appointed Chairman in 2010, Denny's irreplaceable input has enhanced the company's reputation as a caring corporate citizen that continues to play a major role in building a brighter future for thousands of Jamaicans.

Business leader, Entrepreneur and one of Jamaica's most energetic philanthropists, the "Honorabile R. Denny" Denny Williams O.J., C.D., is a role model for leadership. We recognize him for the development of the Life Insurance Industry in Jamaica and his outstanding contribution to the success of Sagicor.

June 2, 2012



On the occasion of Sagicor Life Jamaica's 41st anniversary, our head office in New Kingston was officially dedicated and renamed in honour of founder and Chairman of Sagicor Life Jamaica, Dr. The Honourable R. Danvers (Danny) Williams O.J., C.D. The R. Danny Williams Building now boasts a bust in its lobby of the visionary who was integral in the start of Life of Jamaica on June 1, 1970, now Sagicor Life Jamaica Limited.

A section of the citation reads:

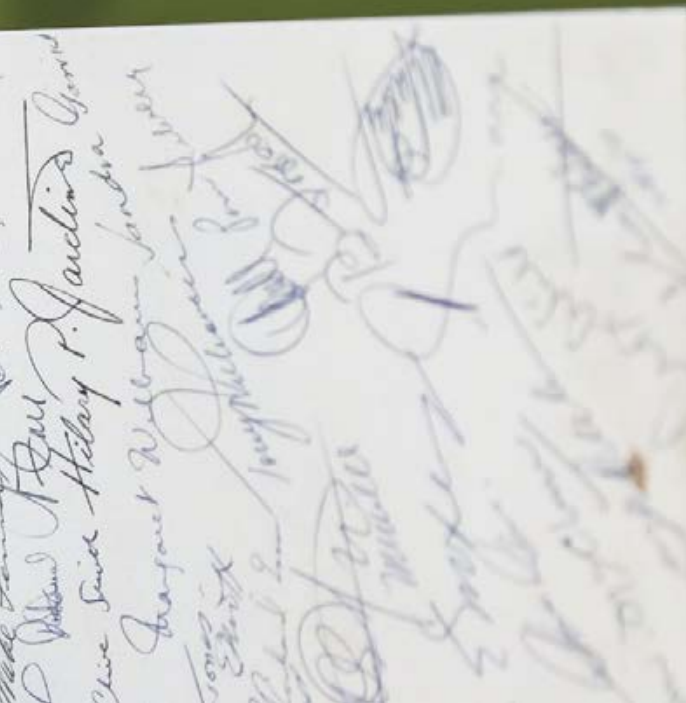
“His immeasurable input has enhanced the company's reputation as a caring corporate citizen that continues to play a major role in building a brighter future for thousands of Jamaicans.”

Richard Byles, President & CEO of Sagicor Life Jamaica, in his presentation expressed appreciation of this stalwart. “At Sagicor we don't just love Danny, we respect Danny.”

During the ceremony attended by many of The Hon. R. Danny Williams' close friends, family and colleagues, he was lauded as one of Jamaica's most aerated philanthropists, business leaders and entrepreneurs, having had a notable career spanning over half a century in the life insurance industry. His business acumen coupled with wit and honesty, has been instrumental to his service on the boards of several major Jamaican companies, foundations and organisations.

Adrian Foreman, former President of Life of Jamaica, Dr. The Honourable Peter Phillips, Sagicor executives, business leaders and friends were among the patrons present who paid their respect to Williams.

Dr. The Hon. R. Danvers (Danny) Williams is arguably one of Jamaica's most distinguished businessmen, and his contribution to Jamaica is testimony to the difference that one can make to a country.



## REPORT OF THE DIRECTORS

The Directors are pleased to submit their Report and the Audited Financial Statements for the year ended December 31, 2012. The Financial Statements reflect the consolidated results of Sagicor Life Jamaica Limited (SLJ) and its subsidiaries.

	2012 J\$000's	2011 J\$000's
<b>Operating Results:</b>		
Group Profit before tax	6,850,848	6,638,676
Taxation	(863,230)	(884,209)
Net Profit after tax	<b>5,987,618</b>	<b>5,754,467</b>
Attributable to:		
Stockholders of the Company	5,790,660	5,522,830
Minority Interest	196,958	231,637
<b>Stockholders' Equity:</b>		
Stockholders' equity brought forward	28,289,966	25,203,044
Share capital, opening	<b>7,854,938</b>	<b>7,854,938</b>
Shares issued	-	-
Share capital, ending	7,854,938	7,854,938
Reserves, opening	4,459,464	3,847,192
Net gains/(losses) recognised in equity	677,447	18,338
Stock options and grants schemes value of services rendered	29,719	45,488
Stock options and grants excised/expired	(37,386)	(55,091)
Other movements	404,672	603,537
Reserves, ending	<b>5,533,916</b>	<b>4,459,464</b>
Retained earnings, opening	15,975,564	13,500,914
Net profit	5,790,660	5,522,830
Negative goodwill	-	-
Transfers (to)/from reserves	(404,672)	(603,537)
SLJ dividends paid	(2,106,156)	(2,444,643)
Retained earnings, ending	<b>19,255,396</b>	<b>15,975,564</b>
Stockholders' equity carried forward	<b>32,644,250</b>	<b>28,289,966</b>

### Directors

Article 99 provides that one third of the Directors shall retire from office at each Annual General Meeting. Directors Paul Facey, Stephen Facey and Paul Hanworth retire under this Article and being eligible, offer themselves for re-election. Additionally, Director Peter Clarke, who was appointed since the last Annual General Meeting to fill a casual vacancy, retires pursuant to Article 97 and being eligible offers himself for re-election.

### Auditors

The retiring Auditors, PricewaterhouseCoopers, having expressed their willingness to continue in office, will do so in accordance with the provisions of Section 154 of the Companies Act. A resolution authorising the Directors to fix remuneration of the Auditors will be presented at the Annual General Meeting.

### Dividends

Interim dividends of 28 cents per share were paid on April 30, 2012 and 28 cents per share on October 31, 2012.



Chairman  
28 February, 2013



## CORPORATE GOVERNANCE

### BOARD OF DIRECTORS

#### OVERVIEW

The Board of Directors is responsible and committed to adherence by the Company and its subsidiaries to the highest standards of corporate governance. Corporate Governance is central to the Board's role of providing entrepreneurial leadership and oversight to the company in order to maximise shareholder wealth within the bounds of law and community standards of ethical behaviour.

By this commitment, the Board has adopted a Corporate Governance Policy which is influenced by applicable laws and regulations and internationally accepted corporate governance best practices. The Corporate Governance and Ethics Committee of the Board is the key driver of the Policy, which is reviewed from time to time in keeping with the Rules of the Regulators, in the jurisdictions in which the company operates, the Jamaica Stock Exchange and internationally accepted best practices. The corporate governance activities of the Committee during 2012 reflect the commitment of the Board to sound governance principles. The Corporate Governance Policy is available on our website at [www.sagicorjamaica.com](http://www.sagicorjamaica.com).

#### Board Responsibilities

The Board of Directors is charged with the responsibility of providing entrepreneurial leadership, guidance and oversight for the management of the Company within the legal framework which ensures that risk is effectively assessed and managed whilst returning value to the shareholders.

The Board adopts a Charter which provides clear guidelines on the mandate through which it executes the oversight and decision-making role.

Board meetings are held monthly, except in the month of August, with a structured agenda comprising matters reserved for the Board. Directors also meet on an adhoc basis to consider matters which are deemed urgent and critical to the functioning of the Company.

The Board delegates certain of its authorities to Executive Management through the President and Chief Executive Officer with defined limits of management's power and authority to enable it to execute and manage the business on a day-to-day basis in line with the approved strategies and applicable laws.

#### Board Committees

Some Board functions are delegated to Committees of the Board each of which have adopted a Charter approved by the Board and includes clearly defined mandates. The Board Committees are integral to the governance structure and Board process and conforms with the Regulatory requirement and corporate governance best practices. Committees meet periodically to examine issues of a specialist nature and report its activities to the Board.

##### The Board Committees are

- Audit, Investment & Risk
- Corporate Governance & Ethics
- Human Resource and Compensation

During 2012 a total of thirty (30) Committee meetings were held. Committee membership and attendance are provided in the table on page 21.

The Committee members are appointed by the Board of Directors immediately following the Annual General Meeting each year and hold office until the end of the next Annual General Meeting or until they cease to be directors. The committees comprise a majority of

## CORPORATE GOVERNANCE (CONT'D)

non-executive directors. Members of the Executive Management Team attend meetings as invitees and participate in the meetings through presentation of discussion documents and development of strategies.

### AUDIT COMMITTEE

The Audit Committee is charged with the responsibility for monitoring the effectiveness of the Company's risk management and internal control systems and compliance with applicable regulations and laws. It also oversees the external audit process. This Committee comprises non-executive directors: Mr. Jeffrey Cobham (Chairman), Mr. Richard Downer, Mrs. Marjorie Fyffe Campbell, Mr. Paul Facey, Mr. Paul Hanworth and Mrs. Jacqueline Coke-Lloyd.

The Committee met seven [7] times during 2012 to consider and approve inter alia the financial reports of the Company and its subsidiaries and disclosures to the shareholders and regulators, review and assess the main areas of enterprise risk management and internal control processes, review the activities of the internal and external auditors, assess the level of compliance with legal and regulatory requirements, review the quarterly financial reports, the Anti-Money Laundering and the Internal Audit Department's Risk Review Reports, and the Annual Audit plan.

### INVESTMENT AND RISK COMMITTEE

The Investment and Risk Committee oversees and approves the investments to be undertaken by the company and assess the company's risk appetite in respect of financial risks. It reviews and approves the Investment Policy on an annual basis and monitors compliance with policy.

The Committee met ten (10) times during 2012. The principal activities undertaken by the Committee included the review and recommendation to the Board of the acquisition of real estate transactions, the review and approval of mortgage and investment reports, review and approval of operational and investment activities on behalf of the pension funds under management, consider the Appointed Actuary's Report and Report from the Asset Liability Management committee (of Management), review and approve new mortgage rates.

The members of the committee are: Mr. Richard Downer (Chairman), Mr. Stephen Facey, Dr. the Hon. R.D. Williams, Mr. Paul Facey, Dr. Dodridge Miller and Mr. Paul Hanworth.

### HUMAN RESOURCE AND COMPENSATION COMMITTEE

The Human Resource and Compensation Committee has overall responsibility for the Human Resource policies and practices in line with the strategic goals of the Company, the compensation policies and programmes and recommends the Management Succession plans and the Pension Plan for staff to the Board.

The Committee met seven (7) times during 2012 to consider and approve the annual and long-term incentive plan for Executives and the bonus payment to staff, to review the Succession Plan, review Pension Fund Performance and consider reports from the Bargaining Unit.

The members are Dr. the Hon R. Danny Williams (Chairman), Dr. Dodridge Miller, Mrs. Marjorie Fyffe Campbell and Mrs. Jacqueline Coke-Lloyd and Mr. Stephen Facey.

### CORPORATE GOVERNANCE AND ETHICS COMMITTEE

The Corporate Governance and Ethics Committee is charged with ensuring compliance with best practice standards of Corporate Governance and Ethics. The Committee's mandate also includes the management of the process for director succession, nomination and

re-election, the performance evaluation of the Board as a whole and that of each director, directors' compensation, related party transactions and issues relating to the potential conflict of interest.

The Committee met 6 times in 2012 and among the matters considered and approved Related Party Transactions and reviewed the process for dealing with potential conflicts of interest. The Committee also made amendments to its Corporate Governance Policy to bring it in line with best practices, including establishing performance standards for director attendance. The Committee also reviewed the level of director compensation and recommended a modest increase in line with other entities within the financial sector.

A peer review board evaluation was conducted during the year. Following the review process, meetings were scheduled with directors, as necessary, to discuss any areas for development identified from the review.

Contract procurement practices were monitored against the Guidelines. The Committee approved new policies and amended existing policies during the period. The new policies adopted were the Disclosure Policy, The Related Party Policy was amended, The Complaints Handling Policy was also approved.

## CORPORATE GOVERNANCE (CONT'D)

The corporate governance structure is further strengthened by the commitment to director independence. Directors are required to submit a self-assessment of their compliance with independence and conflict of interest requirements.

The Corporate Governance and Ethics Committee keeps the board composition and the director expertise under its review annually, demonstrating its commitment to ensuring that it has

the appropriate functional skill sets to provide the leadership role in guiding the management of the business. This is done through a formal Board Evaluation exercise, including the evaluation of the President and Chief Executive Officer and the Company Secretary.

The committee comprises only non-executive directors with diverse areas of expertise including Corporate Governance.

The Directors are covered under a Directors and Officers' Liability Policy in respect of legal action which may be brought against them in certain instances. This policy also covers the Executive Management team.

The following table shows the composition of the committees and directors' attendance at meetings as at December 31, 2012.

“The corporate governance structure is further strengthened by the commitment to director independence. Directors are required to submit a self-assessment of their compliance with independence and conflict of interest requirements.”

### DIRECTORS ATTENDANCE: BOARD AND COMMITTEE MEETINGS

Directors (Number of Meetings Attended)	Board Total Meetings held: 10	Audit Committee Total Meetings held: 7	Investment & Risk Total Meetings held: 10	Corporate Governance & Ethics Total Meetings held: 6	Human Resource & Compensation Total Meetings held: 7
Hon. R. D. Williams	9 of 10	-	9 of 10	5 of 6	7 of 7
Dr. Dodridge Miller	5 of 10	-	1 of 10	-	0
Richard Byles	10 of 10	-	-	-	-
Stephen Facey	7 of 10	-	8 of 10	6 of 6	2 (appointed Sept. 11, 2012)
Paul Hanworth	9 of 10	5 of 7	6 of 10	-	-
Jeffrey Cobham	9 of 10	7 of 7	-	6 of 6	-
Marjorie Fyffe-Campbell	9 of 10	6 of 7	-	6 of 6	7 of 7
Richard Downer	8 of 10	6 of 7	10 of 10	-	-
Prof. Sir. Hilary Beckles	9 of 10	-	-	-	-
Jacqueline Coke-Lloyd	8 of 10	7 of 7	-	-	6 of 7
Paul Facey	8 of 10	6 of 7	10 of 10	-	-
William Lucie Smith	3 (resigned effective July 24, 2012)	-	-	-	-
Peter Clarke	2 (appointed effective October 22, 2012)	-	-	-	-

## CORPORATE GOVERNANCE (CONT'D)



The breadth of knowledge and expertise of the Board of Directors provides for diversity of opinions and invaluable support to the decision-making process which underpins the need for independent and critical thinking.



### BOARD COMPOSITION AND STRUCTURE

The Board of Directors comprises twelve (12) Members, of which 11 are non-executive directors and 1 executive director. An Executive Director is one who holds office (or is employed to the Company or its associated or affiliated companies). The Board recognises the importance of the role independent directors play in directing the Company's affair. Of the 10 non-executive directors, 5 are deemed to be independent. Under the Corporate Governance Code, a director is deemed to be not independent by the Board in the following instances (unless the Board can argue a case for independence):

1. The director or an immediate family member is or was in any of the last five years an employee or officer in the Sagicor Group.
2. The director participates in the Company's share option or a performance-related pay scheme, and is a member of the Company's pension scheme.
3. The director or the director's spouse has a significant interest in a class of the Company's shares
4. External auditor in certain instances.

5. A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of US\$0.5 million, or 2% of such other company's consolidated gross revenues, is not "independent" until three years after falling below such threshold.
6. The Company beneficially owns 5% or more of any class of equity securities of an entity.
  - i) controlled by the director;
  - ii) in which the director has an investment equal to 15% or more of the director's net worth,
  - iii) for which the director is an officer or has a similar position, or;
  - iv) for which the director could reasonably be deemed to have a material influence on the management of such entity.
  - v) The director holds cross-directorships or has significant links with other Company directors through involvement in other companies or bodies (unless the board can argue a case for independence).
7. The director or an immediate family member is or was in any of the last five years an employee or officer in the Sagicor Group.
8. The director participates in the Company's share option or a performance-related pay scheme, or is a member of the Company's pension scheme
9. The director or the director's spouse has a significant interest in a class of the Company's shares.

### BOARD EXPERTISE

The Directors bring to the office wide and diverse areas of expertise experience and knowledge in the areas of international business and corporate finance, strategic management, human resources and corporate governance. This breadth of knowledge and expertise provides for diversity of opinions and invaluable support to the decision-making process which underpins the need for independent and critical thinking. The biographical details including the directors' date of appointment are also provided in the Report on page 14 .



## CORPORATE GOVERNANCE (CONT'D)

### DIRECTOR ROTATION AND RE-ELECTION

The appointment, tenure, retirement and re-election are conducted in accordance with the Company's Articles of Incorporation and the Companies Act of Jamaica. The Articles require that at least one third of the directors retire each year.

The directors who will retire under this provision are Mr Paul Facey, Mr Stephen Facey and Mr Paul Hanworth all of whom have offered themselves for re-election. The Corporate Governance and Ethics Committee of the Board, which has responsibility for nominating directors, has evaluated the candidates and recommends to the Shareholders the re-election of the nominees. The recommendation takes into account the expertise and core competence of each nominee and their willingness to devote time required to effectively perform their role as directors.

### DIRECTOR ORIENTATION AND TRAINING

Directors are inducted in the business through a formal orientation process. The Board seeks to update its director education process through ongoing Directors' training for new and existing directors in areas deemed to be relevant to the functioning of the Board. This ensures that directors are kept abreast of trends in the business and regulatory environment.

The Chairman is Dr the Hon.R.D. Williams C.D., O.J., who is a non-executive Chairman and the founder of the Company. The Chairman is responsible for the efficient and effective working of the Board. He ensures that the Board Agenda covers the key strategic issues which are relevant to the Company's business, including the approval and periodic review of Management's action plans. The Board firmly believes in the separation of the office of Chairman and Chief Executive Officer in maintaining transparency and independence in governance of the business.

The following Table highlights the expertise of the Board of Directors and their status.

BOARD EXPERTISE												
Director	Gen Mgt	Int'l Bus	Finance	Strat Mgt	Corp Law	Banking	Corp Fin M&A*	Asset Mgt	Insurance	HR Mgt	Property	Other
Paul Facey	•		•	•		•		•				
Prof Sir Hilary Beckles	•			•								Education
Stephen Facey	•			•							•	
Paul Hanworth	•	•	•	•		•	•		•		•	
Richard Downer	•		•	•		•	•					
Marjorie Fyffe-Campbell	•		•	•			•				•	Corp. Gov
Jeffrey Cobham	•		•	•		•				•		
Hon. R. D. Williams	•			•					•			
Dodridge Miller	•	•	•	•	•		•	•	•			
Richard O. Byles	•		•	•		•	•	•	•	•		
Jacqueline Coke-Lloyd	•			•						•		
Peter Clarke	•		•	•	•	•	•					

\* Mergers & Acquisitions

## CORPORATE GOVERNANCE (CONT'D)

### BOARD OPERATIONS

During 2012, the Board had ten (10) formal meetings. Decisions are taken through adhoc meetings where decisions are recorded by way of round-robin resolutions. The critical agenda items which were covered at board meetings were included.

- The approval of year-end Financials, MD&A
- The review and approval of the quarterly financial review and Reports to the Stock Exchange.
- Annual General Meeting preparation
- Approval of the Company's Budget and Strategic Plan;
- To approve interim dividend payments to stockholders
- Approve major investment activities including new product and business initiatives
- Receive and approve reports on work being carried out by Board Committees
- Receive and consider various reports and presentations from Management on the performance of the lines of businesses and subsidiaries in the Group;
- Consider and approve Corporate Policies.

### Board of Directors – Remuneration

Non-executive directors are paid fees on a retainer basis. The fees were reviewed in 2009 with the assistance of a consultant based on fees paid to listed companies in the financial sector. The following table shows the total remuneration paid only to non-executive directors:-

<b>Board:</b>	<b>Retainer Fees \$ p.a.</b>
<b>Chairman</b>	\$2,200,000.00
<b>Directors</b>	\$1,400,000.00
<b>Audit and Investments &amp; Risk Committees:</b>	
<b>Chairman</b>	\$900,000.00
<b>Directors</b>	\$600,000.00

<b>Corporate Governance &amp; Ethics and Human Resources &amp; Compensation Committees:</b>	
<b>Chairman</b>	\$600,000.00
<b>Directors</b>	\$400,000.00

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE FORTY-SECOND ANNUAL GENERAL MEETING of the Company will be held on Tuesday 28th day of May, 2013 at 3:00 p.m. in the Auditorium, R. Danny Williams Building, 28-48 Barbados Avenue, Kingston 5, for the following purposes.

### ORDINARY BUSINESS

#### 1. To receive the Audited Accounts and the Reports of the Directors and Auditors for the year ended December 31, 2012.

To consider and if thought fit, to pass the following Resolution:

“THAT the Audited Accounts and the Reports of the Directors and Auditors for the year ended December 31, 2012 be and are hereby adopted.”

#### 2. To elect Directors.

To consider, and if thought fit, to pass the following Resolution:

##### Resolution No. 2

Article 99 provides that one third of the Directors shall retire from office at each Annual General Meeting. Directors Paul Facey, Stephen Facey and Paul Hanworth retire under this Article and being eligible, offer themselves for re-election.

- (i) THAT Director, Paul Facey who retires by rotation and being eligible for re-election be and is hereby re-elected a Director of the Company.

- (ii) THAT Director, Stephen Facey who retires by rotation and being eligible for re-election be and is hereby re-elected a Director of the Company.

- (iii) THAT Director, Paul Hanworth who retires by rotation and being eligible for re-election be and is hereby re-elected a Director of the Company.

- (iv) THAT Director, Peter Clarke, who was appointed since the last Annual General Meeting to fill a casual vacancy retires pursuant to Article 97 and being eligible offers himself for re-election.

#### 3. To fix the remuneration of the Directors.

##### Resolution No. 3

To consider and if thought fit, to pass the following Resolution:

THAT the amount of \$24,574,667.00 included in the Audited Accounts of the Company for the year ended December 31, 2012 as remuneration for their services as Directors be and is hereby approved.

#### 4. To appoint Auditors and authorise the Directors to fix the remuneration of the Auditors.

##### Resolution No. 4

THAT PricewaterhouseCoopers, Chartered Accountants, having agreed to continue in office as Auditors, be and are hereby appointed Auditors for the Company to hold office until the conclusion of the next Annual General Meeting at a remuneration to be fixed by the Directors of the Company.

#### 5. To ratify interim dividends and declare them final.

To consider and if thought fit, to pass the following Resolution:

##### Resolution No. 5

That the interim dividends of 28 cents paid on April 31, 2012 and 28 cents paid on October 31, 2012 be and are hereby ratified and declared final for 2012.

DATED THIS 28th DAY OF FEBRUARY 2013

BY ORDER OF THE BOARD



Janice A.M. Grant Taffe  
Corporate Secretary

REGISTERED OFFICE  
28-48 Barbados Avenue  
Kingston 5, Jamaica

A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead. A Proxy need not be a member of the Company. Enclosed is a Proxy Form for your convenience which must be completed and lodged at the Company's Registered Office, at 28-48 Barbados Avenue, Kingston 5 not less than 48 hours prior to the time appointed for the meeting.



Life in Jamaica came into being on June 1, 1970 as the economic  
... developed by a dynamic Jamaican entrepreneur. That  
entrepreneur was the Hon. R. Danny Williams, O.J., C.D., a  
visionary who saw the need to create an indigenous insurance  
company that Jamaicans could own and become an integral part  
of.

Danny served as President of Sagikor Life Jamaica on two separate occasions  
under his guidance Sagikor Life Jamaica became recognized as the life insurance  
company in Jamaica. Its reputation for outstanding service and marketing savvy made it  
quickly become recognized as a market leader among insurance companies in Jamaica; and  
became the first insurance company listed on the Jamaica Stock Exchange. For Sagikor  
Company has extended its financial giant interest in the financial giant.



*Left - Right*

*Errol McKenzie*

*Willard Brown*

*Janice Grant Taffe*

*Ivan B. O'B. Carter*

*Mark Chisholm*

*Donovan H. Perkins*

*Richard O. Byles*

*Rohan D. Miller*

*Philip Armstrong*

*Kristine Bolt*

*Karl Williams*

## Our Leadership Team

## OUR LEADERSHIP TEAM

**Richard O. Byles** B.Sc. M.Sc.  
President and Chief Executive Officer



Richard joined the company in 2004 as President & CEO. His experience and expertise spans across the financial industry to include Life, Health and General Insurance, Asset & Investment Management, Banking, Pension Administration and Re-Insurance Management. He is a member of the Executive Committee of Sagicor Financial Corporation, the parent company of SLJ.

Richard is Chairman of Sagicor Life of the Cayman Islands Limited and Desnoes & Geddes Limited. He is also a Director of Pan-Jamaican Investment Trust Limited and Sagicor Bank Jamaica Limited. He is currently a Vice President of the Private Sector Organisation of Jamaica (PSO)).

**Rohan D. Miller** B.Sc. (Hons.), MBA  
Executive Vice President,  
Investments and Chief Investment Officer



Rohan has been the Chief Investment Officer and Executive Vice President for the Investments Division since March 1, 2011. His responsibilities include

overseeing the Treasury Management, Investment Management, Investment Services, Property Management, Real Estate Development, and most recently, the Sagicor Sigma Funds. He is instrumental in the development of new investment products for retail and institutional investors.

**Ivan B. O'B. Carter** MBA, M.Sc, FLMI,  
Executive Vice President,  
Finance & Information Technology and CFO



Ivan is the Executive Vice President, Finance and Information Technology & CFO for the Sagicor Life Jamaica Group. He is responsible to the President and the Board of Directors for directing the Accounting, Financial Reporting, Financial Management, Taxation and Regulatory Reporting functions of the Group in accordance with International Financial Reporting Standards (IFRS), local laws and regulations and Sagicor Group policies; Strategic Financial Management of the organisation; Leadership of the use of Information Technology and leadership of SLJ Group's General Insurance and Captive Management interests.

He sits on the Board of Directors of a number of Sagicor Life Jamaica Group member companies.

**Mark Chisholm** MBA (Hons.), J.P.  
Executive Vice President,  
Individual Insurance Division



Mark's experience in the insurance industry spans over 20 years. Over this period he has moved up the corporate ladder to his current position of Executive Vice President with direct responsibility for the

Individual Line Division which encompasses sales in Jamaica and Sagicor Life of the Cayman Islands. Mark is also responsible for spearheading the Sagicor Jamaica Group's group sales efforts, a task which he considers to be crucial to the company's overall success, and to which he has been giving his undivided attention.

**Errol McKenzie** MBA, HIAA, FLMI, JP  
Executive Vice President, Employee Benefits



Errol has served the company in various capacities in Investment, Internal Audit, and Employee Benefits Divisions. He has direct responsibility for the Group Insurance Business and Pension Services. The Division

has enjoyed continuous growth through mergers and acquisitions and the continuous marketing of a range of customer-centric business solutions to Corporate Jamaica and the Government, assisting a growing number of institutions and groups to provide appropriate benefits to their human resources. The Company today enjoys the role as the market leader in the group insurance and pension business in Jamaica.

**Donovan H. Perkins** B.A. (Hons.), MBA  
President & CEO  
Sagicor Investments Jamaica Limited



Donovan has been CEO of the company since 1993, and is currently responsible for the overall direction and operation of Sagicor Investments. Under his leadership, the company has grown through a series of mergers and

acquisitions into a diversified financial services group today. Donovan sits on the Boards of Pan Jamaican Investment Trust Limited and Jamaica Producers Group and is Chairman of the Jamaica Stock Exchange.

**Philip Armstrong** B.Sc.  
Deputy CEO  
Sagcor Investments Jamaica Limited



Philip brings over 18 years of securities, derivatives and financial expertise to Sagcor.

Philip has over 18 years of securities, derivatives and financial management experience. His core responsibilities are to plan, direct and control the operations of Sagcor Bank Jamaica Limited where he is the Managing Director, in accordance with agreed Board directives to ensure profitability, sustainability and to generate the required shareholder returns. He is an ex-officio member of Sagcor Life Jamaica's Investment Committee, Vice President of the Jamaica Bankers Association and Director of British Caribbean Insurance Company Limited.

**Janice Grant Taffe** LL.B.,(Hons.)  
Vice President, Legal Counsel & Corporate Secretary



Janice has over 20 years' experience in the local financial sector and has held a Senior Management position in the company since 1997. She is currently responsible for providing the Company and its Subsidiaries with general advice on legal regulatory and corporate secretarial matters.

Under her leadership of the Legal resources, the Company undertook various mergers and acquisitions. Janice leads the compliance functions of the Sagcor Group and provides significant legal support to the new business development process and investment strategies.

**Kristine Bolt** B.Sc., M.Sc.  
Vice President, Productivity & Customer Experience



Kristine joined Sagcor Life Jamaica in January 2009. She is responsible for crafting the company's customer experience strategy and oversees its execution. Kristine also focuses on improving productivity in order to provide our customers with a better, more efficient experience. Currently, she is developing our business intelligence initiative, which will help us to know our customers better in order to sell and serve them more effectively.

**Karl Williams** B.Sc., Executive MBA,  
Vice President, Group Human Resources



Karl is the VP, Group Human Resources at Sagcor Life Jamaica Limited where he leads the value creation of human capital. He is a creative problem-solver with a strong team ethos who has the ability to work with and get the best from multifaceted individuals from diverse backgrounds. He is an influential communicator and motivator. On the job, he acts with courage, integrity and compassion striving only for excellence while fostering a continuous learning environment.

**Willard Brown** FSA, B.Sc. (Hons.),  
Vice President - Actuarial & Risk Management



Willard is the Vice President for Actuarial & Risk Management and has served the group in various capacities in Information Technology, Employee Benefits Division and Employee Benefits Administrator Ltd. His core functions include assisting in overseeing the operation of and setting the strategies for the Employee Benefits Division to ensure that it meets its various targets. He has oversight of all actuarial resources of SLJ, and is directly responsible for the pricing policy of all EBD insurance and fee-based products.

## Commercial Banking

### Sagicor Bank's energy remains focused on building long-term client relationships

"My relationship with Sagicor started several years ago. Sagicor Bank offered a sweep facility that filled a void in my company as we were not large enough to support our own treasury management functions. Whatever interest we earned from it offset the cost of operating the account.

Support like this has helped Paramount Trading grow from a manufacturers' representative and commission agent to warehousing and distribution of a wide range of products, including the renowned SIKA line of construction products. Our product offerings cover food chemicals and additives such as flavour enhancers, baking powders, acidifiers, preservatives and artificial sweeteners; and industrial chemicals such as surfactants, water conditioners and various technical acids and bases.

We employ more than 50 Jamaicans directly and provide products to more than 800 companies island-wide, including Red Stripe, Pepsi, Nestle, Coldfield Manufacturing, JPSCo,

WINDALCO and JAMALCO. We play an active role in protecting our environment and recently set up our recycling plant which converts used chemical containers into plastic pellets for export. We also strongly believe in supporting the community in which we operate and as such host an annual treat for more than 1,300 community children and their families.

With rapid expansion and increased demand for our products, we quickly outgrew our facilities at Waltham Park Road. Sagicor Bank brokered the deal with the Development Bank of Jamaica (DBJ) that sealed our acquisition of the new business at 8 East Bell Road. The DBJ loan required that I obtain a life insurance policy which was secured through Sagicor Life. This collaboration with the Sagicor Jamaica Group gave us expanded manufacturing capacity that will help us to achieve our goal of being hard-currency positive within 10 years."

47%

growth in number of accounts since inception

In 2012 Sagicor Bank remained focused on our key objective of delivering a more convenient and rewarding banking experience. With five years under our belt, the Sagicor Bank team is harmonising well, as is evidenced by the performance. Over the past 2 years we have seen continued growth of our client base, and a 47% growth in the number of accounts. Over the same period, balances have grown 28%, with customer satisfaction and referral rates remaining high.





BUILDING MUTUALLY REWARDING

# PARTNERSHIPS

“This collaboration with the Sagicor Jamaica Group gave us expanded manufacturing capacity that will help us to achieve our goal of being hard-currency positive within 10 years.”

**Hugh Graham**

Managing Director - Paramount Trading  
Sagicor Bank client



“ Our aim is to deliver an excellent experience for every Sagicor customer. ”



1. Richard Byles (l), President and CEO, Sagicor Life Jamaica, serves clients with cake on the occasion of SLJ's 42nd Anniversary.
2. Audrey Flowers-Clarke (r), Vice President Insurance Operations, engages a young visitor and her mother at the SLJ Anniversary Celebrations.
3. Elizabeth Douglas, Customer Service Manager assists a client with a policy query.
4. "How can I help?" says the smiling Laura-Kaye McFarlane from the Customer Contact Centre.

# CUSTOMER SERVICE - OUR PRIORITY

During 2012 some areas of note in our customer service delivery were:

- The Customer Contact Centre answered 524,131 of the 607,354 calls received during the year; this was 60% more calls answered than in the previous year; in fact, we answered 56% more calls in 2012 than we even received in 2011, when we received 336,000 calls.
- Health claims and pension benefits processing surpassed their 2012 target and 2011 performance with 97% of benefits within 5 days.
- Our Pensions team continued their service push throughout the year and delivered their required client reports on time 97% of the time, with one of those reports being delivered on time every time.

- We improved our electronic payments to 64% of total payments, up from 48% in 2011. Although total payment volume increased by only 5% to just over 600,000, the proportion of these payments that were made electronically increased by 29% during 2012 to 383,000. This means that more of our customers and vendors received payments from us faster and more efficiently.

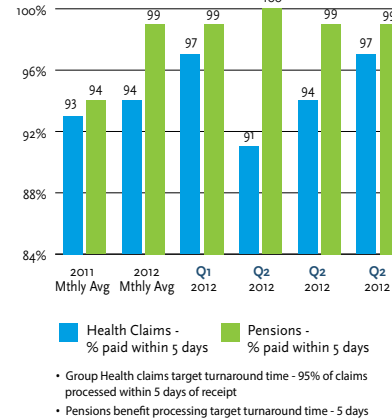
We served 173,754 customers in our service halls during 2012 and were able to keep their average waiting time to below 19 minutes, with service time of 9 minutes.

- On average, we were able to serve our walk-in customers within 28 minutes of their arrival.

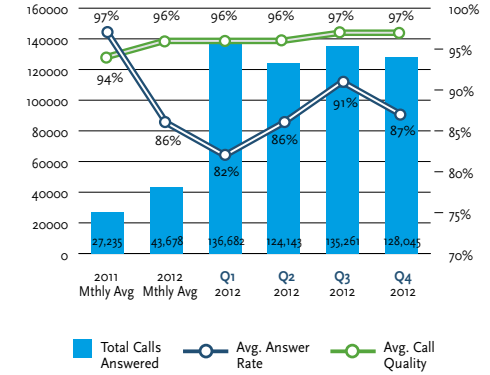
Throughout the year, we tracked several internal measures of customer service, but in November 2012 we asked our customers what they thought of our service through our annual customer satisfaction survey. Their feedback shows that they are feeling the effects of our work. Our customer satisfaction and loyalty results of 8.24 out of 10 and 8.46 out of 10 respectively showed our continued improvement in our customers' eyes.



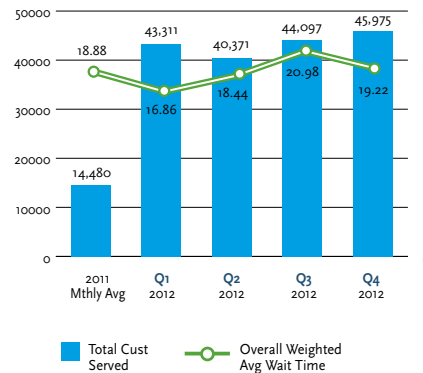
## Benefits Processing Turnaround 2012



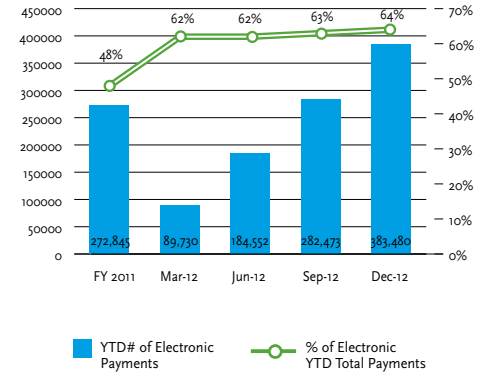
## Contact Centre Answer Rate & Call Quality 2012



## Walk-In Customer Service Wait Time 2012



## Electronic Payments Quarterly Progress 2012





## SUBSIDIARIES

**Courtney Bert**

**Dave Hill**

**Latoya Mayhew-Kerr**

**Donovan H. Perkins**

**James Rawcliffe**

**Michael Fraser**

**Carlos Ortiz**

### SAGICOR PROPERTY SERVICES LIMITED

78 Hagley Park Road  
Kingston 10  
Jamaica W.I  
Tel: (876) 929-8920-9  
Fax: (876) 929-4730  
**Courtney Bert**  
Assistant Vice President

### SAGICOR INSURANCE BROKERS LIMITED

R. Danny Williams Building  
28 – 48 Barbados Avenue  
Kingston 5  
Tel: (876) 929-8920-9  
Fax: (876) 929-4730  
**Dave Hill**  
General Manager

### EMPLOYEE BENEFITS ADMINISTRATORS LIMITED

R. Danny Williams Building  
28 – 48 Barbados Avenue  
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Fax: (876) 929-4730  
**Latoya Mayhew-Kerr**  
General Manager

### SAGICOR POOLED INVESTMENT FUNDS LIMITED

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Kingston 5  
Tel: (876) 929-8920-9  
Fax: (876) 929-4730

### SAGICOR RE INSURANCE LIMITED

C/o Sagicor Insurance Managers Ltd.  
1st Floor Harbour Place  
103 South Church Street,  
George Town  
Grand Cayman KY1-1102  
Cayman Islands  
Tel: (345) 815-0841  
Fax: (345) 949-6297

### SAGICOR INTERNATIONAL ADMINISTRATORS LIMITED

R. Danny Williams Building  
28 – 48 Barbados Avenue  
Kingston 5  
Tel: (876) 929-8920-9  
Fax: (876) 929-4730

### SAGICOR INVESTMENTS JAMAICA LIMITED

60 Knutsford Boulevard  
Kingston 5, Jamaica W.I  
Tel: (876) 929-5583-4  
Fax: (876) 926-4385  
**Donovan H. Perkins**  
President & CEO

### SAGICOR LIFE OF THE CAYMAN ISLANDS LTD.

P.O. Box 1087  
Grand Cayman KY101192  
Cayman Islands  
Tel: (345) 949-8211  
Fax: (345) 949-8262  
**Michael Fraser**  
President

### SAGICOR ST. LUCIA LIMITED

c/o McNamara Corporate Services Inc.  
20 Micoud Street  
Castries  
St. Lucia  
Tel: (758) 452-2662  
Fax: (758) 458-0007

### SAGICOR X-FUNDS SPC LIMITED

c/o McNamara Corporate Services Inc.  
20 Micoud Street  
Castries  
St. Lucia  
Tel: (758) 452-2662  
Fax: (758) 458-0007

### SAGICOR COSTA RICA, SCR, S.A.

102 Avenida Escazu,  
Torre, 2 Suite, 405  
Escuzu, San Jose,  
Costa Rica  
**Carlos Ortiz**  
General Manager

### SAGICOR INSURANCE MANAGERS

1st Floor Harbour Place  
103 South Church Street,  
George Town  
Grand Cayman KY1-1102  
Cayman Islands  
Tel: (345) 815-0841  
Fax: (345) 949-6297  
**James Rawcliffe**  
Vice President



## VICE PRESIDENTS & ASSISTANT VICE PRESIDENTS

FRONT ROW LEFT-RIGHT: 1. **Jacinth Kelly** - AVP Corporate & Insurance Accounting 2. **Courtney Bert** - AVP Sagicor Property Services Limited  
 3. **Jacqueline Somers-King** - VP Banking, Investment and Subsidiary Accounting 4. **Vinnate Hall** - AVP Internal Audit 5. **Nicola Leo-Rhynie** - VP Employee Benefits Marketing  
 6. **Corrine Bellamy** - AVP Employee Benefits Administrator Limited –Actuarial 7. **Brenda-Lee Martin** - AVP Investments 8. **Christopher King** - AVP Actuarial

CENTRE ROW LEFT - RIGHT: 9. **Nadia Lewis** - AVP EBD - Underwriting 10. **Mark Clarke** - AVP IT Local Services 11. **Angela Ching** - AVP Shared Services IT  
 12. **Megan Irvine** - AVP Employee Benefits Marketing 13. **Lorna Bond** - AVP Management Accounting

BACK ROW LEFT - RIGHT: 14. **Vendryes Braham** - AVP Shared Services IT 15. **Carol Lawrence** - VP Group Insurance Services  
 16. **Merrick Plummer** - AVP Sales & Distribution Individual Insurance 17. **Audrey Flowers-Clarke** - VP Individual Insurance Operations 18. **Ingrid Card** - AVP Group Marketing  
 19. **Horace Johnson** - AVP Actuarial 20. **Jacqueline Donaldson** - AVP Group Human Resources



## BRANCH MANAGERS

LEFT-RIGHT: 1. **Pete Forrest** - Corporate Circle Branch 2. **Michael Lawe** - Liguanea Branch 3. **Dale Greaves-Smith** - Mandeville Branch  
4. **Marston Thomas** - Half Way Tree Branch 5. **Mark Lindsay** - Holborn Branch 6. **Donovan McCalla** - New Kingston Branch 7. **Olivine Barnes** - Spanish Town Branch  
8. **Marvin Walters** - Senators Branch 9. **Norman Wilson** - Sagicor Life of the Cayman Islands 10. **Randolph McLean** - Knutsford Branch  
11. **Roan Brown** - Belmont Dukes Branch 12. **Mavis Ferguson** - Ocho Rios Branch 13. **Patrick Sinclair** - Montego Bay Branch

## CORPORATE DATA

### DIRECTORS:

Dr. the Hon. R.D. Williams,  
O.J., C.D.  
*Chairman*

Richard O. Byles  
*President & CEO*

Prof. Sir Hilary M. Beckles  
Jeffrey C. Cobham

Marjorie Fyffe-Campbell  
Jacqueline Coke-Lloyd

Richard Downer

Paul A.B. Facey

Stephen B. Facey

Paul Hanworth

Peter Clarke

Dr. Dodridge D. Miller

### LEADERSHIP TEAM:

Richard O. Byles  
*President & CEO*

Errol D. McKenzie  
*Executive Vice President,  
Employee Benefits Division*

Ivan B. O'B. Carter  
*Executive Vice President,  
Finance & IT Divisions and CFO*

Janice A.M. Grant Taffe  
*Vice President Legal Counsel and  
Corporate Secretary*

Rohan D. Miller  
*Executive Vice President, Treasury &  
Asset Management  
& Chief Investment Officer*

Mark Chisholm  
*Executive Vice President,  
Individual Insurance Division*

Willard Brown  
*Vice President, Actuarial  
& Risk Management*

Karl Williams  
*Vice President,  
Group Human Resources*

Kristine Bolt  
*Vice President, Productivity  
and Customer Experience*

Donovan H. Perkins  
*President & CEO  
Sagicor Investments Jamaica Limited*

Philip Armstrong  
*Deputy CEO  
Sagicor Investments Jamaica Limited*

### Registered Office:

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Jamaica, W.I.

Telephone : (876) 929-8920-9

Toll Free : 1-888-SAGICOR

Fax No : (876) 929-4730

Email : info@sagicorja.com

Cable Code : 'LOJAM'

Website : www.sagicorjamaica.com

### Territories of Operation

The Cayman Islands  
Sagicor Life of The Cayman Islands Ltd.  
P.O. Box 1087  
Grand Cayman  
Cayman Islands

Turks & Caicos Islands  
Turks & Caicos First Insurance Limited  
T & C First Building  
Downtown  
P. O. Box 80  
Providenciales  
Turks & Caicos Islands

Costa Rica  
Sagicor Costa Rica  
102 Avenida Escazu,  
Torre, 2 Suite, 405  
Escazu, San Jose,  
Costa Rica

### Corporate Secretary:

Janice A.M. Grant Taffe

### Appointed Actuary:

Janet Sharp

### Auditors:

PricewaterhouseCoopers

### Bankers:

Sagicor Bank Jamaica Limited  
Scotiabank Jamaica Limited

National Commercial Bank  
(Jamaica) Limited  
Cayman National Bank Ltd.

### Attorneys

Myers, Fletcher & Gordon  
21 East Street  
Kingston

Patterson Mair Hamilton  
63-67 Knutsford Boulevard  
Kingston 5  
St. Andrew

Hart Muirhead Fatta  
2 St. Lucia Avenue  
Kingston 5  
St. Andrew

Nunes, Scholefield Deleon  
& Company  
6A Holborn Road  
Kingston 10  
St. Andrew



## Delivering on the Promise

Joan Hamilton was taught that everyone you meet is placed in your life for a reason. That lesson became real for her when she met experienced Life Insurance Advisor Albert Lyon. He presented to her some life insurance options. After learning of her family history however, Albert introduced Joan to the critical life policies. Joan's father and grandfather both died from cancer and she was diagnosed with hypertension. "He explained all the features and benefits and as a result I purchased the policies he recommended," recalls Joan.

Joan never thought she would have the use of these policies.

Joan retired in 2010. In early 2012 she became daunted by the increasing cost of living and contemplated cancelling one of her critical life policies in early 2012. Her advisor, who had also become a very good friend, strongly advised against it and she took his advice. "Although I wanted the money, Albert successfully convinced me not to surrender and it was the right decision."

In mid-2012 Joan was diagnosed with cervical cancer. "After the initial shock I started to question how I would meet all the expenses that came with this illness. I then recalled that I had the critical life policies and immediately called Albert," says Joan.

She remembers the urgency with which Albert and the entire Sagikor Claims Processing unit helped her to source the relevant papers (histology report), from the doctors, also telling her to ensure that the policies were accessible. "Albert collected the policies, I did not have to be concerned with the stress of completing any paperwork, all I had to do was to sign the relevant documents. As usual Albert took care of everything and within a matter of weeks my funds were ready."

As a result Joan was able to concentrate on getting well and not have the added worry of how she would manage financially.

**\$10.4 BILLION**

In Benefits was paid during 2012

In Jamaica, the Individual Insurance business established 2 new industry records: 59,504 new policies were sold during 2012, a 9% increase over prior year. Our Jamaica Sales Team continues to lead the industry, setting another industry record of \$2.30 billion in New Annualized Premium Income (15% more than in 2011) and capturing market share of 54% versus 51% in 2011.



“I thank the Lord that I made the decision to invest in this type of policy, which has made my life easier financially. And I thank Sagicor for delivering on their promise.”

**Joan Hamilton**  
Sagicor Life Policyholder



# PROTECTING

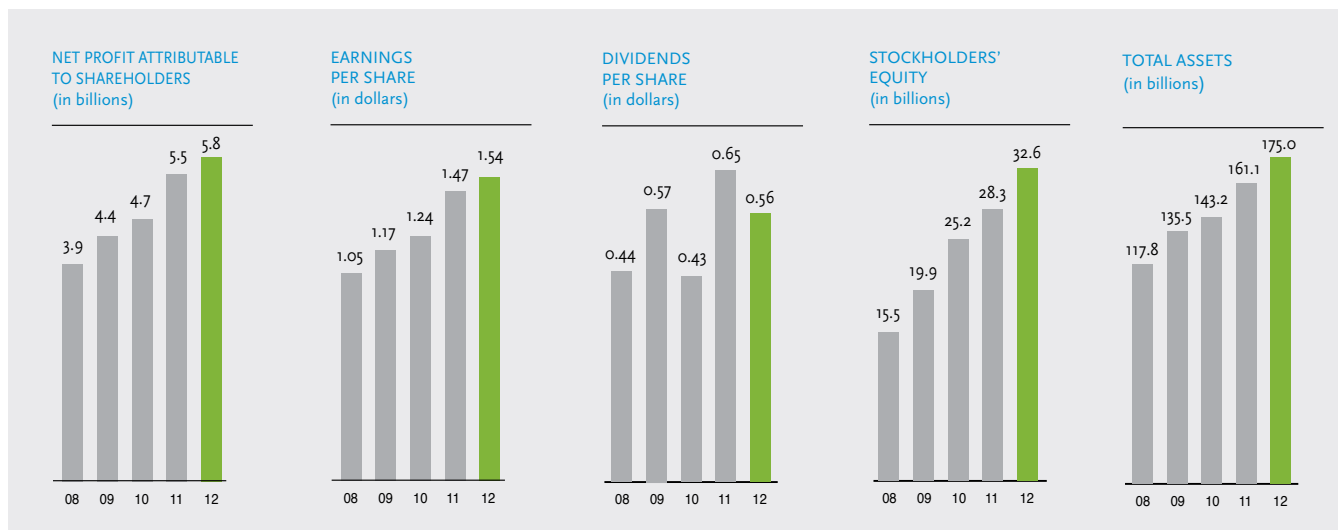
WHAT MATTERS MOST

# MANAGEMENT DISCUSSION & ANALYSIS

## OUR PERFORMANCE

The Sagikor Life Jamaica (SLJ) Group is a leading financial services group in Jamaica, commanding the largest market share in many of the lines of business it operates. The economic situation in Jamaica was difficult, with much uncertainties, new taxes introduced, a sliding dollar, rising costs, high unemployment and the ongoing plague of crime. The Cayman economy showed some improvement during the year. The environment in which the Sagikor Life Jamaica Group operates therefore remained challenging but we persevered.

The Group continued a growth trend, producing improved financial results for the thirteenth consecutive year. Consolidated net profit of \$5.99 billion was produced, of which the Sagikor Life Jamaica Stockholders' portion was \$5.79 billion and the earnings per share in issue was \$1.54 (2011: 1.47%). This represents a 5% improvement in earnings attributed to Stockholders. The return on Stockholders' Equity, which stood at \$32.64 billion (2011: \$28.29 billion), was 19% (2011: 21%). Total assets of the Group grew by 9% (2011: 13%) to reach \$175.01 billion (2011: \$161.10 billion).



### Financial performance highlights for 2012:

- Total revenue of \$31.48 billion; 10% better than the prior year amount
- Net profit attributable to Stockholders of \$5.79 billion; 5% better than prior year
- Earnings Per Share (EPS) of \$1.54; up 5% on prior year
- A Group efficiency ratio of 22% compared to 21% in 2011
- Assets of the Group of \$175.01 billion; 9% more than prior year
- Total assets under management of \$295.42 billion; 15% more than the \$257.80 billion at 2011
- Stockholders' Equity of \$32.64 billion; up 15% over the 2011 amount
- Return on Stockholders' Equity of 19%; 10% below the 21% for 2011
- Paid dividends to Stockholders of \$2.11 billion (\$0.56 per share); 14% less than the amount paid in 2011 (\$0.65 per share)
- SLJ share price of \$10.10 at December 2012 was marginally above prior year of \$10.00 at December 2011
- SLJ market capitalisation at December 2012 was \$37.99 billion compared to \$37.61 billion at December 2011

### Key 2012 performance drivers:

- Strong insurance and annuities, new business and improved conservation of business in-force
- Strong revenues, especially from earned insurance premiums, investment income, gains realised from the sale of securities and unrealised foreign exchange gains
- Insurance benefits within expected levels
- Controlled operating costs

## MANAGEMENT DISCUSSION & ANALYSIS (Cont'd)

### ECONOMIC REVIEW

#### JAMAICA

Jamaica has had a long history of low growth, high inflation, high unemployment, little reduction in poverty levels, a contraction of the middle class, high interest rates, low levels of productivity and declining external competitiveness. The persistence of these factors has been associated with large fiscal deficits over successive years which have resulted in high and unsustainable levels of debt. The size of Government's debt service limits public investment that is needed to create the enabling environment for sustainable growth and development. The unsustainable debt level makes Jamaica more vulnerable to shocks and has eroded investor confidence.

During 2012, the economic environment was characterised by prolonged anxiety relating to the debt, fiscal sustainability and delays in concluding a new International Monetary Fund (IMF) agreement. Decline in the net international reserves (the NIR) also fuelled these anxieties. Globally there were concerns about growth, debt and fiscal sustainability. A number of countries in the European zone faced severe fiscal pressures requiring austerity programmes. These issues permeated

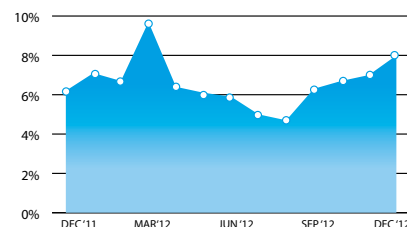
international financial markets. In June, the Jamaica Government announce a new asset tax which was particular significant for the financial services sector.

In October, Hurricane Sandy struck Jamaica, infrastructure and a number of agricultural crops were hard hit. This hurricane lashed a number of countries in the region and went on to significantly impact the east coast of the USA. Given these events most industries in Jamaica showed declines up to Q3 with the noticeable exceptions of Hotel and Restaurant and Agriculture. Inflation remained relatively favourable due to lower than expected international commodity prices, persistently weak domestic demand and fluctuating fuel prices which fell in the Q4. By the end of the fourth quarter all major industries showed contractions. The uncertainty in domestic financial markets heightened during the December 2012 quarter and there was excess demand for foreign currency for portfolio purposes. There was a resultant acceleration in the pace of depreciation of the Jamaican Dollar vis-à-vis the US dollar and a further reduction in the Net International Reserves (NIR).

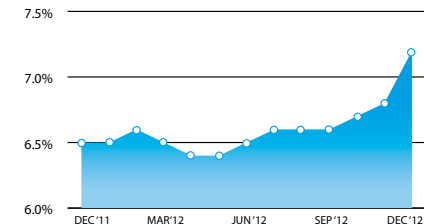
#### Key economic statistics for calendar year 2012:

- Real Gross Domestic Product (GDP) contracted to 0.3% compared to a growth of 1.5% in 2011
- Average savings rates declined by 6 bps to reach 2.07% at December 2012
- The 6-month Treasury Bill rate increased by 72 bps to 7.18% by December 2012
- The average lending rate fell by 107 bps to 17.2% by the year-end
- Inflation ended the year at 8%
- The Jamaica Stock Exchange main index declined by 3%
- The Jamaican dollar depreciated by 7.2% versus 1.3% in 2011 with the weighted average daily selling price of \$92.97 as at December 31, 2012.
- Unemployment increased to about 13.7% compared to 12.8% in 2011.
- The primary surplus for FY2012/13 is projected to be 4.52% as against a target of 4.69%. For FY2011/12 it was 3.1% when the target was 5.2%.
- The ratio of debt to GDP remains high, at 140%.
- The BOJ's gross reserves amounted to US\$1.98 billion and the NIR depleted to US\$1.13 billion as at December 2012, representing 13.2 weeks of projected imports and close to the international benchmark of 12 weeks of goods and services imports.

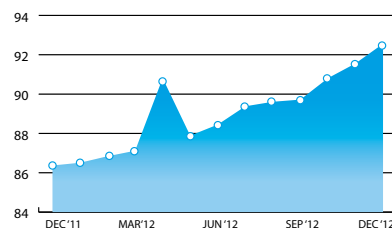
12 MONTH INFLATIONARY CHANGES



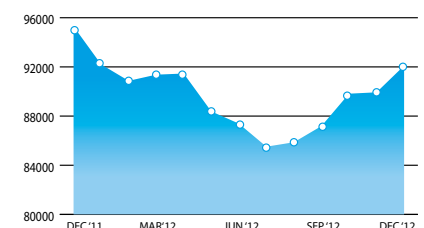
180-DAY T-BILL MOVEMENTS



J\$ vs US\$ EXCHANGE RATE MOVEMENTS



JSE MAIN INDEX MOVEMENTS



## MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

The Government of Jamaica has committed to a process of extensive structural reforms which should lead to increased efficiency in the use of public resources, the strengthening and stabilisation of the macroeconomic framework, higher levels of productivity in the economy and improvements in the country's external competitiveness. These commitments will require the central government to exercise restraint in expenditure while enhancing its revenue collections to deliver a primary balance of at least 7.5% of GDP over the medium term. The achievement of this very challenging target will contribute to a significant reduction in the debt/GDP ratio.

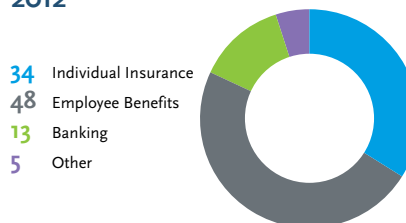
With the welcome success of the National Debt Exchange in February and March 2013, interest costs for central government have been significantly lowered and financing pressures have been relieved by pushing out debt maturities by several years. The resulting substantial reduction in Government's appetite for debt will leave more resources for private sector investment and ultimately provide the basis for sustainable growth. Additionally, the structural reforms being undertaken by the Government will result in improvements in productivity and the business environment, thus creating the foundation conducive to private sector-led growth and higher incomes over the medium to long term.

### THE CAYMAN ISLANDS

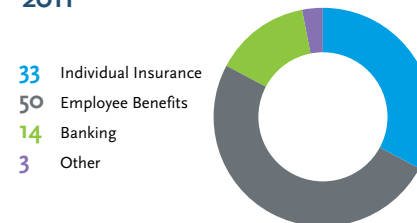
In the Cayman Islands, the macro-economic performance continued to show improvement during 2012, but there were still areas of weakness. Real GDP grew at an estimated annualised rate of 0.8% compared to a year ago when the economy was estimated to have grown by 1.2%. Inflation was about 1.2% compared to 1.3% for 2011, influenced mainly by food prices. The unemployment rate improved slightly from 6.3% in 2011 to 6.2% in 2012. The weighted average lending rate fell by 32 bps to 6.30% while the prime lending rate remained stable at 3.25% and the weighted average savings rate declined by 13 bps from a year ago to 0.23%. Air arrivals grew by 3.9% and cruise passengers grew by 6.9%. The central government's overall fiscal deficit was CI\$1.5 million compared to a surplus of CI\$33.4 million a year ago. The total outstanding debt of the central government declined to CI\$595.8 million from CI\$622.3 million a year ago.

Against the backdrop of a very challenging macro-economic and competitive environment, the Sagicor Jamaica Group performed well during the year 2012.

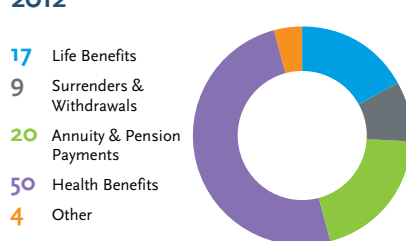
Revenue by business segment (%)  
2012



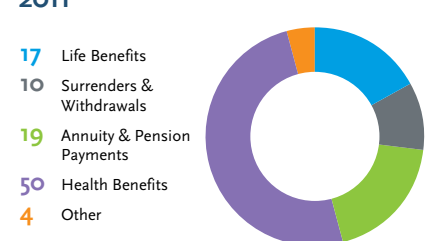
Revenue by business segment (%)  
2011



Benefits by expense type (%)  
2012



Benefits by expense type (%)  
2011



## OUR OPERATING RESULTS

Against the backdrop of a very challenging macro-economic and competitive environment, the Sagicor Jamaica Group performed well during the year 2012. The Group Net Profit attributed to Stockholders of \$5.79 billion (2011: \$5.52 billion) was earned from Revenues of \$31.48 (2011: \$28.67 billion). Net profit increased over the prior year by 5%.

Consolidated Revenue of \$31.48 billion (2011: \$28.67 billion) was up on prior

year by 10%. The growth in Revenue was influenced by strong increases of 12% and 13% for Life insurance and Group insurance premium income, respectively. However, Group Annuity contributions were down by 30% as there was a large single premium annuity plan written during the third quarter of 2011 for over \$2 billion. Net Premium Income across all lines, in aggregate, was therefore 4% more than that for 2011. Net Investment Income was up on prior year by 14%.

The prior year numbers included a large impairment charge of \$834.21 million on an ETF security, while capital gains realised on trading of securities were lower in 2012. Interest expense for 2012 was only 2% up on the prior year amount as interest rates fell, the cost of borrowing and rates credited to amounts on deposit were reduced. Before impairment charges, Net investment income grew by 3%. Fees and Other Revenues were ahead of prior year by 42%. This emanated mainly from significant unrealised foreign exchange gains from our net US\$ asset position due to the 7% depreciation of the J\$ versus the US\$.

**Benefits paid to policyholders or their beneficiaries were \$10.36 billion, net of reinsurance. This was 15% higher than the amount for last year of \$9.05 billion.**

Benefits paid to policyholders or their beneficiaries were \$10.36 billion, net of reinsurance. This was 15% higher than the amount for last year of \$9.05 billion. The expense for Death claims was \$1.73 billion and was 13% up on the 2011 amount. The expense for Individual Life insurance policies surrendered of \$968.19 million was 12% more than

the prior year amount. The cost of annuities paid of \$2.10 billion, being 24% more than in 2011, grew with the larger portfolio. Health claims expense from Group insurance policies of \$4.88 billion was 12% more than in 2011 also reflecting portfolio growth as the ratio of these claims to premiums remained the same. Living benefits were \$425.78 million and about 10% higher than last year. The overall increases in benefits costs flowed mainly from business growth as claims ratios remained generally stable. Health claims make up about 50% of the benefits paid.

Net movement in Actuarial Liabilities was an increase of \$3.40 billion compared to \$3.26 billion in 2011. The 2011 amount includes reserves set aside for a large single premium annuity received during the year. By the end of 2012, there was a large increase in individual life actuarial liabilities. The 2012 long-term actuarial liabilities for individual life and annuities also include an increase of about \$400 million as a consequence of the Jamaica National Debt Exchange of February 2013.

Group Administrative expenses of \$6.85 billion were 12% more than in 2011. The increased expenses reflect mainly higher compensation costs. We continued to be vigilant in containing overall expenses and forcing efficiencies. At the SLJ Group level, the efficiency ratio of administrative expenses to total revenue was 22%, compared to ratio of 22% for 2011 (23% with large single premiums

weighted). Premium and other taxes include asset taxes of about \$164 million for the Group. A new asset tax of .14% was introduced, in June 2012, from the 2012 tax year.

Total comprehensive income includes net profit and movements in reserves held in Equity. Total comprehensive income for 2012 of \$6.57 billion increased by 13% over the 2011 amount of \$5.81 billion. The significant contributors to the increased Comprehensive income are Net profit for the year of \$5.99 billion being 4% more than prior year; and a significant increase in the unrealised foreign exchange gains from translation of foreign operations denominated in US\$ to the reporting currency of the Group J\$ (2012: \$551.58 million versus 2011: \$52.22 million).

Cash generated from operations during the year was \$2.68 billion as against \$905.88 million at the end of 2011. This category includes activities for working capital and investments purchases and sales. The significant increase in cash flows from operations resulted from a reduction in net investments purchased due to lower borrowings and customer deposits. Cash used for capital expenditure was \$512.41 million compared to \$290.57 million in 2011 and reflected increased leased-hold improvements and purchase of an owner-occupied property. In 2012 there were no disbursements for preference shares in the Sagicor Investments

Banking Group as these were redeemed during 2011 and dividend distributed to SLJ stockholders were lower than prior year at \$2.11 billion. Cash used in financing activities was therefore \$2.211 billion as against \$3.14 billion in 2011. In aggregate, Liquidity of the Group remained healthy with cash and near cash investments of \$3.55 billion as at December 2012 (2011: \$3.34 billion).

**Total assets of the Group were \$175.01 billion, reflecting a 9% growth from \$161.10 billion as at December 2011.**

## OUR FINANCIAL CONDITION AND MANAGED FUNDS

Total assets of the Group were \$175.01 billion, reflecting a 9% growth from \$161.10 billion as at December 2011. These assets include the Segregated Funds portfolio which grew by 4% from \$11.62 billion at the end of 2011 to \$12.10 billion at 2012. During Q1 2012, the Sagicor Investments Banking Group purchased a GOJ Note denominated in Euros. This transaction is hedged and accounts for the increase in derivative financial instruments assets and liabilities.

## MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

Invested assets make up about 90% of the Group's asset base. Total assets under management as at December 2012, including pension fund assets managed on behalf of clients and unit trusts, amounted to \$295.42 billion, a 15% growth over the prior year amount of \$257.80 billion.

**SLJ Stockholders' Equity as at December 2012 was \$32.64 billion, a 15% increase over December 2011.**

SLJ Stockholders' Equity as at December 2012 was \$32.64 billion, compared to \$28.29 billion at December 2011. This 15% increase was predominantly due to the growth in Retained Earnings. During 2012, the SLJ Board of Directors declared dividends of \$2.11 billion to stockholders or a dividend per share of \$0.56. In 2011, dividends of \$2.44 billion or \$0.65 were distributed. The amount distributed during 2012 to Stockholders represents a dividend pay-out ratio of 36% using the 2012 consolidated net profit allocated to stockholders (2011:44%).

SLJ's Market capitalization at the year-end was \$37.99 billion, slightly ahead of the \$37.61 billion at December 2011.

### CAPITAL ADEQUACY

The Jamaica Insurance Act and Regulations require life insurance companies to carry a Minimum Continuing Capital and Surplus Requirement (MCCSR) of at least 150%. The MCCSR measures the ratio of available capital to required capital for insurance companies. SLJ Company showed a ratio of 162.9% at December 31, 2012, compared to the ratio for last year, which was 160.40%. At the same time, the ratio for Sagicor Life Cayman (SLC), based on Canadian Regulatory Standards, was 656.4%, up from 574.6% at 2011.

In addition, during 2012, the Cayman Islands Insurance (Capital and Solvency) (Class A Insurers) Regulations became effective. These Regulations stipulate that the minimum capital requirement for a local Class A insurer shall be the greater of US\$300,000 or the square root of

the sum of the square of five risk components – assets, policy liabilities, subsidiaries, catastrophe exposure and foreign exchange. Also, prescribed capital must be at least 125% of the minimum capital requirement. As at the balance sheet date the prescribed capital requirement for SLC was US\$26,978,000 and available capital when expressed as a percentage of prescribed capital was 333.5%.

The capital adequacy of the Sagicor Investments Banking Group is managed in accordance with techniques based on guidelines developed by the Financial Services Commission (FSC), The Bank of Jamaica (BOJ), Basel 11 and the Risk Management and Compliance Unit. The table below summarizes the solvency ratios of the regulated companies within the Banking Group for the years 2012 and 2011. The regulated companies within the Banking Group are Sagicor Investments Jamaica Limited (SIJL) and Sagicor Bank Jamaica Limited (SB).

LIFE COMPANIES MCCSR				
	SLJ 2012	SLJ 2011	SLC 2012	SLC 2011
Regulated Ratio	150%	150%		
Actual Ratio	162.9%	160.4%	656.4%	574.6%

BANKING COMPANIES RISK CAPITAL				
	SIJL (formerly PCFS) 2012	SIJL (formerly PCFS) 2011	SBL (formerly PCB) 2012	SBL (formerly PCB) 2011
Actual capital base to risk weighted assets	17%	21%	21%	26%
Required capital base to risk weighted assets	10%	10%	10%	10%

### INDUSTRY RATINGS

Sagicor Life Jamaica Limited (SLJ) retained a rating of jmAAA on the Jamaica national scale, from Caribbean Information and Credit Rating Services Limited (CariCRIS), following a review in February 2012. This rating for SLJ reflects the company's dominant market position in Jamaica, healthy profitability and good capitalization levels.

In August 2012, A. M. Best rating agency affirmed the Sagicor Life Jamaica Limited (SLJ) Financial Strength Rating (FSR) of B++ (Good) and the Insurers' Credit Rating (ICR) of BBB. The outlook for these ratings remained stable. However, during February 2013, A. M. Best rating agency downgraded the Financial Strength Rating (FSR) rating for SLJ from B++ (Good) to B+ (Good) and the Insurers' Credit Rating (ICR) from "bbb" to "bbb-". A.M. Best has placed the ratings under review with negative implications following the announcement of the National Debt Exchange program in February 2013 by the Government of Jamaica.

Sagicor Investments Jamaica Limited also retained the assigned ratings from Caribbean Information and Credit Rating Services Limited (CariCRIS). These are: CariBBB- (Foreign Currency Rating) and CariBBB (Local Currency Rating) on the regional rating scale, and jmA+ on the Jamaica national scale.

## DIVISIONAL AND SUBSIDIARY PERFORMANCE

The three primary business segments of the Sagicor Life Jamaica Group performed satisfactorily during 2012. The profit outcome for the Individual Insurance Division was down on prior year by 18% impacted mainly by a huge increase in actuarial liabilities. The outcome for the Sagicor Investments Banking Group was down by 17% mainly due to the new asset tax. However, net profit for the Employee Benefits Division was up 18% of prior year.

### DIVISIONAL AND SUBSIDIARY PERFORMANCE

Business Segment	2012	2011	2010	2009	2008
	J\$M	J\$M	J\$M	J\$M	J\$M
Individual Insurance	2,102	2,565	1,664	1,722	1,068
Employee Benefits	2,362	1,998	1,485	1,560	1,815
Investment and Commercial Banking*	1,354	1,622	1,425	1,379	1,281
Other (includes General Insurance '08 to '09)	170	(431)	297	225	378
Net Profit (before Minority Interest)	5,988	5,754	4,871	4,886	4,542

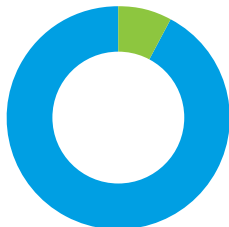
\*Includes amortization charges for purchased intangibles.

### NET PROFIT BY GEOGRAPHIC SEGMENT:

	2012	2011	2010	2009	2008
	J\$M	J\$M	J\$M	J\$M	J\$M
Jamaica	4,894	4,237	4,107	4,237	4,344
Cayman	1,094	1,517	764	649	198
Total	5,988	5,754	4,871	4,886	4,542

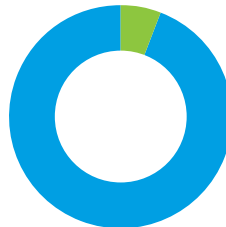
Revenue by geographic segment (%)  
2012

92 Jamaica  
8 Cayman



Revenue by geographic segment (%)  
2011

94 Jamaica  
6 Cayman



## INDIVIDUAL INSURANCE DIVISION

The Individual Insurance Division provides individual clients with Life & Health insurance policies, individual annuities, investment opportunities, living benefits and other insurance related solutions through our wide range of products, and a large distribution network comprising 491 Financial Advisors and Broker/ Agency Channels in Jamaica and the Cayman Islands. At the year-end there were 410,945 contracts in-force. The Division earns its revenues principally from insurance premiums; mortality, expense and asset management fees from segregated funds and investments contracts; and investment of assets assigned to cover the liabilities and surplus requirements of the portfolios.

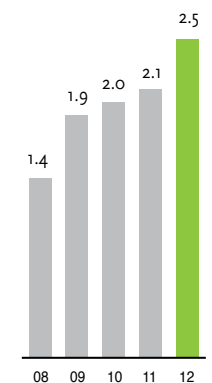
### INDIVIDUAL INSURANCE DIVISION

High level P&L for 2012 and 2011

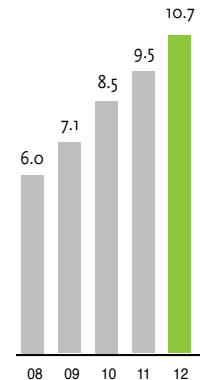
	2012	2011
Revenue	10,749	9,491
Benefits and expenses	(8,505)	(6,805)
Taxation	(142)	(119)
Net Profit	2,102	2,566

The Division contributed \$2.10 billion in profits, 18% lower than in 2011. The 2012 results were generated from Revenues of \$10.75 billion which were 13% higher than in the prior year. There was an attractive return on the capital allocated to the Division. The performance was driven by excellent new business sales, improved conservation,

INDIVIDUAL LIFE  
CONSOLIDATED API



INDIVIDUAL LIFE  
CONSOLIDATED REVENUE



## MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

moderate benefits experience and tight control of administrative and other costs. However, a large increase in actuarial liabilities depressed profitability.

During 2012, earned premium income was \$9.08 billion, an increase of 12% over the 2011 amount of \$8.13 billion.

During 2012, earned premium income was \$9.08 billion, an increase of 12% over the 2011 amount of \$8.13 billion. In 2012 premium income represents about 85% of total revenue. Net benefits expense was \$2.54 billion, an increase of 10% over the 2011 amount. Net death claims of \$863.78 million were 7% more than in 2011. Surrenders expense of \$968.19 million showed a 12% increase over the 2011 level. Individual health claims were \$249.93 million with a ratio to premiums of almost 80%. Other benefits, including living benefits, were \$404.87 million reflecting a 12% increase over the prior year. The change in actuarial liabilities was an increase of \$1.15 billion compared to only \$49.95 million in 2011. This significant increase in the change in Individual actuarial liabilities between 2011 and

2012 occurred due to higher normal reserve increases on in-force business in Jamaica in 2012, a consequence of strong growth of the in-force block and large new business written in recent years with negative reserves which have now become positive. The larger actuarial liabilities increases in Cayman resulted from lower new business growth in 2012, actuarial assumption changes which strengthened Cayman reserves and the absence of reserve reductions from actuarial assumption changes which occurred in 2011 and were not repeated in 2012. Commission, expenses and taxes totaled \$4.95 billion and were 8% more than last year.

In Jamaica, the Individual Insurance business established 2 new industry records: 59,504 new policies were sold during 2012, a 9% increase over prior year. Sagicor Life of the Cayman Islands sold 2,373 new policies during the year. The amount of new cases sold in Jamaica represented 56% of total cases sold by the entire industry. In 2012 the Division's in-force contracts grew by 5%; this represents a total count of 410,945 in comparison to 389,739 in 2011. Our Jamaica Sales Team continues to lead the Industry, setting another industry record of \$2.30 billion in New Annualized Premium Income (15% more than in 2011) and capturing market share of 54% versus 51% in 2011. Sagicor Life of the Cayman Islands generated satisfactory new business during the

year and also made an important contribution to profits. New Annualized Premium Income of US\$2.62 million was produced in 2012, compared to the US\$2.83 million written in 2011.

### EMPLOYEE BENEFITS DIVISION

The Employee Benefits Division provides group health, group life, creditor life and personal accident insurance to institutional clients. The Division also provides pension funds administration services and annuity products to corporate clients. The Division focuses on building financial security programmes that balance the needs of both employer and employees. Sagicor Life Jamaica is the largest provider of these services in Jamaica. The Employee Benefits business operates in a highly competitive environment where most contracts are renewed annually and competition is mainly driven by price and service.

On Revenues of \$15.16 billion, a profit contribution of \$2.36 billion was generated during 2012. The Employee Benefits Division earns its revenues from insurance premiums; annuity contributions; fees from the administration of pension funds under management, fees from administrative service only contracts and investment income from assets which support liabilities of the portfolios and required

### EMPLOYEE BENEFITS DIVISION

High level P&L for 2012 and 2011

	2012	2011
Revenue	15,161	14,524
Benefits and expenses	(12,561)	(12,337)
Taxation	(238)	(190)
Net Profit	2,362	1,998

surplus. Revenue was up 4% on prior year, notwithstanding the large single premium annuity contract received in Q3 2011. Earned premiums for Group Life grew 10%, while Group Health premiums grew 15%. Annuity contributions were strong but lower than prior year due to the large annuity in 2011. The Division also recognized \$442.51 million in unrealized foreign exchange gains compared to only \$20.94 million in 2011. The Division wrote \$3.52 billion of new business during the year compared to \$3.53 billion in 2011. Net benefits expense was \$7.82 billion, an increase of 16% over the 2011 amount. Net death claims of \$866.12 million were 20% more than in 2011. Annuity payments of \$2.05 billion were much higher than prior year with the growth of that line. Morbidity experience was stable as Health claims of \$4.88 billion were higher than in 2011 by 12%, and the ratio of claims to premiums remained the same. The change in actuarial liabilities was lower



in 2012 than in 2011 because of the large single premium annuity in 2011. Of note is the fact that most of the increased reserves taken in 2012 due to NDX related to the group annuities portfolio. Commission, expenses and taxes totaled \$2.62 billion and showed a 6% growth over the 2011 amount. The division also produced an attractive return on the allocated capital.

Banking overall operating expenses were 15% higher than in 2011. Influenced by higher compensation costs and increased occupancy expenses especially as it relates to branch expansion.

### THE BANKING GROUP

The Sagicor Investments Banking (formerly Pan Caribbean Financial Services Group), our 85.45%-owned banking subsidiary, delivered after-tax profits of \$1.45 billion for 2012, as against \$1.72 billion in 2011. These earnings were derived from revenues of \$4.1 billion, which were level with prior year. Revenues comprise net interest income, which remained flat at \$3.0 billion; security and foreign exchange trading gains of \$495.43 million, 9% below the 2011 amount; Foreign exchange translation gains of \$137.63 million compared to \$17.92 million in 2011; and fee income of \$465.0 million were lower than in 2011 by about 11%. There was a small increase in income earning assets since December 2011 and interest margins remained stable at 4%.

Overall operating expenses were 15% higher than in 2011. Influenced by higher compensation costs and increased occupancy expenses especially as it relates to branch expansion. At the same time the banking Group also absorbed new asset taxes of \$110 million. The efficiency ratio of administration expenses to total revenue moved to 47% compared to 42% for the previous year. The effective tax rate of the banking Group for 2012 increased to 28.6% compared to 25.5% in 2011, even before the asset tax. The book value of the PCFS Group's shareholders' equity at December 2012 was \$12.02 billion, showed little growth over prior year. The return on average shareholders' equity was 12% (2011:15%). The return of assets was 1.6%, compared to 2.1% in the prior year.

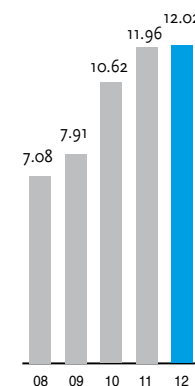
### The performance of the Banking Group was influenced by:

- Small increase in interest earning assets leading to flat net interest income but interest margin remained at about 4%
- Net capital gains realized on trading of securities and currency being lower than those for 2011
- Lower fee income in 2012, especially equity trading and credit related fees.
- Substantially higher unrealized foreign exchange gains in 2012 compared to 2011
- No financing cost in 2012 as all preference shares were redeemed in 2011
- An efficiency ratio of administration expenses to total revenue which increased to 47% from 42% in 2011.
- Negative impact of new asset tax
- Higher effective tax rate (2012:28.6% versus 2011:25.5%)

SAGICOR INVESTMENTS  
(Formerly PCFS)  
NET PROFIT  
(in billions)



SAGICOR INVESTMENTS  
(Formerly PCFS)  
STOCKHOLDERS' EQUITY  
(in billions)



### BANKING GROUP

High level P&L for 2012 and 2011

	2012	2011
Revenue	4,116	4,098
Benefits and expenses	(2,080)	(1,788)
Taxation	(583)	(589)
Net Profit	1,453	1,721

Before amortization of purchased intangibles at SLJ consolidated level.

## MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

### PERFORMANCE OF THE SAGICOR LIFE INVESTMENTS PORTFOLIOS

The Sagicor Life Jamaica Treasury & Asset Management Division manages the investments portfolios for all Group Companies except the Sagicor Investments Group. By year-end 2012, the Division managed total assets of \$169.97 billion on behalf of individual policyholders, group insurance clients, pension clients, annuitants and shareholders. These portfolios were managed using disciplined Asset/Liability Management (ALM) principles, while applying a prudent risk management through diversification of investments across all asset classes.

### PERFORMANCE OF FUNDS

#### Sagicor Life General Fund

Sagicor Life Jamaica General Fund's invested assets totaled \$46.94 billion, representing an increase of 8% over the 2011 amount of \$43.39 billion. With net income of \$4.4 billion the portfolio generated an attractive yield of approximately 10%. This income amount is before capital gains, interest expense and dividends from subsidiaries. The fund is heavily invested in Government of Jamaica (GOJ) fixed income securities which maintained a sovereign credit rating from Standard & Poor's of B-/B with a negative outlook. In addition to GOJ bonds, the fund invests mainly in other sovereign bonds, corporate bonds, real estate, equities, unit trusts, repurchase agreements, mortgages and policy loans.

In August 2012, SLJ completed the construction of Strathairn Apartments, a development consisting of 16 one bedroom units and 16 super studios. At the end of 2012, more than 50% of the units were sold, and we anticipate the completion of all sales in 2013.

Sagicor Life Cayman General Fund invests primarily in international corporate bonds. This fund also holds investments in real estate, GOJ global bonds, sovereign regional bonds, international equities and US treasuries. Invested assets amounted to \$17.84 billion, which produced net income of \$837.75 Million, before capital gains and interest expense charges. The portfolio yield was approximately 5%, before capital gains, interest expense and impairment charge. This portfolio suffered an impairment charge of \$5.1 million (2011: \$826 million), which related mainly to a fall in

the value of shares in an Exchange Traded Fund (EFT) where the fair value at December 2012 was less than 40% of original cost. These shares are held in the Company's surplus (Stockholders' equity) and not the Insurance portfolios.

#### Segregated Policy Investment Funds

SLJ's segregated policy holder funds under management totaled \$12.1 billion at the end of 2012. This represents a 4% increase over \$11.6 billion at the end of 2011. Policyholders share all rewards and risks of the performance of these funds. The performance of these Funds for the year 2012 relative to their benchmarks is shown in the tables below.

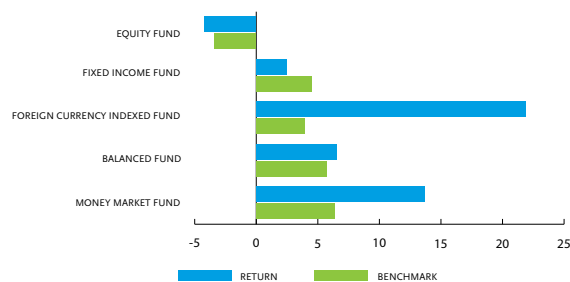
#### SAGICOR LIFE JAMAICA SEGREGATED FUNDS

	Annual Return	Annual Benchmark Return	Benchmark
Equity Fund	-4.4%	-3.4%	JSE Main Index
Fixed Income Fund	2.5%	4.5%	Avg 5-10 year GOJ Bond Yield & Inflation
Foreign Currency Indexed Fund	21.9%	6.0%	JSE Jamaica Global Bond Index & Devaluation
Balanced Fund	6.5%	5.7%	Avg Asset Yields & Inflation
Money Market Fund	13.8%	6.4%	Avg 180-day Treasury Bill Yield

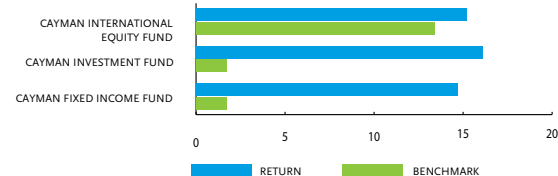
#### SAGICOR LIFE CAYMAN SEGREGATED FUNDS

	Annual Return	Annual Benchmark Return	Benchmark
Cayman International Equity Fund	15.5%	13.4%	S&P 500 Index
Cayman Investment Fund	16.1%	1.7%	US CPI
Cayman Fixed Income Fund	14.4%	1.7%	US CPI

### Sagicor Life Jamaica Segregated Funds



### Sagicor Life Cayman Funds



These funds allow for diversification across asset classes, ranging from local and international Equities and Real Estate to local and foreign currency Fixed Income, all of which have provided solid long-term returns for our policyholders over the past 30 years. The Pooled Foreign Currency Indexed Fund which provides a hedge against devaluation generated the highest returns for the year. The Cayman Segregated Funds similarly provided strong double digit returns given the increased rate of devaluation experienced during 2012.

### Sagicor Sigma Funds

In a move to gain operational synergies and maximise efficiency, a decision was taken to give SLJ full responsibility for the management and administrative services of all pooled funds within the group. The management of the Sigma unit trust product was therefore moved from SIJL to SLJ. This move commenced in May 2012, and in December the unit trust product was rebranded the Sagicor Sigma Funds. The number of portfolio offerings has been expanded from five to ten, making our product the most diverse and affordable in the market. These portfolios cover the full range of asset classes of local and international stocks, bonds and real estate.

Of the ten portfolios, the Sigma Real Estate, as at the end of 2102 was available to large institutional investors only. Through this portfolio, SLJ further expanded its reach in the Hotel and Tourism Sector through the acquisition of another north coast hotel property which was rebranded the Jewel Runaway Bay Beach and Golf Resort on June 1, 2012. This now joins Jewel Dunn's River Beach Resort and Spa as the two hotel properties owned and operated by Sagicor under the Jewel brand.



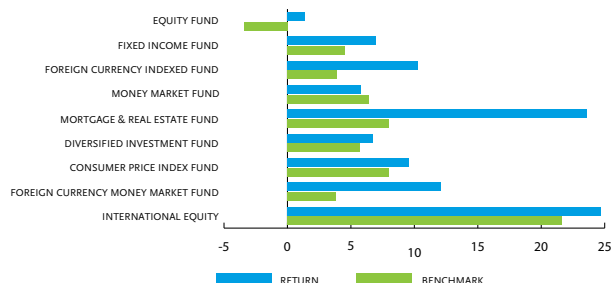
## SAGICOR LIFE JAMAICA POOLED PENSION FUNDS

	Invests mainly in	Net Asset Value (\$B)	Annual Return	Annual Benchmark Return	Benchmark
Equity Fund	Listed Stocks	11.91	1.4%	-3.4%	JSE Main Index
Fixed Income Fund	GOJ Securities (average tenure 10 years)	16.41	7.0%	4.5%	Avg 5-10 year GOJ Bond Yield & Inflation
Foreign Currency Indexed Fund	GOJ, US and Euro denominated Fixed Bonds	7.28	10.3%	6.0%	JSE Jamaica Global Bond Index & Devaluation
Money Market Fund	GOJ Securities (Average tenure 3 years)	9.01	5.8%	6.4%	Avg 180-Day Treasury Bill Yield
Mortgage & Real Estate Fund	Hotels, Commercial and Warehousing Properties	6.94	23.6%	8.0%	Jamaica Inflation
Diversified Investment Fund	Bonds, Equities & Real Estate	6.31	6.7%	5.0%	Avg Asset Yields & Inflation
Consumer Price Index Fund	GOJ Inflation Index Bonds	3.84	9.6%	8.0%	Jamaica Inflation
Foreign Currency Money Market Fund	GOJ Securities (Average tenure 2 years)	0.14	12.1%	3.8%	Avg 90-day US Repo Rate
International Equity Fund	Listed Securities on international exchanges	0.54	24.7%	21.6%	S&P 500 Index & Devaluation

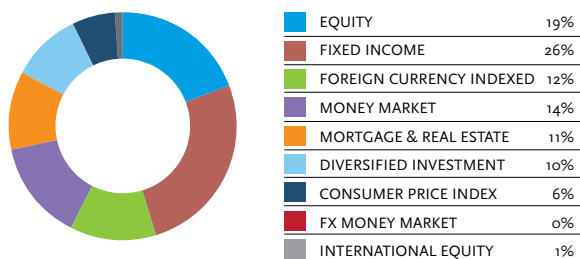
## MANAGEMENT DISCUSSION & ANALYSIS (CONT'D)

Despite the challenging economic climate both locally and globally, all Pooled Pension Funds either outperformed or matched their respective benchmarks for the period under review.

Pooled Pension Funds Return Vs Benchmark



Pooled Pension Funds Under Management



### Pension Funds

Total Pension Funds under management, consisting of nine pooled funds and ten self-directed funds, increased by 7% from \$74.40 billion in 2011 to \$79.73 billion at December 2012. Despite the challenging economic climate both locally and globally, all Pooled Pension Funds either outperformed or matched their respective benchmarks for the period under review. The funds generating the highest returns over the 12 month period were the Pooled International Equity and Mortgage & Real Estate Funds, while the Foreign Currency and Foreign Currency Money Market Funds also generating double digit returns.

### Property Management

Sagicor Property Services Limited (SPS), our 100%-owned property management subsidiary continues to provide excellent property management and real estate services for Sagicor Group owned and third party managed properties. Its primary revenue sources are fee based income from the sale and management of real estate properties and project management. SPS' medium to long term goal is to significantly increase its volume of third party sales. In 2012, the company was able to increase sales commission by 17%. With the real estate market being relatively "soft", intensive efforts are required to continue achieving targets of double digit growth in revenue.

### Sagicor Insurance Managers Ltd

Sagicor Insurance Managers Ltd. (SIM), the subsidiary which manages captive insurance companies, made a positive contribution to Group results. Among its client base is the prestigious Caribbean Catastrophe Risk Insurance Facility (CCRIF). Have provided management services to the Facility since its inception in 2007, SIM was re-appointed

captive manager of the Facility for a further three years in June 2012, following a rigorous competitive re-tender process, which involved other leading management companies.

CCRIF was honored as the Captive Insurance Companies Association (CICA) 2013 Outstanding Captive Award winner at the recent CICA 2013 International Conference in Palm Springs, California. The Facility, was also awarded an entry into 2013 AM Best's Review magazine Innovative Showcase in January 2013 as one of 10 companies, for "good use of innovative/ no-traditional approach to reinsurance for emerging/ economically challenged countries."

In April 2013, CCRIF signed a Memorandum of Understanding, formalizing a donation of US\$100,000 to the Government of Jamaica to support Jamaica's post-disaster recovery and restoration initiatives following the effects of Hurricane Sandy in October 2012. The funds are to be used to support the rehabilitation of two residential childcare facilities – Muirton and Summerfield – which were damaged by the hurricane.

## OPERATIONAL CAPABILITIES AND TECHNOLOGY

The Group's operational capabilities include the mix of team members, financial advisors, brokers, health care providers, suppliers and all other entities along the supply and value chains. We carefully manage and synchronize the roles of the entities that contribute to the delivery of our offerings. For those internal, there are a number of ongoing programmes, including envisioning and training. Strong relationships are built with external partners to ensure the best value and convenience for our clients.

In addition to our people, internal systems, processes and structures are pivotal to the delivery of the promise. We cultivate a competitive environment that spurs innovation and is performance driven. We continuously seek to improve operations and leverage the best available technologies. Indeed, there are a high number of new initiatives each year and the most outstanding are recognized at the Annual Awards gala in March.

During 2012, there were several significant new initiatives which will have far-reaching positive implications for efficiency gains, productivity improvements and lifting the quality of customer service even higher. We are

therefore pleased to share some of the initiatives implemented by SLJ.

### They include:

- Continued electronic document capture and work-flow across a number of departments.
- Expanded use of a Customer Relationship Management (CRM) system.
- Activities geared towards customer retention and to assist customers in meeting immediate financial needs.
- A continued push to move the disbursement and receipt of funds to electronic channels.
- Upgrades to a number of administration systems in areas such as pensions administration and cash receipting.
- An iPad Finance application for Executives; an on-line leave register for Team members and a service centre queue management system.

## RISK MANAGEMENT

The Sagicor Jamaica Group operates in a wide cross-section of financial services which exposes it to a variety of insurance, financial and operational risks. Taking various types of risk is

core to the financial services business, and operational risk is an inevitable consequence of being in business. The Group's aim is to achieve an appropriate balance between risk and return, in order to maximize stakeholder value and to minimize potential adverse effects on the Group's financial performance.

The Group utilizes an Enterprise Risk Management framework with clear terms of reference and which includes policies and procedures designed to identify, analyze, measure and control risks from all sources. This is supplemented with an organizational structure with delegated authorities and responsibilities from the Board of Directors to Executive Management committees and senior managers.

The Framework defines the Group's risk appetite through its policies and limits developed with Regulatory guidance as well as inputs from Board of Directors and Executive Management. These policies also provide guidance to the business units through the setting of boundaries and tolerances for various categories of key risks.

The risk management process is interactive as Executive Management and business process owners participate in the identification and assessment of existing and emerging risks enterprise-wide. Top 20 risks are agreed upon during this process with responsibilities specifically

assigned to the relevant Executives for management and reporting. While the assessment activity is conducted annually, there is ongoing monitoring and management of the key risks to ensure that they remain relevant to the business strategies of the Group. This process provides for quarterly reporting to the Board of Directors and other Board committees on the management of financial risks as well as operational risks.

### Board Audit Committee

The Board Audit Committee is a sub-committee of the Board comprising independent directors, and is responsible for:

- Overseeing how management monitors internal controls, compliance with the Group's risk management policies, and adequacy of the risk management framework to risks faced by the Group;
- Reviewing the Group's annual and quarterly financial statements, related policies and assumptions
- Reviewing the internal audit function as well as the external auditor's independence, objectivity and
- The Board Audit Committee is assisted in its oversight role by the Internal Audit Department. The Internal Audit Department

undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

### Board Investment & Risk Committee

The Board Investment & Risk Committee comprises a majority of independent directors. As part of its Terms of Reference, the Committee:

- Oversees the Group's financial risk management framework.
- Approves the investment policies within which the Group's investment portfolios are managed;
- Reviews the performance of the Group's investment portfolios;
- Ensures adherence to prudent standards in making investment and lending decisions and in managing investments and loans; and
- Approves new investment projects over certain thresholds, ensuring the required rates of returns are considered.

### Asset/Liability Management Committee

The Group has in place an Asset/Liability Management (ALM) Committee. This Committee:

- Monitors the profile of the Group's assets and liabilities;

- Plans, directs and monitors various financial risks, including interest rate risk, equity risk, liquidity risk, currency risk and country risk;
- Provides guidance to the Investment Managers with regard to the appropriateness of investments assigned or purchased to support the liabilities of the various lines of business; and
- Monitors market interest rates and establishes the credited rate for various investment contracts.

### Anti-Money Laundering (AML)

The Group has assigned responsibility for AML and anti-fraud policies to the Chief Financial Officer and to a designated department. The primary responsibilities of this officer include:

- Maintaining and communicating the AML and Anti-fraud policies and procedures;
- Interrogating financial transactions on a daily basis to identify suspicious and threshold reportable items;
- Coordinating information received from operating departments on reportable items;
- Ensuring that adequate anti-money laundering and anti-fraud controls and awareness programmes are in place; and
- Filing the required reports with Management, Board of Directors and Regulatory bodies.

### Regulatory Compliance

The Board has assigned responsibility for monitoring regulatory compliance to the General Counsel and the Legal and Corporate Services Department. This officer is responsible for:

- Keeping abreast of laws and regulations affecting the business;
- Maintaining a catalogue of all required regulatory filings and monitoring the respective departments to ensure timely submissions; and
- Filing the required performance reports with management and the Board of Directors.

The Corporate Business Continuity Plan (BCP) ensures the continuity of critical business functions in the event of business disruptions

### Business Continuity

Identified among the top 20 risks for the Sagikor Life Jamaica Group are inadequate business continuity and information technology recovery arrangements to support mission critical business functions. To manage and mitigate these risks the following frameworks are in place:

1. A Corporate Business Continuity Plan (BCP)
2. An Information Technology Disaster Recovery Plan (IT DRP)

The Corporate Business Continuity Plan (BCP) was developed with input from all business units and approved by the Board of Directors. The BCP ensures the continuity of critical business functions in the event of business disruptions and helps to minimize the impact on Team members, customers and other stakeholders, thus enabling the continued provision of certain critical services in the event of a disruption, crisis or emergency. The BCP seeks to address events such as natural disasters, loss of utilities, loss of services by external providers, organized &/or deliberate disruption and other organizational threats.

The Information Technology Disaster Recovery Plan (IT DRP) was developed in congruence with the BCP and encompasses the policies and procedures related to preparing for recovery or continuation of the technology and communications infrastructure after a disaster or emergency. Our IT infrastructure also includes a high level of redundancy and data security features.

Regular simulations are a part of our preparedness.

## OUR CORPORATE STRATEGY

Strategic thinking, strategic planning, financial modeling, performance measurement and performance driven compensation are central to how we manage our business. Detailed analyses were conducted, objectives determined, strategies identified and plans built for the three-year planning horizon through 2015. Our Board of Directors approved these strategies and strategic plans in December 2012. Following the Jamaica National Debt Exchanges (NDX and NDX1.1) in February and March 2013, we updated our strategic and financial plans. The re-casted plans were approved by the Board of Directors in April. These plans reflect lower yields on Government of Jamaica bonds, lower interest rates, depreciation of the J\$, higher taxes and other elements of the fragile Jamaican economy. For Cayman, a stable economy with small growth over the planning horizon is assumed. Small business growth is assumed for our Costa Rica venture but prospects for more significant long-term growth are strong.

Amidst the local and global economic challenges, we at Sagicor will continue to exploit our advantages and opportunities while managing risks and exposures.

### The key strategies which we will be pursuing in 2013 are:

- Write even higher levels of new business
- Produce superior returns on investments
- Delivering on our promise of exceptional customer experience every day
- Continued focus on building the efficiency of the business by streamlining, simplifying and automating as many processes as possible
- Staying on the fore-front of technology and using this medium to expand our capabilities
- Continuously engaging and motivating our Team; both administration and sales
- Building out new products and services to stay relevant to customer needs
- Building out a Business Intelligence and Customer Relationship Management platform to garner new sales from existing clients
- Building brand awareness
- Building our social responsibility

## OUTLOOK

More work remains to be done to address a number of critical matters at the macro-economic and social levels. It is of upmost importance that the IMF agreement with support from other multi-nationals is put in place quickly. Tax reform, civil servants pensions reform, reducing the cost of central government and reducing energy costs are some of the areas still to be tackled so as to put the country on a sustained growth path. The IMF pre-conditionalities should positively impact the economy. These include:

- A three year wage restraint for public-sector workers
- A new waiver regime
- The National Debt Exchange
- Passage of a debt Management act
- Various tax measures
- Improvements are also expected in a number of world economies. Meanwhile, the local Financial Services sector will remain fiercely competitive and we expect businesses to be very cost conscious and to seek-out new areas of revenue as the dependency on Government paper declines. Our wide array of products, strong capabilities and relentless focus on customer satisfaction will fuel growth of the Group as we go forward in 2013.

## CONCLUSION

The Sagicor Jamaica Group is now the third largest conglomerate on the Jamaica stock exchange, measured in terms of profitability. In addition, the prospects for our business segments remain good even as we adjust to the post NDX era. We could not have reached where we are without the loyalty of our customers; the wise counsel of our Board of Directors; the commitment and expertise of our Executive Management, each team member of the Group, each financial advisor and all those persons who contribute to the delivery of the promise! We have a positive outlook for the year ahead and expect to deliver competitive returns to our stakeholders.

Thanks to you all.



**Richard O. Byles**  
President & Chief Executive Officer  
28 February, 2013



FROM STRENGTH  
TO STRENGTH



Leveraging the name recognition of its well-known parent company, Sagicor Investments and Sagicor Bank officially opened its doors on December 17, 2012 with a formal ceremony and building renaming.

With the rebranding exercise, the former Pan Caribbean Financial Services and its subsidiary, PanCaribbeanBank, are able to strengthen the relationship with the Sagicor Jamaica Group. In effect, our suite of products and services are now enhanced by greater name recognition.

As a commercial bank, Sagicor Bank is well suited for both business and retail customers. In addition to current and savings accounts, debit cards and other standard banking services, Sagicor Bank offers PriorityMe – a low entry-level current account with a built-in savings component, a 9.95% auto loan facility and interest bearing current accounts. Sagicor Bank is unique in the current banking sector. We offer all the services that our business and personal customers need.

At the official opening ceremony at the head office in New Kingston, the late Hon. Maurice Facey, Philip Armstrong, Sagicor Bank Managing Director, Donovan Perkins, Sagicor Investments CEO and Richard Byles, Sagicor Life CEO unveiled the rebranded Sagicor Bank building, located at 60 Knutsford Boulevard.

Pan Caribbean Financial Services also relisted on the Jamaica Stock Exchange (JSE) as Sagicor Investments Jamaica Limited (SIJL). This relisting marked the completion of our rebranding process from PanCaribbean to Sagicor.



Above: The newly renamed Sagicor Bank Building on Knutsford Boulevard.



Above Right: Donovan Perkins, President & CEO, Sagicor Investments (l) and Kimone Smith (c) welcome SLJ Director Jacqueline Coke-Lloyd to their rebranded offices.



Right: Donovan Perkins inserts the new strip at the re-listing ceremony at the Jamaica Stock Exchange. Tara Nunes (l), VP Sales & Investment Services at SIJ, Richard Byles (c), Chairman of SIJ and Robin Levy (background), JSE Deputy General Manager look on.

## Sagicor's Brand Essence Wheel



## We Believe in Mutual Respect

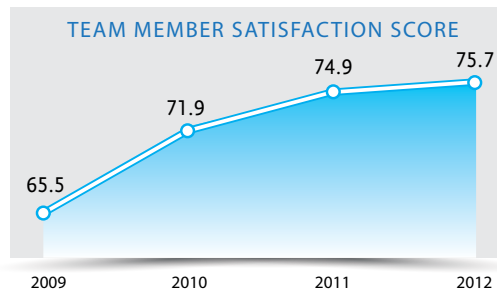
In 2012, we continued in our efforts to enhance our reputation as a great place to work, by reinforcing and building on our four promises to team members:

- A market competitive compensation.
- A place to grow as a person.
- A team that lives and values high performance.
- A work environment that is fit and friendly.

Again, our team members responded positively, evidenced by the highest employee engagement level received by the company.

### EMPLOYEE SATISFACTION

The LOMA Employee Opinion Survey is conducted annually to evaluate employee satisfaction within the company. In 2012 the survey showed a result of 75.7% satisfaction, a 0.8% improvement from the previous year and, notably, the highest satisfaction levels experienced by the company since the commencement of the survey in 2005. In fact, for almost all of the individual variables, the company received its highest scores ever.



96%

Staff Retention Rate - one of the industry's highest

Sagicor's commitment to the personal development and fulfilment of its team is evident to all. In 2012, 96% of team members chose to continue on as members of 'Team Sagicor', honouring the Company with one of the highest retention rates in the industry.





THE VALUE IN  
**OUR VALUES**

Sagicor Life Jamaica Team Members

## TEAM HIGHLIGHTS

### LEARNING & DEVELOPMENT

Now in its second year, the Sagicor Online Academy, our learning & development system that enables team members to complete courses online, 24/7, has surpassed expectations. Thanks, in part, to the system, but largely to the exceptional performance of our Training Unit, compliance levels for our Compliance course and Anti-Money Laundering/ Proceeds of Crime Act (AML/ POCA) course were at an all-time high for 2012 – 1,528 and 1,247 respectively by December 31.

The first group of team members enrolled in Leadership Summit also completed their programme in 2012. This 18-month programme commenced with 20 team members undertaking several development sessions to hone their leadership skills and improve their knowledge and attitudes. The second group will commence the programme later this year.

### HR EFFICIENCY

One strategic focus for HR for 2012 was the implementation of HR technological systems to enhance efficiency and productivity. During the year, we were able to roll out and implement several technological initiatives that helped us to accomplish our goal. The most significant of these initiatives were the roll-out of online recruitment through the company's talent management system, Sagicor Success, and the implementation of the electronic leave administration system.

### EMPLOYEE ENGAGEMENT

We have a mandate to continuously improve our team interactions by forging an energetic, enthusiastic and fully engaged team. During the year, multiple activities and events were hosted to recognise and reward team members for their dedication and high performance,

while also allowing for synergy and bonding through social interaction across the Sagicor Jamaica Group.

#### Some of these events included:

- 2012 “Sagi-Lympics” – Sports Day which was chosen as the ‘highlight of the year’ by team members.
- 2012 Heritage Trail and ‘Jamaica 50’ Celebrations
- 2012 Motivational Seminar, under the theme “On A Mission”, which included internationally renowned speaker Willie Jolley, actress Sheryl Lee Ralph, and world-renowned athlete, Shelly-Ann Fraser-Pryce.
- 2012’s STARS (“Showcasing Talent And Recognising Staff”) Week included the Wellness Day, Design Spotlight (a designing talent competition), Grill-Off/DJ Mixology

Competition, Sagicor Charity Day (with all funds going toward The Sickle Cell Support Club and Hurricane Sandy Relief Efforts) and ‘Memba Dis’, our Street Dance themed Staff Party.

### GOING FORWARD

During 2013, we will continue to strengthen the company's capabilities by pursuing actions to further improve the quality of all team members, which include:

- Implementation of additional HR technological systems to further enhance efficiency and productivity
- Increased focus and efforts geared toward the career development of team members
- Further development of the Sagicor Learning Centre, including the roll-out of additional courses on Sagicor Online Academy to foster continued learning and development.

#### The Sagicor Jamaica Group Breakdown

COMPANY	Permanent Administrative Team Members	Temporary Administrative Team Members	Field Force Team Members	Total Team Members
Sagicor Life Jamaica Limited (SLJ)	456	123	491	1,070
Sagicor International Administrators Limited (SIAL)	63	21	-	84
Sagicor Life of the Cayman Islands (SLCI)	6	2	22	30
Sagicor Insurance Managers (SIM)	1	-	-	1
Sagicor Insurance Brokers (SIB)	3	1	16	20
Employee Benefits Administrators Limited (EBA)	30	10	-	40
Sagicor Property Services (SPS)	27	19	-	46
Sagicor Bank Jamaica Limited (SBJ)				
Sagicor Investments Jamaica Limited (SIJ)	272	25	-	297
Total Team Members	858	201	529	1,588



Far left: Members of SLJ's Knutsford Branch perform at the Group's Blast Off event in celebration of "Jamaica 50"



Left: Team members from Sagicor Property Services representing Coronation Market during the "Jamaica 50 Heritage Trail" Competition in August 2012.

## TEAM MEMBER OF THE YEAR

### Sheldon Watson

Sheldon joined the organisation as a temporary worker at the Liguanea Branch in June 2008 at 20 years old. He lived by his mantra, "BEAM" - Becoming Eager to Achieve More. His incredible brilliance and aptitude were quickly demonstrated by his ability to meet and surpass all expectations. Six (6) weeks following his temporary engagement, he was appointed to permanent staff in the capacity of New Business Clerk.

By April 2010 he was promoted and transferred to the New Business Department as a Pre-Underwriter.

Sheldon's consistent performance continued during the year under review when he copped Team Member of the Month award in two (2) instances and Team Member of the Quarter award, also on two (2) occasions.

A stalwart in customer service, he displays the highest levels of professionalism while being decidedly customer focused and delivering world-class service to internal and external clients. Individuals are always delighted by his warm, amicable, pleasant and sincere personality.

He undertook numerous projects throughout the year which contributed to the overall success of the New Business Department and by extension the Individual Life Insurance Division. Having given considerable feedback and assistance to the development teams, for projects such as REQT (Underwriting Requirements update and review), Enterprise Customer Relationship Information System (ECRIS), Global 360, amidst other ingenuities, he was well placed to give invaluable support to his team members. These initiatives significantly improved the company's productivity and customer service levels and provided the opportunity for the organisation to realise huge cost savings. He continues to play an integral role in the development of his fellow colleagues through the organisation of training, mentoring and coaching sessions.

Sheldon balances his time between career, Church, civic duties, community service and family. He volunteers annually for the Sigma Run, is a member of the Sagicor Chorale and is aspiring to become a member of the Toastmasters International through the Sagicor Life Jamaica Group. He plays an active role in the company's adopt-a-school programme and seizes every opportunity to promote the company through his various associations.

Sheldon never falters on his Church and community involvement assisting in the coordination of programmes geared towards the amelioration of the lives of the under-privileged youths and disadvantaged in the volatile Hannah Town community.

A graduate of Kingston College and later the University of the West Indies, Sheldon received a Bachelor of Science Degree with honours in Banking & Finance. As Former President of the UWI Table Tennis Association who was presented with the UWI Pelican Award for Excellence during his tenure, he maintains his passion for the sport.

He scored the highest rating of 4.9/5 companywide on the 2012 Sagicor Success performance report. He captured the Team Member of Year award for the SLJ Group from a total of twelve (12) nominees.

Without a doubt, Sheldon is a true professional and role model who demonstrates all the qualities that exemplify the bona fide Sagicorian Spirit. He was awarded with the 2012 "Sagicorian Award", which is the company's most prestigious and coveted trophy recognising the Sagicor Groups worldwide team member of the year.



OUR CORPORATE SOCIAL RESPONSIBILITY

SIGMA CORPORATE RUN

Investing in our Community is an investment in our Future

A 5K (3.5 mile) Run, Walk, Wheelchair event that began in 1999 in Downtown Kingston at Breezy Castle with 297 participants is now the largest road race per capita in the world!

Over the years, funds raised from the Sigma Corporate Run have purchased much-needed equipment for charities such as Sophie’s Place & Mustard Seed Communities; The University Hospital Labour Ward; Jamaica AIDS Support for Life; The Renal Units of the Cornwall Regional, University and Kingston Public Hospitals and the Victoria Jubilee Hospital Neo Natal Care Unit.

Sagicor Life partnered to present the 14th staging of the biggest road race in the Caribbean, with over 16,000 participants with a donation of over Five Million Dollars. Over \$33 million was raised for the Chain of Hope Jamaica to support the building of a Cardiac Unit at the Bustamante

Hospital for Children, which will serve as a centre of excellence for the Caribbean. This initiative was supported by the patronage of Her Excellency the Most Hon. Lady Patricia Allen, Dr. the Hon. R. ‘Danny’ Williams and Dr. The Hon. Usain Bolt.

The Sigma Corporate Run 5K Event was held on Sunday, February 19, 2012. This event stimulated camaraderie within Corporate Jamaica, with so many companies on board to support a single cause. Under the theme “Play your part, Save a heart”, 142 corporate entities, 76 non-corporate groups and 559 individuals participated, totalling 16,017 persons.

The Sigma Run reinforced Sagicor’s commitment to community building through Sports, Education and Health and the event was instrumental in marking the significance of Jamaica’s 50th Anniversary.

Over **\$100m**  
raised through the Sigma  
Corporate Run since inception

The Bustamante Hospital for Children’s new Cardiac Wing will benefit over 400 Jamaican children per year who are born with heart disease and children who require intensive care.



# THE FUTURE

IS WHAT WE MAKE IT



## OUR CORPORATE SOCIAL RESPONSIBILITY

“Sagicor Life Jamaica remains committed to improving the lives in the communities in which we operate by actively seeking opportunities to contribute in the areas of Health, Sports and Education.”

### Spending Time • Shaping Lives

#### HEALTH

In addition to our donation to the Sigma Corporate run 2012, several of our team members also participated in the 16,000-person event in aid of Chain of Hope Jamaica for the Bustamante Hospital for Children’s Cardiac Programme.

Our team participated in many other health and sports related events throughout the year including the

Jamaica Cancer Society’s Relay for Life, and The CUMI COME RUN race in support of the rehabilitation of the mentally ill in St James and its environs. We also entered a team to support the CB Group UWI 5K Run/Walk, Digicel 5K and the Everyone’s a Winner Challenge series.

One Million, One Hundred Thousand Dollars (\$1.1m) was donated to the Keeping Abreast Luncheon executed by the Jamaica Cancer Society. Cancer survivors and supporters in attendance had the opportunity to listen to guest speaker, Dr. Mamby-Alexander’s heartfelt journey of 26 years of breast cancer survival.



1



2

1. Donovan Perkins, President and CEO, Sagicor Investments (l), Dr. the Hon. Usain Bolt (3rd left) and Her Excellency Lady Patricia Allen (5th from left), both Patrons of the 2012 Sigma Run are flanked by Representatives from Chain of Hope before the start of the road race.
2. Mark Chisholm - EVP Individual Insurance (r) hands over a symbolic cheque for \$5 million to Dr. Charmaine Scott, Chairperson of Chain of Hope Jamaica and Aduke Scott, a former cardiac patient of the Bustamante Hospital for Children.

16,000

PERSONS PARTICIPATED IN OUR SIGMA CORPORATE RUN

\$1.1m

DONATED TO THE KEEPING ABREAST LUNCHEON

\$5m

SPONSORSHIP TOWARD THE JTA TRACK MEET

\$1.2m

SUPPORT FOR THE UWI GUILD CHAMPIONS





3

## SPORTS

We maintained our partnership with the Jamaica Teachers' Association JTA/Sagcor National Championships as several young, aspiring athletes from across Jamaica benefitted from our sponsorship of over \$5M towards the two-day track and field event held annually at the National Stadium. The JTA Track Meet is an annual sporting event for all-age schools with participation of over 5,000 students in the lead-up to the event. At the championships, over 1,400 students compete by parish to be crowned national champions. The parish of Portland was crowned the 2012 winner, a repeat of the 2011 result.

We continued to support the development of our youth in sports by supporting the UWI Guild Champions League to the tune of \$1.2M.



4



5



6

3. A section of the Grandstand at the National Stadium cheering on the young athletes competing in the JTA/Sagcor National Championships.
4. Sheldon Cox, Winner of the Sigma Wheelchair Race (Male) powers to the finish line.
5. Barrington Groves, Brand Manager, Sagcor Life Jamaica answers the questions of these young ladies from the Clan Carthy Primary School at the opening of their Learning Centre.
6. These athletes from the parish of Portland pose with their gold medals after winning their relay race at the JTA/Sagcor National Championships.

\$940k

DONATED TO BEST CARE CHILDREN'S HOME

\$1.7m

DONATED TO GSAT SCHOLARSHIP RECIPIENTS

\$3m

SUPPORT FOR PRIMARY AND SECONDARY STUDENTS THROUGH OUR CORPORATE SCHOLARSHIP PROGRAMME

## OUR CORPORATE SOCIAL RESPONSIBILITY (CONT'D)

### EDUCATION

In May of 2012, the first ever Jamaican Children's Pantomime was staged. The objective of the "GEM" (Greatness Exists in Me) pantomime is to enhance confidence and develop the talent of our youth, which is in keeping with Sagicor's Vision. The pantomime was staged each weekend during May, Child Month. We sponsored the event and purchased an entire night at the theatre allowing over 350 students from the inner-city and children's homes across the island to watch the GEM Pantomime. Some of the schools in attendance included SOS Children's Village, Operation Restoration School, Gideon Educational Centre, St Anthony's Home and Tiny Tots Learning Centre. Also in attendance were schools from the Sagicor Adopt-a-School Programme.

The Best Care Children's Home benefitted from our donation of Nine Hundred and Forty Thousand Dollars (\$940,000). A part of the donation to the Home was made in unification with the Nelson Mandela International Day (MID) under the theme "take action, inspiring change, and making every day a Mandela Day". The Home which houses children who are mentally and physically challenged also benefitted as the 2012 charity for the

Sagicor Motivational Seminar. Also, in December of 2012 we asked Sagicor's customers via our social media platforms to tell us of a registered non-profit organisation deserving of a special Christmas gift. After all submissions went to a panel of internal judges the Best Care Lodge was selected as the recipient of one hundred thousand (\$100,000). Every entry received a special donation.

This year we awarded 14 students with scholarships for outstanding performances in the GSAT Examinations including grants to the Champion Boy and Girl from the JTA/SAGICOR Primary and Junior High Athletic Championships.

SLJ donated one million, seven hundred thousand dollars (\$1.7M) to this year's GSAT scholarship recipients. Currently 68 students are benefitting from these scholarships across the island.

In addition, over \$3 million was awarded this year to 95 other successful applicants, in our corporate scholarship programme – 64 students at the primary level and 31 students at the secondary level.

We assisted in other areas of education when we honoured Clan Carthy's request to start a Learning Centre by donating a

classroom. We further provided four motor vehicles to the Bog Walk High mechanic programme to be used as teaching aids for the Grade 10 and 11 auto mechanic students at the institution.

Throughout 2012, team members continued to play their role in giving back to surrounding environs as they volunteered their time at Reading Day, Career Day and various projects executed at their adopt-a-schools.



7. The cast of the GEM Pantomime in performance.
8. Suzette Shaw-Reid, Asst Manager, Public Relations at Sagicor (back row - 2nd from right) smiles after welcoming students, school representatives and parents of Faith Tabernacle - one of the schools of the Sagicor Adopt-a-School Programme to the Sagicor sponsored night of the GEM Pantomime.

# ADOPT A SCHOOL

Each of our 12 branches was responsible for “adopting” a basic school of their choice in 2012 through our Yearly Adopt-a-School programme. The Adopt-a-School programme has assisted over 40 schools since its inception by helping with infrastructure, purchasing much needed equipment, and supporting school activities, such as Sports Day, Teachers’ Day and Reading Day.

## New Kingston Branch

Once again, we highlight the New Kingston Branch for the laudable work it did with the Faith Tabernacle Basic School located on Lyndhurst Road. In early 2012, the New Kingston Branch selected Faith Tabernacle Basic School for its Adopt-a-School project. Throughout the course of the year, the school was frequently visited by members of the branch and they quickly established themselves as a part of the school’s family.



1



2

This year, the branch doubled the number of initiatives planned for the school. These projects included reading sessions with the children, constructing an office for the principal, supplying computers, fans, and office furniture and providing uniform materials for all the students. In addition to this, the team from F.I.S.H. (Foundation for Individual Self Help) Medical Clinic visited the school and performed eye checks on all students and fitted glasses on those who were in need.

Teachers’ Day saw the branch hosting faculty members at the Knutsford Court hotel for a luncheon held in their honour. Team members also participated in the graduation ceremony and donated trophies, certificates and gift baskets.

The Christmas Season saw the branch providing entertainment, food and gifts for the children in the form of a bounce-about, face painting, and storytelling by internationally renowned artist, Faith D’Aguilar. This event was truly cherished by the students and teachers, and the branch was treated to an appreciation ceremony where both children and teachers performed. At the appreciation function, the New Kingston Branch handed over a much needed 9.6 cubic feet Whirlpool refrigerator, which brought tears to the administration’s eyes. The time and work put in by our advisors left a lasting impression on this school and in the lives of the children.

1. Bottom Left: Merrick Plummer, AVP Individual Life Sales and Distribution shares a light moment with the students of Faith Tabernacle Basic School after their assembly.
2. Left: “Say Cheese!” Candis Campbell, Advisor from the SLJ New Kingston Branch and this student smile brightly for the camera.
3. Bottom Right: A student at the Faith Tabernacle Basic School enjoys her new computer lab donated by the SLJ New Kingston Branch.

## 2012 ADOPT-A-SCHOOL PROGRAMME

### Our Adopted Schools

Branch	School
Montego Bay	Spot Valley Basic School
Senators	Tower Hill Basic School
Mandeville	New Hall Early Childhood Development Centre
New Kingston	Faith Tabernacle Basic School
Belmont Duke	Bethel Bible Way Basic School
Holborn	Church of Jesus Christ Basic School
Ocho Rios	Tiny Tot Training Centre
Half Way Tree	Charles Chin Loy Basic School
Liguanea	Jones Town Early Childhood
Corporate Circle	The Progressive Basic School
Knutsford	Shalom Basic School
Spanish Town	St. Johns Road Basic School



3

## DISCLOSURE OF SHAREHOLDING

AS AT DECEMBER 31, 2012

### SHAREHOLDINGS OF THE TEN LARGEST SHAREHOLDERS

SHAREHOLDERS	NO OF SHARES	%
1 Sagicor Group (Sagicor Life Inc) (LO) Holdings Limited - connected company (Sagicor PIF Equiry Fund - connected company) (Sagicor Long-Term incentive Plan - connected company)	650,663,398 1,267,474,056 6,552,899 13,398,051	1,938,088,404 51.53%
2 Pan-Jamaican Investment Trust Ltd	1,232,149,252	32.76%
3 SJIML 3119	43,319,441	1.15%
4 Ideal Portfolio Services Ltd	38,390,188	1.02%
5 National Insurance Fund	37,916,370	1.01%
6 Donwis Ltd (Donovan Lewis - connected person)	19,558,540 3,015,290	22,573,830 0.60%
7 GraceKennedy Ltd Pension Scheme	22,319,685	0.59%
8 Richard Byles (Jacinth Byles - connected person) (Pavel Byles - connected person)	16,112,434 20,366	16,132,800 0.43% 0.00%
9 JCSD Trustee Services Ltd A/C #76579-02 (Scotia Fund Managers Limited - connected company)	15,633,230	0.42%
10 NCB Insurance Company Ltd A/C WT109	15,145,751	0.40%
Total	3,381,668,951	
Others	379,322,831	10.09%
Total Issued Shares	3,760,991,782	100.00%

### SHAREHOLDINGS OF DIRECTORS

SHAREHOLDERS	NO OF SHARES
1 Dodridge Miller	25,389
2 Richard Byles (Jacinth Byles - connected person) (Pavel Byles - connected person)	16,112,434 20,366
3 R Danny Williams (Ravers Limited - connected company)	Nil 12,332,825
4 Jeffrey Cobham	25,000
5 Marjorie Fyffe-Campbell	25,000
6 Paul Facey (Robert A Facey - connected person) (Proban Ltd - connected company)	Nil 1,002,293 1,704,295
7 Stephen Facey (Wendy Facey - connected person) (Alexander & Matthew Facey - connected person)	547,791 71,150
8 Hilary McDonald Beckles	25,000
9 Paul Hanworth	25,000
10 Richard Downer	100,000
11 Jacqueline D Coke-Lloyd	25,000
12 Peter Clarke	Nil

### SHAREHOLDINGS OF EXECUTIVE MANAGEMENT

SHAREHOLDERS	NO OF SHARES
1 Richard Byles (Jacinth Byles - connected person) (Pavel Byles connected person)	16,112,434 20,366
2 Errol McKenzie (Annette McKenzie connected person)	5,631,873
3 Ivan Carter	3,000,000
4 Janice A M Grant Taffe (Joseph Taffe - connected person)	1,619,550
5 Rohan Miller (Debra Miller - connected person) (Jordan Miller - connected person) (Aaron Miller - connected person)	248,024
6 Mark Chisholm (Te-Anne Chisholm - connected person) (Sharo Anne Chisholm - connected person) (Jonel Chisholm - connected person)	532,128
7 Karl Williams	128,016

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Wise Financial Thinking for Life

## APPOINTED ACTUARY'S REPORT TO THE SHAREHOLDERS AND POLICYHOLDERS

I have valued the policy actuarial liabilities of Sagicor Life Jamaica Limited for the consolidated and company statements of financial position at 31 December 2012, and the change in the consolidated and company income statements for the year then ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

The valuation of the Sagicor Life Jamaica Limited business was conducted using the Policy Premium Method assuming best-estimate assumptions together with margins for adverse deviations in accordance with the Actuarial Regulations, 2001. The valuation has been carried out in accordance with the International Financial Reporting Standard 4, Insurance Contracts and the results satisfy the liability adequacy tests as required by this standard. The valuation also complies with the Caribbean Actuarial Association's Practice Standards for Long-term Insurance Business (APS2). I have performed the valuation of Sagicor Life of the Cayman Islands Ltd., a fully-owned subsidiary of Sagicor Life Jamaica Limited. I did not perform the valuation for the liabilities of Sagicor Re Insurance Limited, a fully-owned property and casualty insurance subsidiary of Sagicor Life Jamaica Limited. The valuation for Sagicor Re was performed by Rivelle Consulting Services.

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

JANET SHARP, FSA, MAAA, CERA  
APPOINTED ACTUARY FOR SAGICOR LIFE JAMAICA LIMITED  
28 FEBRUARY 2013

Directors  
Dr. the Hon. R.D. Williams O.J.,C.D.  
*Chairman*  
Richard O. Byles  
*President & CEO*  
Sir Hilary Beckles  
Peter Clarke  
Marjorie Fyffe-Campbell  
Jeffrey C. Cobham  
Jacqueline D. Coke-Lloyd  
Richard Downer  
Paul A.B. Facey  
Stephen B. Facey  
Paul R. Hanworth  
Dr. Dodridge D. Miller  
Janice A.M. Grant-Taffe  
*Corporate Secretary*

Sagicor Life Jamaica Limited  
28 - 48 Barbados Avenue  
Kingston 5  
P.O. Box 439  
Jamaica, WI

Tel: (876) 929-8920-9  
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## **Independent Auditors' Report**

To the Members of  
Sagicor Life Jamaica Limited

### **Report on the Consolidated and Company Stand Alone Financial Statements**

We have audited the accompanying consolidated financial statements of Sagicor Life Jamaica Limited and its subsidiaries, set out on pages 70 to 160, which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated income statement, consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the accompanying financial statements of Sagicor Life Jamaica Limited standing alone, which comprise the statement of financial position as at 31 December 2012 and the income statement, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated and Company Stand Alone Financial Statements**

Management is responsible for the preparation of consolidated and company stand alone financial statements that give a true and fair view in accordance with International Financial Reporting Standards and with the requirements of the Jamaican Companies Act, and for such internal control as management determines is necessary to enable the preparation of consolidated and company stand alone financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated and company stand alone 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 and company stand alone financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and company stand alone financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and company stand alone financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated and company stand alone financial statements that give a true and fair view 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 and company stand alone financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements of Sagicor Life Jamaica Limited and its subsidiaries, and the financial statements of Sagicor Life Jamaica Limited standing alone give a true and fair view of the financial position of Sagicor Life Jamaica Limited and its subsidiaries and Sagicor Life Jamaica Limited standing alone as at 31 December 2012, and of their financial performance and cash flows for the year then ended, so far as concerns the members of Sagicor Life Jamaica Limited, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.

### **Report on Other Legal and Regulatory Requirements**

As required by the Jamaican Companies Act, we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

In our opinion, proper accounting records have been kept, so far as appears from our examination of those records, and the accompanying consolidated and company stand alone financial statements are in agreement therewith and give the information required by the Jamaican Companies Act, in the manner so required.

Chartered Accountants  
1 March 2013  
Kingston, Jamaica

PricewaterhouseCoopers, Scotiabank Centre, Duke Street, Box 372, Kingston, Jamaica  
T: (876) 922 6230, F: (876) 922 7581, [www.pwc.com/jm](http://www.pwc.com/jm)

C.D.W. Maxwell P.W. Pearson E.A. Crawford J.W. Lee P.E. Williams G.L. Lewars L.A. McKnight L.E. Augier  
A.K. Jain B.L. Scott B.J. Denning G.A. Reece P.A. Williams R.S. Nathan

# Consolidated Statement of Financial Position

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
<b>ASSETS:</b>			
Cash resources	6	4,745,237	2,880,173
Cash reserve at Bank of Jamaica	7	735,494	519,732
Financial investments	8	123,805,795	114,764,371
Securities purchased under resale agreements	9	1,793,910	1,000,592
Derivative financial instruments	10	4,253,104	839,420
Loans & leases, after allowance for credit losses	11	9,391,290	9,259,647
Investment properties	12	627,731	792,452
Investment in associated companies	13	2,725	2,725
Property, plant and equipment	14	1,687,846	1,535,046
Retirement benefit assets	15	220,211	212,955
Reinsurance contracts	16	239,079	240,222
Pledged assets	17	3,943,434	7,831,016
Intangible assets	18	4,165,089	4,314,637
Deferred income taxes	19	19,133	158,723
Taxation recoverable		2,566,172	1,752,734
Other assets	20	4,721,201	3,378,692
Segregated funds' assets	21	12,096,859	11,615,396
<b>TOTAL ASSETS</b>		<b><u>175,014,310</u></b>	<b><u>161,098,533</u></b>

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

# Consolidated Statement of Financial Position (Continued)

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
<b>STOCKHOLDERS' EQUITY AND LIABILITIES:</b>			
<b>Stockholders' Equity Attributable</b>			
<b>Stockholders' of the Company</b>			
Share capital	24	7,854,938	7,854,938
Stock options reserve	26	88,228	95,895
Investment and fair value reserves	27	883,935	788,175
Currency translation reserve	28	1,697,363	1,145,784
Other reserves	29	2,864,390	2,429,610
Retained earnings		19,255,396	15,975,564
		32,644,250	28,289,966
<b>Non-controlling Interests</b>		<b>1,756,647</b>	<b>1,763,242</b>
<b>Total Equity</b>		<b><u>34,400,897</u></b>	<b><u>30,053,208</u></b>
<b>Liabilities</b>			
Securities sold under repurchase agreements		55,694,733	53,948,289
Due to banks and other financial institutions	31	10,682,043	11,409,806
Customer deposits and other accounts	32	11,090,266	10,599,897
Structured products	33	854,100	274,913
Derivative financial instruments	10	4,310,566	700,600
Taxation payable		316,418	333,059
Deferred income taxes	19	324,942	734,057
Retirement benefit obligations	15	1,023,769	851,073
Other liabilities	35	3,349,026	4,277,041
<b>Policyholders' Funds</b>			
Segregated funds' liabilities	21/37	12,096,859	11,615,396
Insurance contracts liabilities	36	27,659,725	23,642,467
Investment contracts liabilities	37	10,796,857	10,353,016
Other policy liabilities	38	2,414,109	2,305,711
		52,967,550	47,916,590
<b>Total Liabilities</b>		<b><u>140,613,413</u></b>	<b><u>131,045,325</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>175,014,310</u></b>	<b><u>161,098,533</u></b>

Approved for issue by the Board of Directors on 28 February 2013 and signed on its behalf by:

Hon. R.D. Williams, O.J.

Chairman

Richard O. Byles

Director

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.



## Consolidated Income Statement

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
<b>Revenue:</b>			
Gross premium revenue	40	20,330,670	19,366,613
Insurance premium ceded to reinsurers	40	(800,466)	(601,202)
Net premium revenue	40	19,530,204	18,765,411
Investment income	41	12,777,657	12,462,925
Impairment charge	42	(5,117)	(834,207)
Interest expense	43	(4,107,070)	(4,036,788)
Net investment income		8,665,470	7,591,930
Fee income -			
Administration	44	1,191,273	1,137,933
Other	44	352,497	283,521
		1,543,770	1,421,454
Other operating income		1,735,815	891,090
		<b>31,475,259</b>	<b>28,669,885</b>
<b>Benefits:</b>			
Insurance benefits incurred		10,506,369	9,195,927
Insurance benefits reinsured		(146,048)	(143,876)
Net insurance benefits	45	10,360,321	9,052,051
Net movement in actuarial liabilities	36(d)	3,403,028	3,263,976
<b>Expenses:</b>			
Provision for credit losses	11	8,255	36,132
Finance costs	46	-	76,900
Administration expenses	47	2,903,247	2,517,904
Salaries, pension contributions and other staff benefits	48(a)	3,727,870	3,378,873
Commission and sales expenses	48(b)	3,186,483	2,897,686
Depreciation	14	215,024	192,939
Amortisation of intangible assets	18	269,131	271,134
Premium and other taxes	49	551,052	343,614
		10,861,062	9,715,182
		<b>24,624,411</b>	<b>22,031,209</b>
<b>Profit before Taxation</b>		6,850,848	6,638,676
Taxation	49	(863,230)	(884,209)
<b>NET PROFIT</b>		<b>5,987,618</b>	<b>5,754,467</b>
<b>Attributable to:</b>			
Stockholders of the parent company		5,790,660	5,522,830
Non-controlling interests		196,958	231,637
		<b>5,987,618</b>	<b>5,754,467</b>
<b>Earnings per stock unit for profit attributable to the stockholders of the company during the year:</b>			
Basic and fully diluted	50	1.54	1.47

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

## Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	2012 \$'000	2011 \$'000
<b>Net profit for the year</b>	<b>5,987,618</b>	<b>5,754,467</b>
<b>Other comprehensive income:</b>		
Available-for-sale investments:		
Unrealised gains on available-for-sale investments	890,196	890,979
Gains reclassified and reported in profit	(768,714)	(843,616)
	<u>121,482</u>	<u>47,363</u>
Owner-occupied properties:		
Unrealised (losses)/gains on owner-occupied properties	(56,368)	1,980
Cash flow hedge:		
Gains reclassified and reported in profit	(38,220)	(7,762)
Retranslation of foreign operations	551,579	10,637
Total other income recognised directly in stockholders' equity, net of taxes	<u>578,473</u>	<u>52,218</u>
<b>Total Comprehensive Income</b>	<b>6,566,091</b>	<b>5,806,685</b>
<b>Total Comprehensive Income attributable to:</b>		
Stockholders of the parent company	6,468,107	5,541,168
Non-controlling Interests	97,984	265,517
	<u>6,566,091</u>	<u>5,806,685</u>

Items in the statement above are stated net of taxes. The income tax relating to each component of other comprehensive income is disclosed in Note 49(c).

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

Note	Attributable to owners of the parent								Non-controlling Interests Total	Grand Total
	Share Capital	Stock Options Reserve	Investment and Fair Value Reserves	Currency Translation Reserve	Other Reserves	Retained Earnings	Equity Owners' Total			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
<b>Balance at 31 December 2010</b>	7,854,938	105,498	833,083	1,135,147	1,773,464	13,500,914	25,203,044	1,528,892	26,731,936	
Total comprehensive income for the year	-	-	7,701	10,637	-	5,522,830	5,541,168	265,517	5,806,685	
Transactions with owners -										
Dilution of interest in subsidiary	-	-	-	-	-	-	-	70,053	70,053	
Employee share option scheme - value of services provided	-	45,488	-	-	-	-	45,488	2,937	48,425	
Employee stock grants and options exercised/expired	-	(55,091)	-	-	-	-	(55,091)	(3,250)	(58,341)	
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(100,907)	(100,907)	
Dividends paid to owners of the parent	30	-	-	-	-	(2,444,643)	(2,444,643)	-	(2,444,643)	
Total transactions with owners	-	(9,603)	-	-	-	(2,444,643)	(2,454,246)	(31,167)	(2,485,413)	
Transfers between reserves -										
To retained earnings reserve	-	-	-	-	27,384	(27,384)	-	-	-	
To capital redemption reserve	25	-	-	-	524,038	(524,038)	-	-	-	
To special investment reserve	2(s)	-	-	-	12,147	(12,147)	-	-	-	
To retained earnings	2(t)	-	-	(52,609)	-	52,609	-	-	-	
Adjustment between regulatory loan provisioning and IFRS	29(b)	-	-	-	92,577	(92,577)	-	-	-	
Total transfers between reserves	-	-	(52,609)	-	656,146	(603,537)	-	-	-	
<b>Balance at 31 December 2011</b>	<b>7,854,938</b>	<b>95,895</b>	<b>788,175</b>	<b>1,145,784</b>	<b>2,429,610</b>	<b>15,975,564</b>	<b>28,289,966</b>	<b>1,763,242</b>	<b>30,053,208</b>	

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity (Continued)

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

Note	Attributable to owners of the parent								Grand Total
	Share Capital	Stock Options Reserve	Investment and Fair Value Reserves	Currency Translation Reserve	Other Reserves	Retained Earnings	Equity Owners' Total	Non-controlling Interests Total	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>Balance at 31 December 2011</b>	7,854,938	95,895	788,175	1,145,784	2,429,610	15,975,564	28,289,966	1,763,242	30,053,208
Total comprehensive income for the year	-	-	125,868	551,579	-	5,790,660	6,468,107	97,984	6,566,091
Transactions with owners -									
Employee share option scheme - value of services provided	-	29,719	-	-	-	-	29,719	916	30,635
Employee stock grants and options exercised/expired	-	(37,386)	-	-	-	-	(37,386)	-	(37,386)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	(105,495)	(105,495)
Dividends paid to owners of the parent	30	-	-	-	-	(2,106,156)	(2,106,156)	-	(2,106,156)
Total transactions with owners	-	(7,667)	-	-	-	(2,106,156)	(2,113,823)	(104,579)	(2,218,402)
Transfers between reserves -									
To retained earnings reserve	-	-	-	-	427,250	(427,250)	-	-	-
To special investment reserve	2(s)	-	-	-	5,603	(5,603)	-	-	-
To retained earnings	2(t)	-	-	(30,108)	-	30,108	-	-	-
Adjustment between regulatory loan provisioning and IFRS	29(b)	-	-	-	1,927	(1,927)	-	-	-
Total transfers between reserves	-	-	(30,108)	-	434,780	(404,672)	-	-	-
<b>Balance at 31 December 2012</b>	7,854,938	88,228	883,935	1,697,363	2,864,390	19,255,396	32,644,250	1,756,647	34,400,897

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

## Consolidated Statement of Changes in Equity (Continued)

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

Note	Other Reserves				Total
	Capital redemption reserve	Special investment reserve	Loan loss reserve	Retained earnings reserve	
	\$'000	\$'000	\$'000	\$'000	
<b>Balance at 31 December 2010</b>	561,980	148,923	(12,116)	1,074,677	1,773,464
Transfer to capital redemption reserve	25	524,038	-	-	524,038
Transfer to special investment reserve	2(s)	-	12,147	-	12,147
Transfer to retained earnings reserve		-	-	27,384	27,384
Adjustment between regulatory loan provisioning and IFRS	29(b)	-	-	92,577	92,577
<b>Balance at 31 December 2011</b>	1,086,018	161,070	80,461	1,102,061	2,429,610
Transfer to special investment reserve	2(s)	-	5,603	-	5,603
Transfer to retained earnings reserve		-	-	427,250	427,250
Adjustment between regulatory loan provisioning and IFRS	29(b)	-	-	1,927	1,927
<b>Balance at 31 December 2012</b>	1,086,018	166,673	82,388	1,529,311	2,864,390

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

## Consolidated Statement of Changes in Equity (Continued)

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Investment and Fair Reserves			Total
	Available-for-sale fair value reserves	Owner-occupied properties fair value reserves	Cash flow hedges fair value reserves	
	\$'000	\$'000	\$'000	
<b>Balance at 31 December 2010</b>	350,586	485,539	(3,042)	833,083
Cash flow hedge reclassification	(3,042)	-	3,042	-
Net gains recycled to revenue on disposal and maturity of available-for-sale securities	(843,616)	-	-	(843,616)
Net unrealised losses on available-for-sale securities	(14,764)	-	-	(14,764)
Net unrealised gains on revaluation of owner-occupied properties	-	31,591	-	31,591
Deferred tax on unrealised capital gains	22,663	(29,611)	-	(6,948)
Impairment of equities	834,207	-	-	834,207
Currency translation	7,231	-	-	7,231
Total comprehensive income for the year	2,679	1,980	3,042	7,701
Transfer to retained earnings	(52,609)	-	-	(52,609)
<b>Balance at 31 December 2011</b>	300,656	487,519	-	788,175
Net gains recycled to revenue on disposal and maturity of available-for-sale securities	(728,337)	-	-	(728,337)
Net unrealised gains on available-for-sale securities	914,601	-	-	914,601
Net unrealised losses on revaluation of owner-occupied properties	-	(59,966)	-	(59,966)
Deferred tax on unrealised capital gains	(6,649)	3,598	-	(3,051)
Impairment of equities	5,355	-	-	5,355
Currency translation	(2,734)	-	-	(2,734)
Total comprehensive income for the year	182,236	(56,368)	-	125,868
Transfer to retained earnings	(30,108)	-	-	(30,108)
<b>Balance at 31 December 2012</b>	452,784	431,151	-	883,935

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

## Consolidated Statement of Cash Flows

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
<b>Cash Flows from Operating Activities</b>			
Net profit		5,987,618	5,754,467
Adjustments for:			
<b>Items not affecting cash and changes to policyholders' funds:</b>			
Depreciation	14	215,024	192,939
Interest income	41	(11,550,279)	(10,938,336)
Interest expense and finance costs	43	4,107,070	4,113,688
Income tax expense	49	863,230	884,209
Premium and other tax expense	49	551,052	343,614
Gain on disposal of investment securities		(807,987)	(1,021,023)
Gain on disposal of investment properties		(17)	-
Fair value (gains)/losses on trading securities		(208,192)	603
Impairment charge on investments, loans and other assets		21,775	835,300
Share based compensation		(8,708)	56,301
Losses on revaluation of investment properties	12	72,635	54,174
Amortisation of cash flow hedges		(59,846)	(11,643)
Gains on disposal of property, plant and equipment		(1,709)	(4,591)
Amortisation of intangible assets	18	269,131	271,134
Increase in policyholders' funds		584,718	47,942
Net movement in actuarial liabilities		3,403,028	3,263,976
Retirement benefit obligations		165,440	162,929
Effect of exchange gains on foreign currency balances		(895,471)	(144,921)
		<u>(3,279,106)</u>	<u>(1,893,705)</u>
<b>Changes in other operating assets and liabilities:</b>			
Statutory reserves at Bank of Jamaica		(207,119)	(59,087)
Securities sold under repurchase agreements		(1,960,283)	5,170,239
Structured products and derivatives		784,181	(219,095)
Stock grants		110,480	63,997
Reinsurance contracts		1,143	(55,931)
Due from/(to) related parties		(743,675)	(217,535)
Customer deposits and other accounts		(29,897)	1,532,397
Other assets, net		(1,710,457)	(275,159)
Other liabilities, net		(2,221,557)	2,174,942
		<u>(5,977,184)</u>	<u>8,114,768</u>
Net investment purchases:			
Proceeds on sale of investment securities		18,603,077	78,579,086
Proceeds on sale of investment properties		122,017	10,500
Purchase of investment securities		(19,723,810)	(95,563,921)
Purchase of investment property		(11,064)	-
Loans		518,959	292,028
Lease receivables		(46,532)	3,501
		<u>(537,353)</u>	<u>(16,678,806)</u>
		<b>(3,806,025)</b>	<b>(4,703,276)</b>
Interest received		11,544,328	10,588,362
Interest paid		(4,106,351)	(3,959,851)
Taxes paid		(952,829)	(1,019,353)
Net cash provided by operating activities		<u>2,679,123</u>	<u>905,882</u>

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

## Consolidated Statement of Cash Flows (Continued)

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
<b>Cash Flows from Operating Activities</b>		<u>2,679,123</u>	<u>905,882</u>
<b>Cash Flows from Investing Activities</b>			
Purchase of property, plant and equipment	14	(427,887)	(226,039)
Proceeds from sale of property, plant and equipment		4,407	4,885
Purchase of intangible assets	18	(88,933)	(69,413)
Net cash used in investing activities		<u>(512,413)</u>	<u>(290,567)</u>
<b>Cash Flows from Financing Activities</b>			
Dividends paid to stockholders		(2,106,156)	(2,444,643)
Dividends paid to non-controlling interests		(105,495)	(100,907)
Redemption of preference shares		-	(612,852)
Dilution of interest in subsidiary		-	18,490
Net cash used in financing activities		<u>(2,211,651)</u>	<u>(3,139,912)</u>
Effect of exchange rate on cash and cash equivalents		253,267	(9,056)
Decrease in cash and cash equivalents		(44,941)	(2,524,597)
Cash and cash equivalents at beginning of year		3,343,863	5,877,516
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	6	<u>3,552,189</u>	<u>3,343,863</u>

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

# Company Statement of Financial Position

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
<b>ASSETS:</b>			
Cash resources	6	510,215	277,925
Financial investments	8	45,154,211	42,461,748
Securities purchased under resale agreements	9	1,415,104	448,263
Lease receivables	11	1,767	1,767
Investment properties	12	373,181	479,800
Investment in associated company	13	2,725	2,725
Property, plant and equipment	14	1,328,930	1,312,264
Retirement benefit assets	15	184,482	184,482
Reinsurance contracts	16	101,640	97,555
Intangible assets	18	2,223,774	2,331,722
Taxation recoverable		833,951	384,220
Other assets	20	4,253,019	3,397,055
Investment in subsidiaries	23	20,277,067	17,621,027
Segregated funds' assets	21	<u>11,221,791</u>	<u>10,996,907</u>
<b>Total Assets</b>		<u><b>87,881,857</b></u>	<u><b>79,997,460</b></u>

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

# Company Statement of Financial Position (Continued)

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
<b>STOCKHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Stockholders' Equity</b>			
Share capital	24	7,854,938	7,854,938
Capital reserve	25	2,675	2,675
Stock options reserve	26	57,499	70,547
Investment and fair value reserves	27	11,014,843	8,824,605
Special investment reserve		192,813	185,986
Retained earnings	29	<u>13,542,772</u>	<u>11,555,242</u>
<b>Total Equity</b>		<b>32,665,540</b>	<b>28,493,993</b>
<b>Liabilities</b>			
Due to banks and other financial institutions	31	4,529,676	4,445,024
Taxation payable		95,969	187,224
Deferred income taxes	19	148,563	68,587
Retirement benefit obligations	15	941,193	776,635
Other liabilities	35	2,539,148	3,423,416
<b>Policyholders' Funds</b>			
Segregated funds' liabilities	21/37	<u>11,221,791</u>	<u>10,996,907</u>
Insurance contracts liabilities	36	25,583,785	22,195,180
Investment contracts liabilities	37	8,296,332	7,650,080
Other policy liabilities	38	<u>1,859,860</u>	<u>1,760,414</u>
		46,961,768	42,602,581
<b>Total Liabilities</b>		<u><b>55,216,317</b></u>	<u><b>51,503,467</b></u>
<b>Total Stockholders' Equity and Liabilities</b>		<u><b>87,881,857</b></u>	<u><b>79,997,460</b></u>

Approved for issue by the Board of Directors on 28 February 2013 and signed on its behalf by:

Hon. R.D. Williams, O.J.

Chairman

Richard O. Byles

Director

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

## Company Income Statement

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
<b>Revenue:</b>			
Gross premium revenue	40	18,780,599	17,898,795
Insurance premium ceded to reinsurers	40	(373,696)	(213,494)
Net premium revenue	40	18,406,903	17,685,301
Investment income	41	5,036,027	5,060,967
Impairment charge	42	-	(8,362)
Interest expense	43	(648,868)	(751,908)
		4,387,159	4,300,697
Fee income -			
Administration	44	863,252	793,567
Other	44	149,909	137,502
		1,013,161	931,069
Other operating income		1,038,821	437,506
		<b>24,846,044</b>	<b>23,354,573</b>
<b>Benefits:</b>			
Insurance benefits incurred		10,098,549	8,718,899
Insurance benefits reinsured		(138,495)	(113,714)
Net insurance benefits	45	9,960,054	8,605,185
Net movement in actuarial liabilities	36(d)	2,901,517	3,370,870
<b>Expenses:</b>			
Administration expenses	47	1,747,846	1,730,368
Salaries, pension contributions and other staff benefits	48(a)	2,267,889	2,043,778
Commission and sales expenses	48(b)	2,879,769	2,613,796
Depreciation	14	150,267	134,441
Amortisation of intangible assets	18	141,715	131,397
Premium and other taxes	49	440,481	343,614
		7,627,967	6,997,394
		<b>20,489,538</b>	<b>18,973,449</b>
<b>Profit before Taxation</b>		4,356,506	4,381,124
Taxation	49	(286,101)	(294,657)
<b>NET PROFIT</b>		<b>4,070,405</b>	<b>4,086,467</b>

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

## Company Statement of Comprehensive Income

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
<b>Net profit for the year</b>		<b>4,070,405</b>	<b>4,086,467</b>
<b>Other comprehensive income:</b>			
Available-for-sale investments:			
Unrealised gains on available-for-sale investments		11,905	142,879
Losses/(gains) reclassified and reported in profit		147,186	(182,048)
		159,091	(39,169)
Owner-occupied properties:			
Unrealised (losses)/gains on owner-occupied properties		(56,368)	1,980
Unrealised gains in the fair value of subsidiaries		2,117,623	2,253,959
Total income recognised directly in stockholders' equity, net of taxes		2,220,346	2,216,770
<b>Total Comprehensive Income</b>		<b>6,290,751</b>	<b>6,303,237</b>

Items in the statement above are stated net of taxes. The income tax relating to each component of other comprehensive income is disclosed in Note 49(c).

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

# Company Statement of Changes in Equity

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

Note	Share Capital	Capital Reserve	Stock Options Reserve	Investment and Fair Value Reserves	Special Investment Reserve	Retained Earnings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 31 December 2010</b>	7,854,938	2,675	78,489	6,660,444	173,839	9,872,956	24,643,341
Total comprehensive income for the year	-	-	-	2,216,770	-	4,086,467	6,303,237
Transactions with owners -							
Employee share option scheme – value of services provided	-	-	27,937	-	-	-	27,937
Employee share grants and options exercised	-	-	(35,879)	-	-	-	(35,879)
Dividends paid to owners	30	-	-	-	-	(2,444,643)	(2,444,643)
Total transactions with owners	-	-	(7,942)	-	-	(2,444,643)	(2,452,585)
Transfers between reserves -							
To special investment reserve	2(s)	-	-	-	12,147	(12,147)	-
To retained earnings	2(t)	-	-	(52,609)	-	52,609	-
Total transfers between reserves	-	-	-	(52,609)	12,147	40,462	-
<b>Balance at 31 December 2011</b>	7,854,938	2,675	70,547	8,824,605	185,986	11,555,242	28,493,993
Total comprehensive income for the year	-	-	-	2,220,346	-	4,070,405	6,290,751
Transactions with owners -							
Employee share option scheme – value of services provided	-	-	23,337	-	-	-	23,337
Employee share grants and options exercised/expired	-	-	(36,385)	-	-	-	(36,385)
Dividends paid to owners	30	-	-	-	-	(2,106,156)	(2,106,156)
Total transactions with owners	-	-	(13,048)	-	-	(2,106,156)	(2,119,204)
Transfers between reserves -							
To special investment reserve	2(s)	-	-	-	6,827	(6,827)	-
To retained earnings	2(t)	-	-	(30,108)	-	30,108	-
<b>Balance at 31 December 2012</b>	7,854,938	2,675	57,499	11,014,843	192,813	13,542,772	32,665,540

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.



## Company Statement of Cash Flows

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
<b>Cash Flows from Operating Activities</b>			
Net profit		4,070,405	4,086,467
Adjustments for:			
<b>Items not affecting cash and changes to policyholders' funds:</b>			
Depreciation	14	150,267	134,441
Interest income	41	(4,377,375)	(4,038,803)
Interest expense	43	648,868	751,908
Income tax expense	49	286,101	294,657
Premium and other tax expense	49	440,481	343,614
Gain on disposal of investment securities		(32,419)	(536,547)
Gain on disposal of investment properties		(17)	-
Impairment charge		-	8,362
Share based compensation		(15,003)	(7,941)
(Gains)/losses on revaluation of investment properties	12	(4,317)	5
Gains on disposal of property, plant and equipment		(1,560)	(3,097)
Amortisation of intangible assets	18	141,715	131,397
Increase in policyholders' funds		651,032	374,207
Net movement in actuarial liabilities	36(d)	2,901,517	3,370,870
Retirement benefit obligations		164,558	166,144
Effect of exchange gains on foreign currency balances		(479,538)	(84,007)
		<u>474,310</u>	<u>905,210</u>
<b>Changes in other operating assets and liabilities:</b>			
Due from/(to) related companies		(150,626)	47,560
Reinsurance contracts		(4,085)	(53,533)
Share based compensation		110,480	63,997
Other assets, net		(1,176,854)	123,881
Other liabilities, net		(955,122)	3,956,079
		<u>(2,176,207)</u>	<u>4,137,984</u>
Net investment purchases:			
Purchase of investment securities		(5,400,040)	(20,406,923)
Proceeds from the sale of investment securities		4,029,988	12,586,319
Purchase of investment property		(11,064)	-
Proceeds on sale of investment properties		122,017	10,500
		<u>(1,259,099)</u>	<u>(7,810,104)</u>
		<b>1,109,409</b>	<b>1,319,557</b>
Interest received		4,343,746	3,914,272
Interest paid		(767,761)	(635,935)
Taxes paid		(566,912)	(853,815)
<b>Net cash provided by operating activities</b>		<b>4,118,482</b>	<b>3,744,079</b>

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

## Company Statement of Cash Flows (Continued)

Year ended 31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2012 \$'000	2011 \$'000
<b>Cash Flows from Operating Activities</b>		<b>4,118,482</b>	<b>3,744,079</b>
<b>Cash Flows from Investing Activities</b>			
Investment in subsidiaries	23	(538,417)	(2,439,437)
Purchase of property, plant and equipment	14	(229,534)	(165,246)
Proceeds from sale of property, plant and equipment		4,195	3,391
Purchase of intangible assets	18	(33,767)	(27,663)
Net cash used in investing activities		<u>(797,523)</u>	<u>(2,628,955)</u>
<b>Cash Flows from Financing Activities</b>			
Dividends paid to stockholders		(2,106,156)	(2,444,643)
Net cash used in financing activities		<u>(2,106,156)</u>	<u>(2,444,643)</u>
Effect of exchange rate on cash and cash equivalents		3,994	1,578
Increase/(decrease) in cash and cash equivalents		1,214,803	(1,329,519)
Cash and cash equivalents at beginning of year		641,714	1,969,655
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	6	<b>1,860,511</b>	<b>641,714</b>

The accompanying notes on pages 80 - 160 form an integral part of these financial statements.

# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 1. Identification and Activities

- (a) Sagicor Life Jamaica Limited (SLJ, the company) is incorporated and domiciled in Jamaica and is listed on the Jamaica Stock Exchange. It is 33.70% (2011 – 41.90%) owned by LOJ Holdings Limited which is also incorporated and domiciled in Jamaica. The ultimate parent company is Sagicor Financial Corporation (Sagicor), which is incorporated and domiciled in Barbados. Sagicor has an overall interest of 51.00% (2011 - 59.20%) in Sagicor Life Jamaica Limited. The other significant shareholder in Sagicor Life Jamaica Limited is Pan-Jamaica Investment Trust Limited with a 32.76% (2011 - 24.78%) holding.

The main activities of the company include the provision of life and health insurance, annuities and retirement products, pensions administration, and investment services. The registered office of the company is located at 28 - 48 Barbados Avenue, Kingston 5, Jamaica.

The company is registered to conduct business under the Jamaica Insurance Act.

- (b) The company, its subsidiaries and associate all have co-terminous year ends. The company's subsidiaries and associate, which together with the company are referred to as "the Group", are as follows:

Subsidiaries	Principal Activities	Incorporated In	Holding
Sagicor Life of the Cayman Islands Ltd. and its subsidiaries –	Life insurance	Grand Cayman	100%
Sagicor Insurance Managers Ltd	Captives management	Grand Cayman	100%
Sagicor X Funds SPC Ltd	Financial services (holding company)	St. Lucia	100%
Employee Benefits Administrator Limited	Pension administration services	Jamaica	100%
Sagicor Property Services Limited	Property management, real estate sales and rentals	Jamaica	100%
Sagicor Pooled Investment Funds Limited	Pension fund management (Note 1(c))	Jamaica	100%
Sagicor Re Insurance Limited	Property and casualty insurance (captive)	Grand Cayman	100%
Sagicor Insurance Brokers Limited	Insurance brokerage	Jamaica	100%
Sagicor International Administrators Limited	Group insurance administration	Jamaica	100%
Health Corporation of Jamaica Limited	Health management services (dormant)	Jamaica	100%
Sagicor St. Lucia Limited and its joint venture company	Financial services (holding company)	St. Lucia	100%
Sagicor Costa Rica SCR, S.A	Life insurance	Costa Rica	50%

## 1. Identification and Activities (Continued)

- (b) (Continued)

Subsidiaries	Principal Activities	Incorporated In	Holding
Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited) and its subsidiaries:	Investment banking	Jamaica	85.45%
Sagicor Bank Jamaica Limited (formerly PanCaribbeanBank Limited)	Commercial banking	Jamaica	85.45%
Pan Caribbean Asset Management Limited (PCAM)	Inactive	Jamaica	85.45%
Manufacturers Investments Limited (MIL)	Inactive	Jamaica	85.45%
Pan Caribbean Investments Limited (PCIL)	Inactive	Jamaica	85.45%
Pan Caribbean Securities Limited (PCSL)	Inactive	Jamaica	85.45%

- (c) Sagicor Pooled Investment Funds Limited administers assets of the Pooled Pension Investment Funds which are held in trust, on behalf of pension funds. At 30 September 2012, the audited assets totaled \$56,057,264,000 (2011 - \$51,980,223,000). At 31 December 2012, the unaudited assets totaled \$58,175,714,000 (2011 - \$53,545,029,000).

- (d) The company also administers a number of self-directed pension funds on behalf of clients. At 31 December 2012, the unaudited assets of these funds totalled \$21,549,530,000 (2011 - \$20,854,395,000).

# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 2. Summary of Significant Accounting Policies

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

### (a) Basis of preparation

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and have been prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities, investment property, certain property, plant and equipment, and financial assets and liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. Although these estimates are based on management's best knowledge of current events and action, actual results could differ from these estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

### *Interpretations and amendments to published standards effective 1 January 2012 that are relevant to the Group's operations*

- Amendments to IFRS 7, 'Financial instruments: Disclosures' on transfers of assets (effective 1 July 2011). These amendments arise from the IASB's review of off-balance-sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets. There was no impact in the current year from adoption of this amendment.

### *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been issued which were not effective at the year end date, and which the Group has not early adopted. The Group has assessed the relevance of all such new standards, interpretations and amendments, and has determined that the following may be relevant to its operations, and has concluded as follows:

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in Other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. This amendment is effective for annual periods beginning on or after 1 July 2012. The Group will apply this amendment from 1 January 2013, however, all the items in OCI are currently reclassifiable to profit or loss.

## 2. Summary of Significant Accounting Policies (Continued)

### (a) Basis of preparation (continued)

#### *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)*

- IAS 19, 'Employee benefits' (effective for annual periods beginning on or after 1 January 2013). The amendment was issued in June 2011 and its impact on the Group will be as follows: to eliminate the corridor approach and recognise all actuarial gains and losses in OCI as they occur; to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group is in the process of assessing the full impact of the amendments on the financial statements.
- IAS 28 (Revised), 'Investments in Associates and Joint Ventures', (effective for annual periods beginning on or after 1 January 2013). IAS 28 (Revised) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. This standard is not expected to have a significant impact on the Group's financial statements.
- IFRS 7, Disclosures – Offsetting financial assets and financial liabilities (effective for annual periods beginning on or after 1 January 2013). These amendments require an entity to disclose information about the rights to offset and related arrangements (example collateral arrangements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. These amendments are not expected to have a significant impact on the Group's financial statements.
- IFRS 9, 'Financial instruments' (effective for annual periods beginning on or after 1 January 2015). IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 replaces the parts of IAS 39, 'Financial instruments: Recognition and measurement', that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair model option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted for financial assets without adopting the requirements for financial liabilities. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

- IFRS 10, 'Consolidated Financial Statements', (effective for annual periods beginning on or after 1 January 2013). IFRS 10 replaces all of the guidance on control and consolidation in IAS 27, 'Consolidated and Separate Financial Statements', and SIC-12, 'Consolidation – Special Purpose Entities'. IAS 27 (Revised) now renamed 'Separate Financial Statements'. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard might impact the entities that a group consolidates as its subsidiaries. The Group is currently assessing the impact of future adoption of this standard on its financial statements.

## 2. Summary of Significant Accounting Policies (Continued)

### (a) Basis of preparation (continued)

**Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)**

- IFRS 11, 'Joint Arrangements', (effective for annual periods beginning on or after 1 January 2013). IFRS 11 provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is currently assessing the impact of future adoption of this standard on its financial statements.
- IFRS 12, 'Disclosure of Interests in Other Entities', (effective for annual periods beginning on or after 1 January 2013). IFRS 12 requires entities to disclose information that helps financial statement users to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The Group is currently assessing the impact of future adoption of this standard on its financial statements.
- IFRS 13, 'Fair Value Measurement', (effective for annual periods beginning on or after 1 January 2013). IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The requirements are similar to those in IFRS 7, 'Financial Instruments: Disclosures', but apply to all assets and liabilities measured at fair value, not just financial assets and liabilities. The Group is currently assessing the impact of future adoption of this standard on its financial statements.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

## 2. Summary of Significant Accounting Policies (Continued)

### (b) Basis of consolidation

- (i) Subsidiaries  
Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises non-controlling interest in the acquiree on an acquisition by acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the parent are reported in consolidated equity as non-controlling interest. Profits or losses attributable to non-controlling interests are reported in the consolidated comprehensive income as profit or loss attributable to non-controlling interests.

# Notes to the Financial Statements

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## 2. Summary of Significant Accounting Policies (Continued)

### (b) Basis of consolidation (continued)

#### (ii) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The Group's investment in associates may include intangible assets (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associate's post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### (iii) Joint ventures

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

### (c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the Board of Directors.

### (d) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

The consolidated financial statements are presented in Jamaican dollars, which is the Group's presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined. These rates represent the weighted average rates at which the company trades in foreign currency.

## 2. Summary of Significant Accounting Policies (Continued)

### (d) Foreign currency translation (continued)

#### (ii) Transactions and balances (continued)

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as gains or losses from qualifying cash flow hedging instruments.

All foreign exchange gains and losses recognised in the income statement are presented net in the income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in other comprehensive income.

#### (iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses for each income statement are translated at average exchange rates; and
- All resulting exchange differences are recognised as a separate component of stockholders' equity in the currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and borrowings are taken to stockholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

# Notes to the Financial Statements

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## 2. Summary of Significant Accounting Policies (Continued)

### (e) Cash and cash equivalents

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

- cash balances,
- short term deposits,
- other liquid securities with maturities of three months or less from the acquisition date,
- bank overdrafts which are repayable on demand; and
- 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. Cash and cash equivalents exclude balances held to meet statutory requirements.

### (f) Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

#### (i) Financial asset at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

#### (ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are initially recognised at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs.

#### (iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity assets, the entire category would be re-classified as available-for-sale. Held-to-maturity investments are initially recognised at fair value, which is the cash consideration including any transaction costs.

#### (iv) Available-for-sale financial assets

Available-for-sale investments are non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available-for-sale investments are initially recognised at fair value, which is the cash consideration including any transaction costs.

## 2. Summary of Significant Accounting Policies (Continued)

### (f) Financial assets (continued)

Purchases and sales of available-for-sale financial assets are recognised at the trade date – the date on which the Group commits the purchase or sell the asset. Loans and receivables are recognised when cash is advanced to the borrowers.

Subsequent to initial recognition at cost, financial assets at fair value through profit or loss and available-for-sale financial assets are carried at fair value. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in consolidated statement of comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in the consolidated statement of comprehensive income is recognised in profit or loss. However, interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. Unquoted securities are recorded initially at cost. They are subsequently measured at fair value. Where fair value cannot be measured reliably they are measured at cost less impairment.

Financial assets are derecognised when the right to received cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

The Group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

# Notes to the Financial Statements

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## 2. Summary of Significant Accounting Policies (Continued)

### (g) Investment properties

Properties held for long-term rental yields that are not occupied by the companies within the Group are classified as investment properties.

Investment properties comprise freehold land and buildings and are carried at fair value, representing open market value determined annually by external valuers. Investment properties that are being redeveloped for continuing use as investment properties, or for which the market has become less active, continue to be measured at fair value.

Changes in the fair values of investment properties are recorded in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment and its fair value at the date of reclassification becomes the cost for subsequent accounting purposes.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference arising between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through the income statement.

### (h) Securities purchased/sold under agreements to resell/repurchase

Securities purchased under agreements to resell (reverse repurchase agreements) and securities sold under agreements to repurchase (repurchase agreements) are treated as collateralised financing transactions and are recorded at the amount at which the securities were acquired or sold plus accrued interest.

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

## 2. Summary of Significant Accounting Policies (Continued)

### (i) Leases

#### (i) As lessee

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are recognised at the inception of the lease at the lower of the fair value of the leased asset or the present value of minimum lease payments. Each lease payment is allocated between the liability and interest charges so as to produce a constant rate of charge on the lease obligation. The interest element of the lease payments is charged to the income statement over the lease period.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

#### (ii) As lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease in a manner which reflects a constant periodic rate of return on the net investment in the lease.

Assets leased out under operating leases are included in property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives on a basis consistent with similar owned assets. Rental income is recognised on a straight-line basis over the lease term.

### (j) Acceptances and guarantees

The Group's potential liability under acceptances and guarantees is reported as commitments off the statement of financial position.

### (k) Impairment of assets

#### (i) Assets carried at amortised cost

The Group assesses at each year end date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

# Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

## 2. Summary of Significant Accounting Policies (Continued)

### (k) Impairment of assets (continued)

#### (i) Assets carried at amortised cost (continued)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

For non-performing and impaired loans the accrual of interest income based on the original terms of the loan is discontinued. Jamaican banking regulations require that interest on non-performing loans be taken into account on the cash basis. IFRS require the increase in the present value of impaired loans due to the passage of time to be reported as interest income. The difference between the Jamaican regulatory basis and IFRS was assessed to be immaterial.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

## 2. Summary of Significant Accounting Policies (Continued)

### (k) Impairment of assets (continued)

#### (i) Assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

Statutory and other regulatory loan loss reserve requirements that are different from these amounts are dealt with in a non-distributable loan loss reserve as an adjustment to retained earnings.

#### (ii) Assets classified as available-for-sale

For an available for sale equity security, an impairment loss is recognized 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 judgment 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 amortized 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 recognized, the previously recognized impairment loss is reversed, and the amount of the reversal is recognized in revenue.

#### (iii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

#### (iv) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

### (l) Investment in subsidiaries

Investments in subsidiaries are stated in the company's financial statements initially at cost. They are subsequently measured at fair value.



# Notes to the Financial Statements

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## 2. Summary of Significant Accounting Policies (Continued)

### (m) Property, plant and equipment

Freehold land and buildings owned and used by the Group are treated as owner-occupied properties. These properties are stated at their fair values based on valuations by external valuers, less subsequent depreciation for buildings. All other property, plant and equipment are stated at historical cost less accumulated depreciation.

Increases in the carrying amounts arising from the revaluation of owner-occupied properties are included in the investment and fair value reserves. Decreases that offset previous increases of the same asset are charged against the investment and fair value reserves. All other reductions are taken directly to the income statement.

Depreciation is calculated on the straight-line basis at annual rates that will write off the carrying value of each asset over the period of its expected useful life. Annual depreciation rates are as follows:

Freehold buildings	2.5%
Leasehold improvements	Period of lease, not to exceed ten years
Computer equipment	20 - 33 $\frac{1}{3}$ %
Furniture	10%
Other equipment	15%
Motor vehicles	20%
Leased assets	Shorter of period of lease or useful life of asset

Land is not depreciated.

Property, plant and equipment are periodically reviewed for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the income statement when the expenditure is incurred. On disposal of revalued assets, the revaluation amounts are transferred to retained earnings.

### (n) Real estate developed for sale

Construction in progress for resale are classified as real estate held for resale and are valued at the lower of cost and net realisable value. Gains and losses realised on the sale of real estate are included in revenue at the time of sale.

### (o) Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investment in associates.

## 2. Summary of Significant Accounting Policies (Continued)

### (o) Intangible assets (continued)

#### (i) Goodwill (continued)

Goodwill arising on the acquisition of subsidiaries and insurance portfolios is calculated as the amount by which the consideration paid and other related expenses exceed the fair value of the net identifiable assets acquired.

At each year end date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

An excess of the identifiable net assets acquired over the acquisition cost is treated as negative goodwill. Negative goodwill related to expected post-acquisition losses is taken to income during the period the future losses are recognised. Negative goodwill which does not relate to expected future losses and expenses is recognised as income immediately.

#### (ii) Contractual customer relationships acquired as part of a business combination

The accounting policy in respect of intangible assets arising from insurance contracts acquired in a business combination and portfolio transfer is also described in Note (2(x)).

#### (iii) Trademarks and licences

Trademarks and licences are shown at historical cost. They have a definite useful life and are carried at cost less accumulated amortisation and impairment. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful life.

#### (iv) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their expected useful life of three years.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development team's employee costs and an appropriate portion of relevant overheads. All other costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

Intangible assets with indefinite useful lives are assessed for impairment annually, or more frequently if events changed in circumstances indicate a potential impairment.

## 2. Summary of Significant Accounting Policies (Continued)

### (p) Employee benefits

#### (i) Pension obligations

The company and its subsidiaries operate a number of defined benefit and defined contribution plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are funded by payments from employees and by the relevant companies, taking into account the recommendations of qualified actuaries.

The asset or liability in respect of defined benefit plans is the difference between the present value of the defined benefit obligation at the year end date and the fair value of plan assets, adjusted for unrecognised actuarial gains/losses, past service costs and any unrecognised assets. Where a pension asset arises, the amount recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reduction in future contributions to the plan. The pension costs are assessed using the Projected Unit Credit Method. Under this method, the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of the employees in accordance with the advice of the actuaries, who carry out a full valuation of the plans every year in accordance with IAS 19. The pension obligation is measured as the present value of the estimated future cash outflows using estimated discount rates based on market yields on government securities which have terms to maturity approximating the terms of the related liability.

A portion of actuarial gains and losses is recognised in the income statement if the net cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceeded 10 percent of the greater of the present value of the gross defined benefit obligation and the fair value of plan assets at that date. Any excess actuarial gains or losses are recognised in the income statement over the average remaining service lives of the participating employees.

Contributions to defined contribution plans are charged to the income statement in the period to which they relate.

#### (ii) Other post-retirement obligations

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

#### (iii) Annual leave

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the year end date.

## 2. Summary of Significant Accounting Policies (Continued)

### (p) Employee benefits (continued)

#### (iv) Share-based compensation

The Group operates an equity-settled, share-based compensation plan.

#### Share options

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each statement of financial position date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to over the remaining vesting period. The proceeds received net of any directly attributable transaction costs, plus the fair value of the options are credited to share capital when the options are exercised.

#### Share grants

The market value of the shares issued at grant date is recognised as an expense when granted.

#### Share purchase plan

Employees of the company are also eligible to purchase shares in the company under a share purchase plan.

#### (v) Productivity bonus plan

The Group recognises a liability and an expense for productivity bonuses as profit-sharing, paid to non-executive administrative staff based on a formula that takes into consideration the profit attributable to the company's stockholders. The Group recognises a provision where contractually obliged or where past practice has created a constructive obligation.

#### (vi) 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 separation. Benefits falling due more than twelve months after the year end date are discounted to present value.

### (q) Segregated funds

The Group manages a number of segregated funds on behalf of policyholders. The investment returns on these unitheld funds accrue directly to the policyholders, with the Group assuming no risk. Consequently, these funds are segregated and presented separately from the general fund of the Group. Income earned from fund management fees is included in other income in the consolidated income statement. Investments held in segregated funds are carried at their fair values. Unit values are determined by dividing the value of the assets in the funds on a valuation date by the number of units in the funds on the valuation date.

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## 2. Summary of Significant Accounting Policies (Continued)

### (r) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets.

- (i) Share issuance cost  
Incremental costs directly attributable to the issue of new shares or options are shown in stockholders' equity as a deduction from the proceeds.
- (ii) Mandatorily redeemable preference shares are classified as liabilities (Note 2(u)).
- (iii) Dividends on ordinary shares are recognised in stockholders' equity in the period in which they are approved by the company's Board of Directors.

Dividends for the year that are declared after the year end date are dealt with in the subsequent events note.

### (s) Special investment reserve

Unrealised gains on investment properties are recorded in the income statement under IFRS. Regulatory reserve requirements are met through the following:

- (i) Net unrealised gains brought forward at the beginning of each year are transferred from the special investment reserve to retained earnings at 10%.
- (ii) Net unrealised gains earned during the year are transferred from retained earnings to the special investment reserve at 90%.

### (t) Transfers to retained earnings

Unrealised gain on quoted equities is recorded in the investment and fair value reserves under IFRS. Regulatory reserve requirements are met by transferring the following:

- (i) Net unrealised gains brought forward at the beginning of each year are transferred from the investment and fair value reserves to retained earnings at 25%.
- (ii) Net unrealised gains earned during the year are transferred from the investment and fair value reserves to the retained earnings at 25%.

## 2. Summary of Significant Accounting Policies (Continued)

### (u) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently are stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

### (v) Structured products

Structured products are recognised initially at the nominal amount when funds are received. Derivatives are separately accounted for at fair value through profit or loss (Note 2(ff)). The non-derivative elements are stated at amortised cost using the effective interest method.

### (w) Deposits

Deposits are recognised initially at the nominal amount when funds are received. Deposits are subsequently stated at amortised cost using the effective yield method.

### (x) Insurance and investment contracts

#### (i) Classification

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

The Group defines insurance risk as an insured event that could cause an insurer to pay significant additional benefits in a scenario that has a discernable effect on the economics of the transaction. Insurance contracts transfer insurance risk and may also transfer financial risk. Once a contract has been classified as an insurance contract, it remains an insurance contract for its duration, even if the insurance risk reduces significantly over time. Investment contracts transfer financial risk and no significant insurance risk. Financial risk includes credit risk, liquidity risk and market risk.

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

#### (ii) Recognition and measurement

Insurance contracts and investment contracts issued by the Group are summarised below:

##### (1.1) Short-term insurance contracts

These contracts are casualty, property and short-duration life and health insurance contracts.

Casualty insurance contracts protect the Group's customers against the risk of causing harm to third parties as a result of their legitimate activities. Damages covered include both contractual and non-contractual events. The typical protection offered is designed for employers who become legally liable to pay compensation to injured employees (employers' liability) and for individual and business customers who become liable to pay compensation to a third party for bodily harm or property damage (public liability).

Property insurance contracts mainly compensate the Group's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 2. Summary of Significant Accounting Policies (Continued)

### (x) Insurance and investment contracts (continued)

#### (ii) Recognition and measurement (continued)

##### (1.1) Short-term insurance contracts (continued)

Short duration life and health insurance contracts protect the Group's customers from the consequences of events (such as sickness, death and disability) that would affect the ability of the customer or his/her dependents to maintain their current level of income. Guaranteed benefits paid on occurrence of the specified insurance event are either fixed or linked to the extent of economic loss suffered by the policyholder. There are no maturity or surrender benefits.

For most of these contracts, premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the year end date is reported as the unearned premium liability. Premiums are shown before deduction of commission.

Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders. They include claims settlement costs and arise from events that have occurred up to the year end date even if they have not yet been reported to the Group. Significant delays may be experienced in the notification and settlement of certain types of claims, particularly in respect of liability business, the ultimate cost of which cannot be known with certainty at the year end date. Provision for certain claims is therefore discounted using rates having regard to the returns generated by the assets supporting the liabilities. Liabilities for unpaid claims are estimated using case reserves, statistical analyses for the claims incurred but not reported and a provision for unallocated loss adjustment expenses.

##### (1.2) Long-term traditional insurance contracts -

These contracts are traditional participating and non-participating policies. The Group's participating policies do not have a discretionary participation feature (1.3) as the amount of additional benefits is not paid at the discretion of the Group.

The policy reserves have been calculated using the Policy Premium Method (PPM) of valuation. Under this method, explicit allowance is made for all future benefits and expenses under the policies and expected earned investment income. The premiums, benefits and expenses for each policy are projected and the resultant future cash flows are discounted back to the valuation date to determine the reserves.

The process of calculating policy reserves necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, persistency rates, future investment yields and future expense levels. Consequently, these liabilities include reasonable provisions for adverse deviations from the estimates.

An actuarial valuation is prepared at least annually. Changes in the policyholders' liabilities are recorded in the income statement.

Maturities and annuities are accounted for when due.

## 2. Summary of Significant Accounting Policies (Continued)

### (x) Insurance and investment contracts (continued)

#### (ii) Recognition and measurement (continued)

##### (1.2) Long-term traditional insurance contract (continued)

Death and disability claims and surrenders are recognised in the financial statements in the year in which they have been notified.

These contracts insure events associated with human life (for example death, or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission.

Benefits are recorded as an expense when they are incurred.

##### (1.3) Long-term insurance contracts without fixed terms and without discretionary participation features (DPF) –

A DPF is a contractual right to receive, as a supplement to the guaranteed benefit, additional benefits:

- That are likely to be a significant portion of the total contractual benefits;
- Whose amount or timing is contractually at the discretion of the issuer; and
- That are contractually based on:
  - The performance of a specified pool of contracts or specified type of contract; and
  - Realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
  - The profit or loss of the company, fund or other entity that issues the contract.

These contracts include interest-sensitive and unit-linked universal life type policies which are classified as insurance liabilities.

A unit-linked insurance contract is an insurance contract with an embedded derivative linking payments on the contract to units of an internal investment fund set up by the Group with the consideration received from the contract holders. This embedded derivative meets the definition of an insurance contract and is not therefore accounted for separately from the host insurance contract. The liability for such contracts is adjusted for all changes in the fair value of the underlying assets.

Revenue consists of fees deducted for mortality, policy administration and surrender charges. Interest or changes in the unit prices credited to the account balances and excess benefit claims in excess of the account balances incurred during the period are charged as expenses in the income statement.

# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 2. Summary of Significant Accounting Policies (Continued)

### (x) Insurance and investment contracts (continued)

#### (ii) Recognition and measurement (continued)

- (1.3) Long-term traditional insurance contract without fixed terms and with discretionary participation features (DPF) (continued)

Investment contracts without discretionary participatory feature (DPF) –

The Group issues investment contracts without fixed terms and DPFs because these contracts do not satisfy the requirements that the amount or timing of additional benefits is contractually at the discretion of the Group.

Investment contracts without fixed terms are financial liabilities whose fair value is dependent on the fair value of underlying financial assets and are designated at inception at fair value through the profit or loss.

Valuation techniques are used to establish the fair value at inception and each reporting date.

- (1.4) Investment contracts without discretionary participatory feature (DPF)

The Group's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit-linked financial liability is determined using the current unit values that reflect the fair values of the financial assets contained within the Group's unitised investments funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the year end date.

If the investment contract is subject to a put or surrender option, the fair value of the financial liability is never less than the amount payable on surrender, discounted for the required notice period where applicable.

- (iii) Amounts on deposit and deposit administration funds

These funds are managed by the company but are not legally separated from the general operations. The assets and liabilities of these funds are included in these financial statements. The company earns administration and investment fees on the management of these funds.

- (iv) Liability adequacy test

At each year end date, liability adequacy tests are performed to ensure the adequacy of the 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. Summary of Significant Accounting Policies (Continued)

### (x) Insurance and investment contracts (continued)

- (v) Reinsurance contracts held

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables), as well longer term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

Actuarial liabilities arising from reinsurance are included as an insurance contract liability.

- (vi) Receivables and payables related to insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders.

If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Group gathers the objective evidence that the insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated under the same method used for these financial assets.

- (y) Provisions

Provisions are recognised when the Group has a present 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 2. Summary of Significant Accounting Policies (Continued)

### (z) Revenue recognition

#### (i) Premium income

Gross premiums for traditional life and health insurance contracts are recognised as revenue when due. Revenue for universal life products and annuity contributions are recognised when received. When premiums are recognised, the related actuarial liabilities are computed, resulting in benefits and expenses being matched with revenue.

Property and casualty insurance premiums are recognised on a pro-rated basis over the period of the respective policies. Unearned premiums are the proportion of net premiums written in the current year which relate to cover provided in the following year.

Where collection of premium is considered doubtful, or payment is outstanding for more than 90 days, the insurance regulations stipulate that the outstanding premium should be provided for in full. IFRS requires that when premiums become doubtful of collection, they are written down to their recoverable amounts and thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

#### (ii) Fee income

Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the Group actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. Fee income is recognised on an accrual basis. Loan origination fees for loans which are likely to be drawn down are deferred, together with related direct costs, and recognised as an adjustment to the effective yield on the loan. 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.

The Group charges customers for asset management and other related services using the following approaches:

- Front-end fees are charged to the client on inception. This approach is used particularly for single premium contracts. The consideration received is deferred as a liability and recognised over the life of the contract on a straight-line basis.
- Regular fees charged to the customer periodically either directly or by making a deduction from invested funds. Fees charged at the end of the period are accrued as a receivable that is offset against the financial liability when charged to the customer.

#### (iii) Interest income

Interest income is recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investments and accrued discount or premium on treasury bills and other discounted instruments. When loans become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

## 2. Summary of Significant Accounting Policies (Continued)

### (z) Revenue recognition (continued)

#### (iii) Interest income (continued)

Jamaican banking regulations stipulate that, where collection of interest income is considered doubtful or payment is outstanding for 90 days or more, interest should be taken into account on the cash basis. IFRS require that when loans become doubtful of collection, they are written down to the recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount. The difference between the regulatory and IFRS bases of interest recognition was assessed to be immaterial.

#### (aa) Interest expense

Interest expense is recognised in the income statement on an accrual basis using the effective yield method.

Amounts paid under contracts with principally financial risk are recorded directly to the statement of financial position as an adjustment. The interest credited to these funds is recorded as an interest expense.

#### (bb) Commissions

Commissions are expensed over the policy year on the same basis as earned premiums.

#### (cc) Taxation

Taxation expense in the income statement comprises current and deferred tax. Current and deferred taxes are recognised as income tax expense or benefit in the income statement except, where they relate to items recorded in stockholders' equity, they are also charged or credited to stockholders' equity.

Current tax charges are based on taxable profit for the year, which differs from the profit before tax reported because it excludes items that are taxable or deductible in other years, and items that are never taxable or deductible. The company's liability for current tax is calculated at tax rates that have been enacted at year end date.

Deferred tax is the tax expected to be paid or recovered on differences between the carrying amounts of assets and liabilities and the corresponding tax bases. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and the carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Current and deferred tax assets and liabilities are offset when they arise from the same taxable entity and relate to the same tax authority and when the legal right of offset exists.

# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 2. Summary of Significant Accounting Policies (Continued)

### (dd) Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the company or its subsidiaries act in a fiduciary capacity such as nominee, trustee or agent.

### (ee) Financial instruments

Financial instruments carried on the statement of financial position include cash resources, investments, securities purchased under resale agreements, loans & leases, other assets, securities sold under repurchase agreements, due to banks and other financial institutions, customer deposits and other liabilities.

The fair values of the Group's and the company's financial instruments are discussed in Note 51.

### (ff) 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 statement of financial position. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates its interest rate swap as a cash flow hedge. 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 strategy for undertaking various hedging transactions. The Group also documents its assessment, 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 stockholders' equity, in the fair value reserve, and are transferred to the income statement when the forecast cash flows affect the income statement. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in stockholders' equity are recycled to the income statement in the periods when the hedged item affects profit or loss. They are recorded in the revenue or expense lines in which associated with the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in stockholders' equity at that time remains in stockholders' equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in stockholders' equity is immediately transferred to the income statement within net trading income'.

## 3. Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### (a) Critical judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made significant judgements regarding the amounts recognised in the financial statements in respect of the fair value of investment in its quoted subsidiary, Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited), as disclosed in Note 23.

### (b) Key sources of estimation uncertainty

The Group makes estimates and assumptions that affect the reported assets and liabilities within the next financial year. The resulting accounting estimates will, by definition, seldom equal the related actual results. Areas of key sources of estimation uncertainty include the following:

#### (i) Insurance

##### • *The ultimate liability arising from claims made under insurance contracts*

There are several sources of uncertainty that need to be considered in the estimate of the liability that the Group will ultimately pay for such claims.

##### • *Estimate of future payments and premiums arising from long-term insurance contracts*

The determination of the liabilities under long-term insurance contracts is dependent on estimates made by the Group. Estimates are made as to the expected number of deaths for each of the years in which the Group is exposed to risk. The Group bases these estimates on standard industry mortality tables that reflect recent historical mortality experience, adjusted where appropriate to reflect the Group's own experience. For contracts that insure the risk of longevity, appropriate but not excessively prudent allowance is made for expected mortality improvements. The estimated number of deaths determines the value of the benefit payments and the value of the valuation premiums. The main source of uncertainty is that epidemics and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits, could result in future mortality being significantly worse than in the past for the age groups in which the Group has significant exposure to mortality risk. However, continuing improvements in medical care and social conditions could result in improvements in longevity in excess of those allowed for in the estimates used to determine the liability for contracts where the Group is exposed for longevity risk.

Were the numbers of death in future years to increase per year by 3% for five years from management's estimate, the liability would increase by \$2,505,069,000 (2011 - \$2,037,697,000).

# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 3. Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

### (b) Key sources of estimation uncertainty (continued)

#### (i) Insurance (continued)

- *Estimate of future payments and premiums arising from long-term insurance contracts (continued)*  
For contracts without fixed terms, it is assumed that the Group will be able to increase mortality risk charges in future years in line with emerging mortality experience.

Estimates are also made as to future investment income arising from the assets backing long-term insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments. Where the average future investment returns decrease by 0.5% for ten years from management's estimates, the insurance liability would increase by \$11,134,082,000 (2011 - \$9,615,263,000).

For long term insurance contracts, estimates of future deaths, voluntary terminations, investment returns and administration expenses are made and form the assumptions used for calculating the liabilities during the life of the contract. A margin for adverse deviation is added to these assumptions.

Where the actual lapse experience differs by 200% or by 50% of expected lapse experience the liability would increase by \$4,180,217,000 (2011 - \$3,845,357,000).

#### (ii) Pension and post-retirement benefits

The cost of these benefits and the present value of the pension and the other post-retirement liabilities depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net periodic cost (income) for pension and post-retirement benefits include the expected long-term rate of return on the relevant plan assets, the discount rate and, in the case of the post-employment medical benefits, the expected rate of increase in medical costs. Any changes in these assumptions will impact the net periodic cost (income) recorded for pension and post-retirement benefits and may affect planned funding of the pension plans. The expected return on plan assets assumption is determined on a uniform basis, considering long-term historical returns, asset allocation and future estimates of long-term investments returns. The discount rate represents the interest rate that should be used to determine the present value of estimated future cash outflows required to meet the pension, life insurance and medical benefits as they fall due. The discount rate is based on yields on long term Government of Jamaica and CARICOM bonds. The expected rate of increase of medical costs is based on expected increases in utilisation and general increases in medical expenses above expected price inflation. Other key assumptions for the pension and post retirement benefits cost and credits are based in part on current market conditions.

If the expected return on plan assets were to change by 1% the net expense would change by \$76,403,000 for the Group and \$65,731,000 for the company. If the discount rate changed by 1% then the expense would change by \$118,445,000 for the Group and \$93,524,000 for the company.

## 3. Critical Accounting Estimates, and Judgements in Applying Accounting Policies (Continued)

### (b) Key sources of estimation uncertainty (continued)

#### (iii) Estimated impairment of intangible assets

##### Goodwill

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

##### Other intangible assets

The assessment of impairment of other intangible assets involves the determination of the intangible asset'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 asset's value in use, estimates are required of future cash flows generated because of the assets.

#### (iv) Fair value of securities and investment in subsidiaries not quoted in an active market

The fair value of securities and subsidiaries not quoted in an active market may be determined using reputable pricing sources (such as pricing agencies), indicative prices from bond/debt market makers or other valuation techniques. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. The Group exercises judgement and estimates on the quantity and quality of pricing sources used. Where no market data is available, the Group may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. The inputs into these models are primarily discounted cash flows. The models used to determine fair values are periodically reviewed by experienced personnel. The models used for debt securities are based on net present value of estimated future cash flows, adjusted as appropriate for liquidity, and credit and market risk factors.

#### (v) Income taxes

Estimates are required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for possible tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.



# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 4. Responsibilities of the Appointed Actuary and External Auditors

The Board of Directors pursuant to the Insurance Act appoints the Actuary whose responsibility is to carry out an annual valuation of the company's policy liabilities in accordance with accepted actuarial practice and regulatory requirements and report thereon to the policyholders and stockholders. In performing the valuation, the Actuary makes assumptions as to the future rates of interest, asset defaults, mortality, morbidity, claims experience, policy termination, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the company and the insurance policies in force.

The stockholders pursuant to the Companies Act appoint the external auditors. Their responsibility is to conduct an independent and objective audit of the financial statements in accordance with International Standards on Auditing and report thereon to the stockholders. In carrying out their audit, the auditors also make use of the work of the appointed Actuary and the report on the policy liabilities.

## 5. Segmental Financial Information

Management has determined the operating segment based on the reports reviewed by the Board of Directors that are used to make strategic decisions.

The Group is managed on a matrix basis, reflecting both line of business and geography. Accordingly, segment information is presented in two formats. The Group is organised into four primary business segments:

- (a) Individual Lines - This includes provision of life insurance, health and annuity services to individuals.
- (b) Employee Benefits - This includes group life and creditor life, personal accident, group health, group annuities, pension funds investment and administration services and the administration of trust accounts.
- (c) Banking and Asset Management - This includes development, commercial and merchant banking, and asset management.
- (d) Other - This comprises property management, captives management, general insurance and stockholders' funds.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position, but exclude items such as taxation, retirement benefit assets and obligations and business development loans.

The Group measures the performance of its operating segments through a measure of segment profit or loss which is profit before taxation.

A measure of segment assets is only required to be disclosed if the measure is regularly provided to the chief operating decision-maker. Segment assets which are reviewed include those backing policyholders' fund and other interest-bearing assets.

Segment liabilities that are reviewed by the CODM include policyholders' fund and interest-bearing liabilities.

Transactions between the operating segments are on normal commercial terms and conditions. There has been no change in the basis of the pricing of transactions over the prior year.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2012 or 2011.

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# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 5. Segmental Financial Information (Continued)

	<b>The Group</b>					<b>Group</b>
	<b>2012</b>					
	<b>Individual Lines</b>	<b>Employee Benefits</b>	<b>Banking and Asset Management</b>	<b>Other</b>	<b>Eliminations</b>	
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
External revenues	10,633,033	15,150,310	4,153,120	1,538,796	-	31,475,259
Revenue from other segments	115,578	10,283	(36,736)	13,061	(102,186)	
<b>Total revenue</b>	<b>10,748,611</b>	<b>15,160,593</b>	<b>4,116,384</b>	<b>1,551,857</b>	<b>(102,186)</b>	<b>31,475,259</b>
Benefits and expenses	(6,930,420)	(10,086,403)	(1,893,436)	(1,416,408)	140,491	(20,186,176)
Change in actuarial liabilities	(1,149,547)	(2,253,481)	-	-	-	(3,403,028)
Depreciation	(88,151)	(39,397)	(50,410)	(37,066)	-	(215,024)
Amortisation of purchased intangibles	-	(107,465)	(99,007)	-	-	(206,472)
Amortisation of computer software	(13,371)	(11,348)	(27,133)	(10,807)	-	(62,659)
Finance costs	-	-	-	(23,250)	23,250	-
Premium and other taxes	(323,792)	(62,505)	(110,271)	(54,484)	-	(551,052)
<b>Profit before taxation</b>	<b>2,243,330</b>	<b>2,599,994</b>	<b>1,936,127</b>	<b>9,842</b>	<b>61,555</b>	<b>6,850,848</b>
Taxation	(141,513)	(237,867)	(582,457)	98,607	-	(863,230)
<b>Net profit</b>	<b>2,101,817</b>	<b>2,362,127</b>	<b>1,353,670</b>	<b>108,449</b>	<b>61,555</b>	<b>5,987,618</b>
<b>Segment assets -</b>						
Intangible assets	1,341,427	1,286,264	1,439,326	98,072	-	4,165,089
Other assets	42,651,269	35,833,324	87,353,174	9,859,723	(5,090,338)	170,607,152
	<b>43,992,696</b>	<b>37,119,588</b>	<b>88,792,500</b>	<b>9,957,795</b>	<b>(5,090,338)</b>	<b>174,772,241</b>
<b>Unallocated assets -</b>						
Investments in associates (Note 13)						2,725
Deferred income taxes (Note 19)						19,133
Retirement benefit assets (Note 15)						220,211
						<b>175,014,310</b>
<b>Segment liabilities</b>	<b>30,190,952</b>	<b>28,491,950</b>	<b>75,959,343</b>	<b>9,744,621</b>	<b>(5,122,164)</b>	<b>139,264,702</b>
<b>Unallocated liabilities -</b>						
Deferred income taxes (Note 19)						324,942
Retirement benefit obligations (Note 15)						1,023,769
						<b>140,613,413</b>
<b>Other segment items:</b>						
Capital expenditure: Computer software (Note 18)						88,933
Property, plant and (Note 14)						427,887

# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 5. Segmental Financial Information (Continued)

	The Group					
	2011					
	Individual Lines	Employee Benefits	Banking and Asset Management	Other	Eliminations	Group
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
External revenues	9,382,032	14,505,025	3,945,580	837,248	-	28,669,885
Revenue from other segments	108,799	19,293	152,604	199,334	(480,030)	-
Total revenue	9,490,831	14,524,318	4,098,184	1,036,582	(480,030)	28,669,885
Benefits and expenses	(6,369,492)	(8,915,735)	(1,627,023)	(1,276,987)	306,591	(17,882,646)
Change in actuarial liabilities	(49,951)	(3,214,025)	-	-	-	(3,263,976)
Depreciation	(87,776)	(33,282)	(44,585)	(27,296)	-	(192,939)
Amortisation of purchased intangibles	-	(107,465)	(99,007)	-	-	(206,472)
Amortisation of computer software	(10,667)	(10,371)	(40,373)	(3,251)	-	(64,662)
Finance costs	-	-	(76,900)	(21,307)	21,307	(76,900)
Premium taxes	(287,505)	(56,109)	-	-	-	(343,614)
Profit/(loss) before taxation	2,685,440	2,187,331	2,210,296	(292,259)	(152,132)	6,638,676
Taxation	(119,457)	(189,621)	(588,647)	13,516	-	(884,209)
Net profit/(loss)	2,565,983	1,997,710	1,621,649	(278,743)	(152,132)	5,754,467
Segment assets -						
Intangible assets	1,312,759	1,400,223	1,512,057	89,598	-	4,314,637
Other assets	38,740,231	31,230,545	79,343,691	10,234,260	(3,139,234)	156,409,493
	40,052,990	32,630,768	80,855,748	10,323,858	(3,139,234)	160,724,130
Unallocated assets -						
Investments in associates (Note 13)						2,725
Deferred income taxes (Note 19)						158,723
Retirement benefit assets (Note 15)						212,955
						161,098,533
Segment liabilities	28,748,370	26,092,431	67,636,172	10,140,783	(3,157,561)	129,460,195
Unallocated liabilities -						
Deferred income taxes (Note 19)						734,057
Retirement benefit obligations (Note 15)						851,073
						131,045,325
Other segment items -						
Capital expenditure: Computer software (Note 18)						69,413
Property, plant and equipment (Note 14)						226,039

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## 5. Segmental Financial Information (Continued)

The Group's geographic information:

	Cayman Islands			Total
	Jamaica	Cayman Islands	Other	
2012				
	\$'000	\$'000	\$'000	\$'000
Revenue	28,833,090	2,642,169	-	31,475,259
Total assets	151,642,301	22,843,716	528,293	175,014,310
2011				
	\$'000	\$'000	\$'000	\$'000
Revenue	27,051,332	1,618,553	-	28,669,885
Total assets	140,565,749	20,532,784	-	161,098,533

The company is managed on a matrix basis, reflecting lines of business. The company is organised into three primary business segments:

- Individual Lines - This includes provision of life insurance services to individuals.
- Employee Benefits – This includes group life and creditor life, personal accident, group health, group annuities and pension funds investment and administration of trust accounts.
- Other - This comprise stockholders' funds.

Geographically, the segments are Jamaica, Cayman Islands and Other (Costa Rica and St. Lucia).

Segment assets consist of investments that match insurance and banking liabilities, intangible assets and other operating assets such as receivables and cash. They exclude deferred income taxes, retirement benefit assets, investment in associates and investment in subsidiaries.

Segment liabilities comprise insurance liabilities, financial liabilities arising mainly from investment contracts and borrowing arrangements. They exclude items such as taxation, retirement benefit liabilities and business development loans.

## 5. Segmental Financial Information (Continued)

	The Company			
	2012			
	Individual Lines	Employee Benefits	Other	Total
	\$'000	\$'000	\$'000	\$'000
Revenues	8,984,657	14,779,135	1,082,252	24,846,044
Benefits and expenses	(6,053,858)	(9,761,720)	(1,039,980)	(16,855,558)
Depreciation	(79,484)	(35,688)	(35,095)	(150,267)
Change in actuarial liabilities	(651,242)	(2,250,275)	-	(2,901,517)
Amortisation of purchased intangibles	-	(107,461)	-	(107,461)
Amortisation of computer software	(13,123)	(11,319)	(9,812)	(34,254)
Premium taxes	(323,792)	(62,405)	(54,284)	(440,481)
Profit/(loss) before taxation	1,863,158	2,550,267	(56,919)	4,356,506
Taxation	(141,513)	(242,641)	98,053	(286,101)
Net profit	1,721,645	2,307,626	41,134	4,070,405
Segment assets -				
Intangible assets	845,570	1,286,264	91,940	2,223,774
Other assets	22,025,951	35,233,199	7,934,659	65,193,809
	22,871,521	36,519,463	8,026,599	67,417,583
Unallocated assets -				
Retirement benefit assets (Note 15)				184,482
Investment in associates (Note 13)				2,725
Investment in subsidiaries (Note 23)				20,277,067
				87,881,857
Segment liabilities	18,688,193	28,435,926	7,002,442	54,126,561
Unallocated liabilities -				
Deferred income taxes (Note 19)				148,563
Retirement benefit obligations (Note 15)				941,193
				55,216,317
Capital expenditure:				
Computer software (Note 18)				33,767
Property, plant and equipment (Note 14)				229,534

# Notes to the Financial Statements

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## 5. Segmental Financial Information (Continued)

	The Company			
	2011			
	Individual Lines	Employee Benefits	Other	Total
	\$'000	\$'000	\$'000	\$'000
Revenues	8,036,900	14,166,300	1,151,373	23,354,573
Benefits and expenses	(5,469,100)	(8,603,293)	(920,734)	(14,993,127)
Depreciation	(79,788)	(29,744)	(24,909)	(134,441)
Change in actuarial liabilities	(141,067)	(3,229,803)	-	(3,370,870)
Amortisation of purchased intangibles	-	(107,460)	-	(107,460)
Amortisation of computer software	(10,482)	(10,371)	(3,084)	(23,937)
Premium taxes	(287,505)	(56,109)	-	(343,614)
Profit before taxation	2,048,958	2,129,520	202,646	4,381,124
Taxation	(119,457)	(184,608)	9,408	(294,657)
Net profit	1,929,501	1,944,912	212,054	4,086,467
Segment assets -				
Intangible assets	845,570	1,399,946	86,206	2,331,722
Other assets	20,285,056	31,144,941	8,427,507	59,857,504
	21,130,626	32,544,887	8,513,713	62,189,226
Unallocated assets -				
Retirement benefit assets (Note 15)				184,482
Investments in associates (Note 13)				2,725
Investment in subsidiaries (Note 23)				17,621,027
				79,997,460
Segment liabilities	17,313,743	26,092,431	7,252,071	50,658,245
Unallocated liabilities -				
Deferred income taxes (Note 19)				68,587
Retirement benefit obligations (Note 15)				776,635
				51,503,467
Capital expenditure:				
Computer software (Note 18)				27,663
Property, plant and equipment (Note 14)				165,246

## 6. Cash Resources

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Balances with banks payable on demand	4,519,784	2,716,206	510,108	277,818
Cash in hand	225,453	163,967	107	107
	4,745,237	2,880,173	510,215	277,925
Short term deposits	652,702	669,977	89,548	137,873
Securities purchased under resale agreements (Note 9)	1,253,375	745,482	1,400,967	438,685
Financial investments (Note 8)	-	605,079	-	-
	6,651,314	4,900,711	2,000,730	854,483

The amounts of \$652,702,000 and \$89,548,000 (2011: \$669,977,000 and \$137,873,000) represent deposits with original maturity of less than 90 days out of the total Group and company short-term deposits of \$659,583,000 and \$89,580,000 (2011: \$681,477,000 and \$142,981,000) respectively.

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Cash resources	6,651,314	4,900,711	2,000,730	854,483
Items in course of payment (Note 35)	(89,962)	(119,179)	-	-
Repurchase agreements with other financial institutions	(2,868,944)	(1,221,303)	-	-
Bank overdrafts (Note 31)	(140,219)	(216,366)	(140,219)	(212,769)
	3,552,189	3,343,863	1,860,511	641,714

## 7. Cash Reserves at Bank of Jamaica

A prescribed minimum of 26% (2011 - 26%) of deposit liabilities is required to be maintained by the banking subsidiary in liquid assets, of which 12% (2011 - 12%) must be maintained as cash reserve with the Bank of Jamaica for Jamaican dollar currency and for the relevant foreign currency at 9% (2011 - 9%). Cash reserves are not available for investment, lending or other use by the Group.

# Notes to the Financial Statements

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## 8. Financial Investments

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
<b>Short term deposits</b>	659,583	681,477	89,580	142,981
<b>Financial assets at fair value through profit or loss -</b>				
Government of Jamaica securities	4,026,553	138,086	-	-
Corporate bonds	19,623	62,791	-	-
Quoted equity	50,022	-	-	-
Unquoted preference shares	374,413	408,188	-	-
Interest receivable	24,821	1,875	-	-
	<u>4,495,432</u>	<u>610,940</u>	<u>-</u>	<u>-</u>
<b>Available-for-sale -</b>				
Government of Jamaica securities	48,284,893	52,723,669	1,329,485	1,977,993
Foreign governments securities	4,702,883	3,352,035	2,587,653	2,208,773
Corporate bonds	22,940,934	20,388,279	1,480,529	569,461
Credit Linked notes	2,100,136	1,925,171	-	-
Quoted equities	1,036,690	1,215,460	368,801	411,438
Unquoted equities	74,625	73,696	-	-
Unit trust shares	388,377	35,345	388,377	35,345
Interest receivable	1,388,411	1,402,148	80,537	56,229
	<u>80,916,949</u>	<u>81,115,803</u>	<u>6,235,382</u>	<u>5,259,239</u>
<b>Loans and receivables -</b>				
Government of Jamaica securities	34,452,080	33,399,383	34,032,974	32,546,844
Foreign governments securities	70,385	64,866	-	-
Mortgage loans	1,650,318	1,575,071	1,639,245	1,553,234
Promissory notes	1,599,049	1,404,369	1,599,049	1,404,369
Loans	-	-	4,260	4,260
Policy loans	794,867	765,766	332,787	337,309
Interest receivable	1,256,662	1,261,912	1,220,934	1,213,512
	<u>39,823,361</u>	<u>38,471,367</u>	<u>38,829,249</u>	<u>37,059,528</u>
<b>Held to maturity investments -</b>				
Credit Linked notes	1,853,904	1,715,800	-	-
	<u>127,749,229</u>	<u>122,595,387</u>	<u>45,154,211</u>	<u>42,461,748</u>
<b>Less Pledged assets (Note 17)</b>	<u>(3,943,434)</u>	<u>(7,831,016)</u>	<u>-</u>	<u>-</u>
<b>Total Financial Investments</b>	<b><u>123,805,795</u></b>	<b><u>114,764,371</u></b>	<b><u>45,154,211</u></b>	<b><u>42,461,748</u></b>

Included in unquoted preference shares are Equity Linked (ELP) and Dividend linked (DLP) preference shares. The ELP will provide returns based on the capital gains/loss from movement in the price of a listed stock and the DLP will provide returns based on the dividend income of the same stock. The terms of the unquoted preference shares provide for ELPs to receive twice the capital gain or loss from movement in the price of the underlying listed stock while the DLPs receive none of the capital gains or loss.

Included in quoted equities classified as available-for-sale are investments in Exchange Traded Funds (ETFs) by the Group and company totaling \$609,980,000 and \$149,653,000 (2011 - \$571,261,000 and \$62,749,000) respectively.

## 8. Financial Investments (Continued)

Credit linked notes are structured securities with embedded credit swaps allowing the issuer to transfer specific credit risks to the holder. The coupon or price of these note are linked to the performance of a specific Government of Jamaica security. Investors in these instruments are given higher yields for accepting exposure to specified credit events.

Included in promissory notes for the Group and company are loans with principal of \$1,559,145,000 (2011 - \$1,354,061,000) due from the company's ultimate parent, Sagicor Financial Corporation. The loans attract interest rates of 6.5% - 8.5% per annum and mature in January, September and December 2013.

The Group and the company recognised impairment charges totaling \$5,117,000 and nil (2011 - \$834,207,000 and \$8,362,000) respectively on equity securities (Note 42).

Included in financial investments are the following amounts which are pledged as collateral:

- Government of Jamaica Fixed Rate Benchmark Note with a carrying value of \$9,000,000 (2011 - \$9,000,000) which have been pledged by the company as security for uncleared effects with the National Commercial Bank Jamaica Limited.
- Government of Jamaica Fixed Rate Benchmark Note with a carrying value of \$90,000,000, (2011 - \$90,000,000) which have been pledged by the company with the Regulator, the Financial Services Commission, pursuant to Section 8 of the Insurance Regulations, 2001.
- Kingdom of Bahrain bond with a carrying value of US\$1,076,200, a Republic of Italy bond with a carrying value of US\$1,161,355, a Government of Bermuda bond with a carrying value of US\$1,176,096, a Common Wealth of Bahamas bond with a carrying value of US\$4,599,000, a Government of Cayman Islands bond with a carrying value of US\$8,288,000, Government of Trinidad and Tobago bonds with a carrying value of US\$11,654,725, Government of Jamaica Global bonds with a carrying value of US\$28,778,875, a Petroleum Company of Trinidad & Tobago Limited Corporate bond with a carrying value of US\$4,099,018 and International Corporate bonds with a carrying value of US\$2,396,016 have been pledged by the company as security for a loan facility of US\$40,000,000 with UBS AG London.
- International Corporate bonds with a carrying value of US\$67,395,106, an International Municipal bond with a carrying value of US\$593,475 and Equities with a carrying value of US\$514,427 have been pledged as security for margin loans of US\$48,491,936 with Morgan Stanley Smith Barney by one of the company's subsidiaries, Sagicor Life of the Cayman Islands Ltd.
- International Corporate bonds with a carrying value of US\$16,105,471 and a Government of Barbados Corporate bond with carrying value of US\$105,383 have been pledged as security for margin loans of US\$4,852,585 with Oppenheimer & Co. Inc. by one of the company's subsidiaries, Sagicor Life of the Cayman Islands Ltd.
- Petroleum Company of Trinidad & Tobago Limited Corporate bond with a carrying value of US\$1,329,000 (2011 - US\$1,180,000), a Government of Barbados bond with a carrying value of US\$263,457 (2011 - US\$249,900) and International Corporate bonds with a carrying value of US\$12,895,480 (2011 - US\$12,987,799), and a Royal Bank of Scotland Corporate bond with a carrying value of US\$1,181,640 (2011 - US\$Nil) have been pledged as security with Credit Suisse NY for a loan facility of US\$8,057,742 (2011 - US\$8,051,555) by one of the company's subsidiaries, Sagicor Life of the Cayman Islands Ltd.

# Notes to the Financial Statements

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## 8. Financial Investments (Continued)

Included in financial investments are the following amounts which are regarded as cash equivalents for the purposes of the statement of cash flows:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Debt securities with an original maturity of less than 90 days (Note 6)	-	605,079	-	-

### Reclassification of Financial Investments

In the financial year ended 31 December 2008, the Group and the company reclassified certain investments from available-for-sale to loans and receivables in accordance with the amendment to IAS 39.

	The Group			
	Carrying Value	Fair Value	Carrying Value	Fair Value
	2012	2012	2011	2011
	\$'000	\$'000	\$'000	\$'000
	Government of Jamaica securities	4,666,465	4,732,571	4,520,604
Other securities	70,385	59,127	64,866	57,369
	<u>4,736,850</u>	<u>4,791,698</u>	<u>4,585,470</u>	<u>4,073,180</u>

	The Company			
	Carrying Value	Fair Value	Carrying Value	Fair Value
	2012	2012	2011	2011
	\$'000	\$'000	\$'000	\$'000
	Government of Jamaica securities	4,415,368	4,561,340	4,122,724

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Cumulative net fair value losses at beginning of year	(911,706)	(290,995)	(808,629)	(168,079)
Net fair value gains/(losses) for the year	583,186	(693,495)	558,519	(632,312)
Disposals	34,237	74,742	(4,047)	(1,022)
Effect of exchange rate changes	(62,946)	(1,958)	(58,298)	(7,216)
Cumulative net fair value losses at end of year	<u>(357,229)</u>	<u>(911,706)</u>	<u>(312,455)</u>	<u>(808,629)</u>

There was no reclassification of financial assets during the year.

## 8. Financial Investments (Continued)

The following are included in the income statement for investments reclassified in 2008:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Interest income	546,092	492,082	395,014	384,133
Foreign exchange gains	295,543	36,538	295,543	36,538
	<u>841,635</u>	<u>528,620</u>	<u>690,557</u>	<u>420,671</u>

## 9. Securities Purchased Under Resale Agreements

The Group and the company entered into reverse repurchase agreements collateralised by Government of Jamaica securities. These agreements may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligation.

As at 31 December 2012, the Group held \$2,078,780,000 (2011 - \$987,272,000) of securities, mainly representing Government of Jamaica domestic debt securities, as collateral for reverse repurchase agreements.

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Securities purchased under resale agreements				
Principal	1,788,343	995,356	1,410,485	447,587
Interest receivable	5,567	5,236	4,619	676
	<u>1,793,910</u>	<u>1,000,592</u>	<u>1,415,104</u>	<u>448,263</u>

Included in securities purchased under agreements to resell are the following amounts, which are regarded as cash equivalents for purposes of the statement of cash flows:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Securities purchased under agreements to resell with an original maturity of less than 90 days (Note 6)	<u>1,253,375</u>	<u>745,482</u>	<u>1,400,967</u>	<u>438,685</u>

# Notes to the Financial Statements

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## 10. Derivative Financial Instruments and Hedging Activity

Derivatives are carried at fair value and carried in the statement of financial position 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 was 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 fair values are set out below:

	The Group	
	2012	2011
	\$'000	\$'000
<b>Derivatives - Assets</b>		
(i) Currency forwards	257,187	567,482
(ii) Cross currency swap	3,952,001	-
(iii) Equity indexed options	43,916	27,710
(iv) Interest rate swap	-	244,228
	<u>4,253,104</u>	<u>839,420</u>
<b>Derivatives - Liabilities</b>		
(i) Currency forwards	245,055	561,392
(ii) Cross currency swap	4,021,595	-
(iii) Equity indexed options	43,916	27,710
(v) Exchange traded funds – short sale	-	111,498
	<u>4,310,566</u>	<u>700,600</u>

### (i) Currency forwards

Currency forwards represent commitments to buy US dollars and sell Euro dollars totalling €2,000,000 (2011 - €5,035,000) to be settled on a gross basis at a future date at a specified price. The credit risk is evaluated for each contract and is collateralised where deemed necessary. The currency forward contracts are settled on a gross basis. The contract expires in November 2014.

### (ii) Cross currency swap

The Sagicor Investments Jamaica Group entered into an agreement to swap the quarterly principal and interest receipts on a Euro dollar promissory note for US dollars at future dates at a fixed interest rate and exchange rate. The contract expires in February 2015.

### (iii) Equity indexed options

These derivative instruments give the holder the ability to participate in the upward movement of an equity index while protecting from downward risk and form part of certain structured product contracts with customers (Note 33). The Sagicor Investments Jamaica Group is exposed to credit risk on purchased options only, and only to the extent of the carrying amount, which is their fair value.

### (iv) Interest rate swap and hedging activity – cash flow hedge

In 2010, hedge accounting was discontinued as the hedge relationship was no longer effective.

The notional principal amount of the interest rate swap contract was US\$20M. The fixed interest rate was 10.201% and the floating rate was based on USD-LIBOR-BBA.

The contract was closed in February 2012. Accordingly, the remaining unamortised gains included in the fair value reserve were reclassified to the net trading income. The amount reclassified, net of deferred taxation, was \$38,220,000 (2011 - \$7,762,000).

## 10. Derivative Financial Instruments and Hedging Activity (Continued)

### (v) Exchange traded funds – short sale

During 2009, the Sagicor Investments Jamaica Group entered into transactions to sell euro currencies that were borrowed from a broker. The Sagicor Investments Jamaica Group benefits if there is a decline in the asset price between the sale and repurchase date. The contract was closed in August 2012.

### (vi) OTC currency put options

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

The Sagicor Investments Jamaica Group had one currency put options in place at the end of the year.

The Sagicor Investments Jamaica Group has entered into a currency option with its parent company, Sagicor Life Jamaica Limited, to purchase a set amount of United States dollars at an agreed price if the closing Bank of Jamaica weighted average selling rate for the United States dollar is less than the stated amount. The expiration date of this contract is 2039. The fair value of this option was \$Nil at the year end.

## 11. Loans and Leases, after Allowance for Credit Losses

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Gross loans	9,450,247	9,380,059	-	-
Less: Allowance for credit losses	(215,902)	(230,315)	-	-
	<u>9,234,345</u>	<u>9,149,744</u>	-	-
Loan interest receivable	96,019	92,621	-	-
	<u>9,330,364</u>	<u>9,242,365</u>	-	-
Lease receivables	60,926	17,282	1,767	1,767
	<u>9,391,290</u>	<u>9,259,647</u>	<u>1,767</u>	<u>1,767</u>

The movement in the allowance for credit losses determined under the requirements of IFRS is as follows:

	Loans		Leases	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Total non-performing loans/leases	<u>517,556</u>	<u>441,931</u>	<u>32,011</u>	<u>29,511</u>
Balance at beginning of year	230,315	194,897	20,664	18,910
Movement during the year -				
Charged against profit during the year	75,882	38,910	3,360	1,754
Recoveries of bad debts	(67,627)	(4,532)	-	-
Charged in the income statement	8,255	34,378	3,360	1,754
Write-offs	(31,244)	-	-	-
Currency revaluation adjustment	8,576	1,040	-	-
Balance at end of year	<u>215,902</u>	<u>230,315</u>	<u>24,024</u>	<u>20,664</u>



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## 11. Loans and Leases, after Allowance for Credit Losses (Continued)

Lease receivables:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Gross investment in finance leases -				
Not later than one year	82,989	27,106	1,199	1,199
Later than one year and not later than five years	21,890	17,404	-	-
	104,879	44,510	1,199	1,199
Less: Unearned income	(21,222)	(7,386)	-	-
Net investment in finance leases	83,657	37,124	1,199	1,199
Net investment in finance leases -				
Not later than one year	68,488	21,633	1,199	1,199
Later than one year and not later than five years	15,169	15,491	-	-
	83,657	37,124	1,199	1,199
Less: Provision for credit losses	(24,024)	(20,664)	-	-
Interest receivable	1,293	822	568	568
	60,926	17,282	1,767	1,767

## 12. Investment Properties

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At beginning of year	792,452	853,869	479,800	490,305
Acquired during the year	11,064	-	11,064	-
Disposed during the year	(122,000)	(10,500)	(122,000)	(10,500)
Fair value (losses)/gains	(72,635)	(54,174)	4,317	(5)
Foreign exchange gains	18,850	3,257	-	-
At end of year	627,731	792,452	373,181	479,800

The investment properties as at 31 December 2012 were valued at current market value by Clinton Cunningham & Associates and Charterland Limited, qualified property appraisers and valuers.

Rental income and repairs and maintenance expenditure in relation to investment properties are as follows:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Rental income	6,828	5,025	6,828	5,025
Direct operating expenses	(25,257)	(34,306)	(21,435)	(27,382)

## 13. Investment in Associated Company

(a) Name of Company	Principal Activity	Equity Capital held by Company
St. Andrew Developers Limited	Real estate development (dormant)	33 1/3%

The company is incorporated and resident in Jamaica and is unlisted.

(b) The investment in associated company is represented as follows:

	The Group and the Company	
	2012 \$'000	2011 \$'000
Shares, at cost	2	2
Share of post acquisition reserves	(2,501)	(2,501)
Loans and current accounts	5,224	5,224
	2,725	2,725

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## 14. Property, Plant and Equipment

	The Group				
	Leasehold Buildings & Improvements	Freehold Land & Buildings	Furniture & Equipment	Motor Vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost or Valuation -</b>					
At 1 January 2011	361,281	773,034	1,137,437	99,263	2,371,015
Additions	53,899	52,070	106,466	13,604	226,039
Revaluation adjustments	-	22,753	-	-	22,753
Disposals	-	-	(1,448)	(12,465)	(13,913)
Translation adjustment	294	-	329	19	642
At 31 December 2011	415,474	847,857	1,242,784	100,421	2,606,536
Additions	155,140	98,577	123,907	50,263	427,887
Revaluation adjustments	-	(66,841)	-	-	(66,841)
Disposals	(25)	-	(7,248)	(21,955)	(29,228)
Reclassification	-	-	48,941	2,420	51,361
Translation adjustment	2,386	-	2,832	143	5,361
At 31 December 2012	572,975	879,593	1,411,216	131,292	2,995,076
<b>Accumulated Depreciation -</b>					
At 1 January 2011	131,723	997	699,982	68,036	900,738
Charges for the year	38,334	9,095	131,511	13,999	192,939
Relieved on revalued assets	-	(8,838)	-	-	(8,838)
Relieved on disposals	-	-	(1,300)	(12,319)	(13,619)
Translation adjustment	58	-	208	4	270
At 31 December 2011	170,115	1,254	830,401	69,720	1,071,490
Charges for the year	45,250	6,367	144,732	18,675	215,024
Relieved on revalued assets	-	(6,875)	-	-	(6,875)
Relieved on disposals	(4)	-	(5,747)	(20,781)	(26,532)
Reclassification	-	-	48,941	2,420	51,361
Translation adjustment	709	-	1,997	56	2,762
At 31 December 2012	216,070	746	1,020,324	70,090	1,307,230
<b>Net Book Value -</b>					
31 December 2011	245,359	846,603	412,383	30,701	1,535,046
31 December 2012	356,905	878,847	390,892	61,202	1,687,846

## 14. Property, Plant and Equipment (Continued)

	The Company				
	Leasehold Buildings & Improvements	Freehold Land & buildings	Furniture & Equipment	Motor Vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost or Valuation -</b>					
At 1 January 2011	175,130	773,032	749,230	81,185	1,778,577
Additions	39,508	52,070	62,223	11,445	165,246
Revaluation adjustments	-	22,753	-	-	22,753
Disposals	-	-	(1,121)	(10,428)	(11,549)
At 31 December 2011	214,638	847,855	810,332	82,202	1,955,027
Additions	16,661	98,577	73,435	40,861	229,534
Revaluation adjustments	-	(66,841)	-	-	(66,841)
Disposals	(26)	-	(6,046)	(21,640)	(27,712)
Reclassification	-	-	48,941	2,420	51,361
At 31 December 2012	231,273	879,591	926,662	103,843	2,141,369
<b>Accumulated Depreciation -</b>					
At 1 January 2011	69,449	997	397,775	60,194	528,415
Charge for the year	19,283	9,095	94,569	11,494	134,441
Relieved on revalued assets	-	(8,838)	-	-	(8,838)
Relieved on disposals	-	-	(973)	(10,282)	(11,255)
At 31 December 2011	88,732	1,254	491,371	61,406	642,763
Charge for the year	22,953	6,367	106,030	14,917	150,267
Relieved on revalued assets	-	(6,875)	-	-	(6,875)
Relieved on disposals	(5)	-	(4,607)	(20,465)	(25,077)
Reclassification	-	-	48,941	2,420	51,361
At 31 December 2012	111,680	746	641,735	58,278	812,439
<b>Net Book Value -</b>					
31 December 2011	125,906	846,601	318,961	20,796	1,312,264
31 December 2012	119,593	878,845	284,927	45,565	1,328,930

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## 14. Property, Plant and Equipment (Continued)

In accordance with the Group's policy, owner-occupied properties were independently revalued during the year by professional real estate valuers. The excess of the carrying value of these property, plant and equipment over the revaluation on such date, amounting to \$59,966,000 (2011 - \$31,591,000), has been debited (2011 - credited) to investment and fair value reserves.

If revalued assets of the Group were stated on a historical cost basis, the amounts would be as follows:

	2012	2011
	\$'000	\$'000
Cost	517,101	440,723
Accumulated depreciation	<u>(27,300)</u>	<u>(24,600)</u>
Net book value	<u>489,801</u>	<u>416,123</u>
Carrying value of revalued assets	<u>878,847</u>	<u>846,603</u>

## 15. Retirement Benefits

### (a) Pension schemes

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Retirement benefit assets -				
Pension scheme	<u>220,211</u>	<u>212,955</u>	<u>184,482</u>	<u>184,482</u>
Retirement benefit obligations -				
Pension scheme	131,288	60,165	131,288	60,165
Other post-retirement benefits	<u>892,481</u>	<u>790,908</u>	<u>809,905</u>	<u>716,470</u>
	<u>1,023,769</u>	<u>851,073</u>	<u>941,193</u>	<u>776,635</u>

Pension schemes comprised the following -

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Retirement benefit assets	(220,211)	(212,955)	(184,482)	(184,482)
Retirement benefit obligations	<u>131,288</u>	<u>60,165</u>	<u>131,288</u>	<u>60,165</u>
	<u>(88,923)</u>	<u>(152,790)</u>	<u>(53,194)</u>	<u>(124,317)</u>

## 15. Retirement Benefits (Continued)

### (a) Pension schemes (continued)

The Group operates the following pension plans:

- (i) Sagicor Life Jamaica Limited operates a defined contribution plan for eligible sales agents and a defined benefit plan for eligible administrative staff. The assets are held in a trust fund and are separate and apart from the assets of the company. The benefits for the staff are based on service and salary, whereas the benefits for agents are based on contributions and interest. The solvency level (the ratio of assets to past service liabilities) as at the last triennial funding valuation (2009) was 103%.
- (ii) Sagicor Life of the Cayman Islands Ltd. participates in the Cayman Islands Chamber of Commerce Pension Plan. This plan is a money purchase contributory plan covering all the employees in the Cayman Islands. Contributions are vested immediately. The company contributes at a fixed rate of 7% of pensionable earnings.
- (iii) Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited) has established a number of pension schemes covering all permanent employees. The assets of funded plans are held independently of the Group's assets in separate trustee administered funds. The solvency level (the ratio of assets to past service liabilities) as at the last triennial funding valuation (2010) was 93%.

The amounts recognised in the statement of financial position are determined as follows:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Present value of funded obligations	7,631,130	6,758,479	7,048,292	6,257,179
Fair value of plan assets	<u>(7,667,768)</u>	<u>(7,017,208)</u>	<u>(7,062,501)</u>	<u>(6,489,456)</u>
	(36,638)	(258,729)	(14,209)	(232,277)
Unrecognised actuarial (losses)/gains	(114,496)	41,139	(38,985)	107,960
Limitation of asset due to uncertainty of future benefits	<u>62,211</u>	<u>64,800</u>	-	-
Asset in the statement of financial position, net	<u>(88,923)</u>	<u>(152,790)</u>	<u>(53,194)</u>	<u>(124,317)</u>

At the year-end, Sagicor Pooled Investment Funds Limited, which manages the Group's pension plans, owned units in the Sigma Real Estate Fund (Managed Funds of the Group). The Sigma Real Estate Fund has assets including property occupied by the Group, with a market value of approximately \$1,396,000,000 (2011 - \$1,367,000,000).

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## 15. Retirement Benefits (Continued)

### (a) Pension schemes (continued)

Movement in the present value of the defined benefit obligations recognised in the statement of financial position:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At 1 January	6,758,479	5,414,652	6,257,179	4,934,920
Service cost	246,380	227,740	225,176	195,113
Interest cost	524,261	496,032	479,978	449,492
Member contributions	257,163	229,939	231,239	204,655
Value of purchased annuities	126,279	813,917	124,426	803,097
Benefits paid	(420,771)	(408,187)	(399,975)	(378,826)
Actuarial losses/(gains)	139,339	(15,614)	130,269	48,728
At 31 December	<u>7,631,130</u>	<u>6,758,479</u>	<u>7,048,292</u>	<u>6,257,179</u>

Movement in the fair value of plan assets recognised in the statement of financial position:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At 1 January	7,017,208	5,475,024	6,489,456	5,018,878
Member contributions	257,163	229,939	231,239	204,655
Employer's contribution	216,075	199,423	181,225	164,715
Expected return on assets	489,291	499,465	452,806	459,391
Value of purchased annuities	126,280	813,917	124,426	803,097
Benefits paid	(420,771)	(408,187)	(399,975)	(378,826)
Actuarial (losses)/gains	(17,478)	207,627	(16,676)	217,546
At 31 December	<u>7,667,768</u>	<u>7,017,208</u>	<u>7,062,501</u>	<u>6,489,456</u>

## 15. Retirement Benefits (Continued)

### (a) Pension schemes (continued)

The amounts recognised in the income statement are as follows:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current service cost	246,380	227,740	225,176	195,113
Interest cost	524,261	496,032	479,978	449,492
Expected return on plan assets	(489,291)	(499,465)	(452,806)	(459,391)
Change in unrecognised asset	(2,590)	(33,555)	-	-
Net actuarial losses recognised in year	<u>1,182</u>	<u>6,808</u>	<u>-</u>	<u>-</u>
Total, included in staff costs (Note 48(a))	<u>279,942</u>	<u>197,560</u>	<u>252,348</u>	<u>185,214</u>

The actual return on plan assets was \$503,447,000 (2011 – \$798,511,000) and \$459,823,000 (2011 – \$759,703,000) for the Group and company, respectively.

Movement in the asset, recognised in the statement of financial position:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
At 1 January	(152,790)	(150,927)	(124,317)	(144,816)
Total expense - as above	279,942	197,560	252,348	185,214
Contributions paid	<u>(216,075)</u>	<u>(199,423)</u>	<u>(181,225)</u>	<u>(164,715)</u>
At 31 December	<u>(88,923)</u>	<u>(152,790)</u>	<u>(53,194)</u>	<u>(124,317)</u>

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31 December 2012

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## 15. Retirement Benefits (Continued)

### (a) Pension schemes (continued)

The principal actuarial assumptions used were as follows:

	The Group and The Company	
	2012	2011
Discount rate - J\$ benefits	10.50%	10.00%
Discount rate - US\$ Indexed benefits	8.00%	8.00%
Inflation	6.00%	5.00%
Investment fees	1.00%	1.00%
Administrative fees	1.00%	1.00%
Expected return on plan assets	9.50%	7.00%
Future salary increases	7.00%	6.00%
Future pension increases	2.00%	2.00%
Average expected remaining working lives (years)	17	18

Pension plan assets are comprised as follows:

	The Group				The Company			
	2012		2011		2012		2011	
	\$'000	%	\$'000	%	\$'000	%	\$'000	%
Acquired from Blue Cross Jamaica Limited	416,390	5	416,390	6	416,390	6	416,390	6
Equities	1,672,203	22	1,640,884	23	1,621,646	23	1,592,570	25
Mortgages and real estate	937,828	12	616,605	9	890,764	12	580,569	9
Money market fund	1,300,208	17	1,294,298	18	976,414	14	1,006,675	16
Fixed income fund	1,137,771	15	1,043,400	15	1,113,545	16	1,022,654	16
Foreign currency fund	1,031,844	14	1,154,020	16	890,764	13	1,033,307	16
Diversified fund	-	-	755	1	-	-	-	-
Inflation-linked	221,703	3	92,382	1	216,981	3	90,547	1
	6,717,947	88	6,258,734	89	6,126,504	87	5,742,712	89
Value of purchased annuities	949,712	12	813,917	12	936,088	13	803,097	12
Late contributions	109	-	2,458	1	-	-	1,305	1
Cost of pension increase granted	-	-	(57,901)	(2)	-	-	(57,658)	(2)
	7,667,768	100	7,017,208	100	7,062,592	100	6,489,456	100

## 15. Retirement Benefits (Continued)

### (a) Pension schemes (continued)

The pension plan assets acquired from Blue Cross Jamaica Limited are as follows:

	The Group and The Company
	\$'000
Equities	49,513
Government of Jamaica Bonds/LRS	187,318
Repurchase agreements	124,862
Corporate bonds	23,688
Preference shares	10
Leased assets	5,941
Net current assets	25,058
	416,390

The expected Group and company contributions to post-employment plans for the year ending 31 December 2013 are \$220,711,000 and \$184,429,000 respectively.

The expected return on plan assets is based on market expectation of inflation plus a margin for real returns on a balanced portfolio.

	The Group				
	Pensions				
	2012	2011	2010	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000
As at 31 December					
Present value of defined benefit obligations	7,631,130	6,758,479	5,414,652	4,230,160	3,787,130
Fair value of plan assets	(7,667,768)	(7,017,208)	(5,475,024)	(4,604,618)	(3,843,280)
Fund status	(36,638)	(258,729)	(60,372)	(374,458)	(56,150)
Actuarial (gains)/losses on plan liabilities	139,339	(15,615)	417,954	(221,049)	(560,421)
Actuarial (gains)/losses on plan assets	17,479	(207,627)	(191,308)	(116,065)	700,008

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## 15. Retirement Benefits (Continued)

### (a) Pension schemes (continued)

	The Company				
	Pensions				
	2012	2011	2010	2009	2008
	\$'000	\$'000	\$'000	\$'000	\$'000
As at 31 December					
Present value of defined benefit obligations	7,048,292	6,257,179	4,934,920	3,963,942	3,563,974
Fair value of plan assets	(7,062,501)	(6,489,456)	(5,018,878)	(4,270,898)	(3,596,304)
Fund status	(14,209)	(232,277)	(83,958)	(306,956)	(32,330)
Actuarial (gains)/losses on plan liabilities	130,269	48,728	272,996	(196,908)	(551,196)
Actuarial (gains)/losses on plan assets	16,676	(217,546)	(154,215)	(119,241)	643,401

### (b) Other post-employment benefits

In addition to pension benefits, the Group offers retiree medical and life insurance benefits that contribute to the health care and life insurance coverage of employees and beneficiaries after retirement. The method of accounting and frequency of valuations are similar to those used for defined benefit pension schemes.

In addition to the assumptions used for the pension scheme, the main actuarial assumption is a long-term increase in health costs of 8% (2011 – 8.0%) per year.

## 15. Retirement Benefits (Continued)

### (b) Other post-employment benefits (continued)

The amounts recognised in the statement of financial position are as follows:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Present value of unfunded obligations	964,197	910,240	902,237	855,447
Fair value of plan assets	(114,378)	(106,895)	(114,378)	(106,895)
	849,819	803,345	787,859	748,552
Unrecognised actuarial losses/(gains)	42,662	(12,437)	22,046	(32,082)
Liability in the statement of financial position	892,481	790,908	809,905	716,470

The amounts recognised in the income statement are as follows:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Current service cost	49,688	66,834	45,208	57,795
Expected return on plan assets	(7,483)	(6,498)	(7,483)	(6,498)
Interest cost	89,605	111,940	84,156	103,091
Net actuarial (gains)/losses	(1,157)	18,046	-	16,671
Total included in staff costs (Note 48(a))	130,653	190,322	121,881	171,059

Movement in the amounts recognised in the statement of financial position:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Liability at beginning of year	790,908	626,116	716,470	570,825
Total expense, as above	130,653	190,322	121,881	171,059
Contributions paid	(29,080)	(25,530)	(28,446)	(25,414)
Liability at end of year	892,481	790,908	809,905	716,470

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## 15. Retirement Benefits (Continued)

### (b) Other post-employment benefits (continued)

The effects of a 1% increase/decrease in the medical inflation rate assumption would result as follows:

	<b>Medical inflation decrease by 1% \$'000</b>	<b>Medical inflation increase by 1% \$'000</b>
Revised service cost	36,766	56,887
Revised interest cost	73,747	100,538
Revised accumulated post-employment benefit obligations	<u>758,624</u>	<u>1,012,839</u>

	<b>The Group Health and Life</b>				
	<b>2012 \$'000</b>	<b>2011 \$'000</b>	<b>2010 \$'000</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>
As at 31 December					
Present value of defined benefit obligations	964,197	910,240	1,030,289	680,187	588,965
Fair value of plan assets	(114,378)	(106,895)	(100,397)	(91,270)	(83,734)
Fund status	<u>849,819</u>	<u>803,345</u>	<u>929,892</u>	<u>588,917</u>	<u>505,231</u>
Actuarial (gains)/losses on plan liabilities	<u>(56,256)</u>	<u>(272,823)</u>	<u>218,776</u>	<u>15,674</u>	<u>(206,774)</u>

	<b>The Company Health and Life</b>				
	<b>2012 \$'000</b>	<b>2011 \$'000</b>	<b>2010 \$'000</b>	<b>2009 \$'000</b>	<b>2008 \$'000</b>
As at 31 December					
Present value of defined benefit obligations	902,237	855,447	949,565	643,538	548,801
Fair value of plan assets	(114,378)	(106,895)	(100,397)	(91,270)	(83,734)
Fund status	<u>787,859</u>	<u>748,552</u>	<u>849,168</u>	<u>552,268</u>	<u>465,067</u>
Actuarial (gains)/losses on plan liabilities	<u>(54,128)</u>	<u>(229,590)</u>	<u>184,913</u>	<u>31,977</u>	<u>(192,447)</u>

## 16. Reinsurance Contracts

	<b>The Group</b>		<b>The Company</b>	
	<b>2012 \$'000</b>	<b>2011 \$'000</b>	<b>2012 \$'000</b>	<b>2011 \$'000</b>
Claims recoverable from reinsurers	131,032	133,124	101,640	97,555
Unearned premiums ceded to reinsurers	101,283	69,759	-	-
Reinsurers share of insurance liabilities	6,764	37,339	-	-
	<u>239,079</u>	<u>240,222</u>	<u>101,640</u>	<u>97,555</u>

The reinsurers' share of actuarial liabilities represents balances which are short-term and expected to be settled within one year.

## 17. Pledged Assets

Assets of the Group are pledged as collateral under repurchase agreements with customers and financial institutions. Mandatory cash reserves and investment securities are also held with The Bank of Jamaica and the Financial Services Commission.

	<b>The Group</b>			
	<b>Asset</b>		<b>Related Liability</b>	
	<b>2012 \$'000</b>	<b>2011 \$'000</b>	<b>2012 \$'000</b>	<b>2011 \$'000</b>
Balance with regulators	96,865	96,395	-	-
Investment securities and securities sold under repurchase agreements	<u>72,564,213</u>	<u>68,943,131</u>	<u>67,683,281</u>	<u>64,405,024</u>
	<u>72,661,078</u>	<u>69,039,526</u>	<u>67,683,281</u>	<u>64,405,024</u>

	<b>The Company</b>			
	<b>Asset</b>		<b>Related Liability</b>	
	<b>2012 \$'000</b>	<b>2011 \$'000</b>	<b>2012 \$'000</b>	<b>2011 \$'000</b>
Balance with regulators	90,000	90,000	-	-
Investment securities	<u>5,861,737</u>	<u>4,208,617</u>	<u>3,704,528</u>	<u>3,573,611</u>
	<u>5,951,737</u>	<u>4,298,617</u>	<u>3,704,528</u>	<u>3,573,611</u>

Of the assets pledged as security, the following represents the total for those assets pledged for which the transferee has the right by contract or custom to sell or re-pledge the collateral.

	<b>The Group</b>		<b>The Company</b>	
	<b>2012 \$'000</b>	<b>2011 \$'000</b>	<b>2012 \$'000</b>	<b>2011 \$'000</b>
Investment securities	<u>3,943,434</u>	<u>7,831,016</u>	-	-

# Notes to the Financial Statements

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(expressed in Jamaican dollars unless otherwise indicated)

## 18. Intangible Assets

	The Group				
	Goodwill	Contractual Customer Relationship	Trade Names	Computer Software	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost -</b>					
At 1 January 2011	2,023,833	3,414,499	473,433	628,835	6,540,600
Additions	-	-	-	69,413	69,413
Translation adjustment	4,042	-	-	8	4,050
At 31 December 2011	2,027,875	3,414,499	473,433	698,256	6,614,063
Additions	-	-	-	88,933	88,933
Disposal	-	-	-	(2,117)	(2,117)
Reclassification	-	-	-	27,040	27,040
Translation adjustment	32,759	-	-	67	32,826
At 31 December 2012	2,060,634	3,414,499	473,433	812,179	6,760,745
<b>Amortisation -</b>					
At 1 January 2011	-	1,075,951	473,433	478,906	2,028,290
Amortisation charge	-	206,468	-	64,666	271,134
Translation adjustment	-	-	-	2	2
At 31 December 2011	-	1,282,419	473,433	543,574	2,299,426
Amortisation charge	-	206,468	-	62,663	269,131
Reclassification	-	-	-	27,040	27,040
Translation adjustment	-	-	-	59	59
At 31 December 2012	-	1,488,887	473,433	633,336	2,595,656
<b>Net Book Value -</b>					
31 December 2011	2,027,875	2,132,080	-	154,682	4,314,637
31 December 2012	2,060,634	1,925,612	-	178,843	4,165,089

## 18. Intangible Assets (Continued)

The allocation of goodwill to the Group's and the company's Cash Generating Units (CGUs) is as follows:

	The Group		The Company	
	2012	2011	2012	2011
	\$000	\$000	\$000	\$000
Sagicor Life Jamaica Individual Lines Division	855,191	855,191	855,191	855,191
Sagicor Life Jamaica Employee Benefits Division	530,126	530,126	530,126	530,126
Sagicor Life of the Cayman Islands Individual Lines Division	461,798	430,886	-	-
Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited)	186,066	186,066	-	-
Sagicor Insurance Managers Ltd.	27,453	25,616	-	-
	<u>2,060,634</u>	<u>2,027,885</u>	<u>1,385,317</u>	<u>1,385,317</u>

For the year ended 31 December 2012, management tested goodwill allocated to Sagicor Life Jamaica Individual Lines Division, Sagicor Life Jamaica Employee Benefits Division, Sagicor Life of the Cayman Islands Individual Lines Division, Sagicor Insurance Managers Ltd. and Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited) for impairment.

The recoverable amounts of Sagicor Life Jamaica Individual Lines Division, Sagicor Life Jamaica Employee Benefits Division and Sagicor Life of the Cayman Islands Individual Lines Division CGUs are determined on the Capitalised Earnings Approach. These calculations use projected sustainable earnings based on audited earnings and financial budgets approved by management covering a three year period and the earnings multiples stated below.

The recoverable amounts of the non-life CGUs, Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited) and Sagicor Insurance Managers Ltd. are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three year period. Cash flows beyond the three year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long term average growth rate for the business in which the CGU operates.

There was no impairment of any of the Group's CGUs.

Key assumptions used for the impairment calculations are as follows:

	Earnings Multiple	Earnings Growth Rate	Capital Expenditure to EBT	Discount Rate
Sagicor Life Jamaica Individual Life Division	6.50	-	-	-
Sagicor Life Jamaica Employee Benefits Division	6.60	-	-	-
Sagicor Life of the Cayman Islands Individual Life Division	8.80	-	-	-
Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited)	-	7.00%	9.00%	23.00%
Sagicor Insurance Managers Ltd.	-	3.00%	-	11.80%



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## 18. Intangible Assets (Continued)

	The Company			
	Goodwill	Contractual Customer Relationship	Computer Software	Total
	\$'000	\$'000	\$'000	\$'000
<b>Cost -</b>				
At 1 January 2011	1,385,317	1,428,973	329,834	3,144,124
Additions	-	-	27,663	27,663
At 31 December 2011	1,385,317	1,428,973	357,497	3,171,787
Additions	-	-	33,767	33,767
At 31 December 2012	1,385,317	1,428,973	391,264	3,205,554
<b>Amortisation -</b>				
At 1 January 2011	-	476,524	232,144	708,668
Amortisation charge	-	107,461	23,936	131,397
At 31 December 2011	-	583,985	256,080	840,065
Amortisation charge	-	107,461	34,254	141,715
At 31 December 2012	-	691,446	290,334	981,780
<b>Net Book Value -</b>				
31 December 2011	1,385,317	844,988	101,417	2,331,722
31 December 2012	1,385,317	737,527	100,930	2,223,774

Amortisation charges of \$269,131,000 (2011 - \$271,134,000) and \$141,715,000 (2011 - \$137,397,000) have been included in expenses for the Group and the company respectively. Customer relationships are amortised over 10 - 20 years and computer software are being amortised over 5 years.

## 19. Deferred Income Taxes

Deferred income taxes are calculated in full on all temporary differences under the liability method using a principal rate of:

- 15% for the company;
- 33 $\frac{1}{3}$ % for Sagcor Investments Jamaica Limited (formerly PanCaribbean Financial Services Limited) and
- 25% for Sagcor Property Services Limited.

The subsidiaries incorporated in Grand Cayman operate under a zero tax regime.

Deferred tax assets and liabilities, net recognized on the statement of financial position are as follows:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Deferred income tax assets, net	(19,133)	(158,723)	-	-
Deferred income tax liabilities, net	324,942	734,057	148,563	68,587
	<u>305,809</u>	<u>575,334</u>	<u>148,563</u>	<u>68,587</u>

Deferred tax assets and liabilities recognized on the statement of financial position, prior to offsetting, are as follows:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Deferred income tax assets	(190,514)	(158,723)	(129,298)	(117,029)
Deferred income tax liabilities	496,323	734,057	277,861	185,616
	<u>305,809</u>	<u>575,334</u>	<u>148,563</u>	<u>68,587</u>

The movement on the deferred income tax account is as follows:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Balance as at 1 January	575,334	603,898	68,587	228,036
Charged/(credited) to the income statement (Note 49(a))	79,401	(146,666)	76,925	(166,397)
Tax charged/(credited) to components in other comprehensive income (Note 49(c))	(348,926)	118,102	3,051	6,948
Balance as at 31 December	<u>305,809</u>	<u>575,334</u>	<u>148,563</u>	<u>68,587</u>

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## 19. Deferred Income Taxes (Continued)

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

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Deferred income tax assets -</b>				
Property, plant and equipment	(1,078)	(3,788)	-	-
Investment securities - available-for-sale	(38,358)	(45,007)	(38,358)	(45,007)
Trading securities	-	(201)	-	-
Repurchase agreements	(21,555)	(253)	-	-
Pensions and other post-retirement benefits	(74,277)	(61,920)	(60,707)	(46,598)
Interest payable	(23,019)	(17,851)	(23,019)	(17,834)
Tax losses unused	(12,841)	(10,942)	-	-
Other	(19,386)	(18,761)	(7,214)	(7,590)
	<u>(190,514)</u>	<u>(158,723)</u>	<u>(129,298)</u>	<u>(117,029)</u>
<b>Deferred income tax liabilities -</b>				
Property, plant and equipment	74,539	27,046	53,154	26,450
Trading securities	69,393	-	-	-
Interest rate swap	-	81,409	-	-
Investment securities - available-for-sale	76,437	415,363	-	-
Impairment losses on loans	51,219	47,889	-	-
Interest receivable	75,578	75,196	75,550	75,173
Unrealised foreign exchange gains	149,157	83,993	149,157	83,993
Other	-	3,161	-	-
	<u>496,323</u>	<u>734,057</u>	<u>277,861</u>	<u>185,616</u>
<b>Net deferred tax liability</b>	<u>305,809</u>	<u>575,334</u>	<u>148,563</u>	<u>68,587</u>

## 19. Deferred Income Taxes (Continued)

The movement in deferred tax assets and liabilities is as follows:

	The Group					
	Property, plant and equipment \$'000	Fair value gains \$'000	Unrealised foreign exchange gains \$'000	Post-employment benefits \$'000	Other \$'000	Total \$'000
At 1 January 2011	54,615	373,500	73,827	(59,432)	161,388	603,898
(Credited)/charged to income statement	(60,968)	(10,226)	10,166	(2,488)	(83,150)	(146,666)
Charged to other comprehensive income	29,611	88,491	-	-	-	118,102
At 31 December 2011	23,258	451,765	83,993	(61,920)	78,238	575,334
(Credited)/charged to income statement	53,801	(68,358)	65,164	(12,357)	41,151	79,401
Credited to other comprehensive income	(3,598)	(345,328)	-	-	-	(348,926)
At 31 December 2012	<u>73,461</u>	<u>38,079</u>	<u>149,157</u>	<u>(74,277)</u>	<u>119,389</u>	<u>305,809</u>
	The Company					
	Property, plant and equipment \$'000	Fair value gains \$'000	Unrealised foreign exchange gains \$'000	Post-employment benefits \$'000	Other \$'000	Total \$'000
At 1 January 2011	55,323	(22,344)	73,827	(43,038)	164,268	228,036
(Credited)/charged to income statement	(58,484)	-	10,166	(3,560)	(114,519)	(166,397)
(Credited)/charged to other comprehensive income	29,611	(22,663)	-	-	-	6,948
At 31 December 2011	26,450	(45,007)	83,993	(46,598)	49,749	68,587
(Credited)/charged to income statement	30,302	-	65,164	(14,109)	(4,432)	76,925
(Credited)/charged to other comprehensive income	(3,598)	6,649	-	-	-	3,051
At 31 December 2012	<u>53,154</u>	<u>(38,358)</u>	<u>149,157</u>	<u>(60,707)</u>	<u>45,317</u>	<u>148,563</u>

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## 20. Other Assets

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Due from sales representatives	402,408	393,705	344,231	331,278
Real estate developed for resale -				
Opening balance	715,371	441,458	715,371	441,458
Cost of sales	(73,805)	-	(73,805)	-
Additions during the year	372,720	273,913	372,720	273,913
	1,014,286	715,371	1,014,286	715,371
Premiums due and unpaid	1,500,729	1,359,011	1,415,573	1,287,978
Due from related parties (Note 22)	1,245,632	430,063	1,213,456	931,434
Due from Government Employees				
Administrative Scheme Only Fund and Government Pensioners				
Administrative Scheme Only Fund	113,163	79,282	113,163	79,282
Prepayments	309,050	212,567	259,212	205,701
Customer settlements accounts	18,585	149,758	-	-
Other receivables	361,670	280,825	124,976	76,290
	4,965,523	3,620,582	4,484,897	3,627,334
Provision against doubtful receivables	(244,322)	(241,890)	(231,878)	(230,279)
	<u>4,721,201</u>	<u>3,378,692</u>	<u>4,253,019</u>	<u>3,397,055</u>

Real estate developed for sale relates to the construction of residential and commercial complexes.

## Segregated Funds

(a) The Group and the company carry funds of \$12,096,859,000 (2011 - \$11,615,396,000) and \$11,221,791,000 (2011 - \$10,996,907,000), respectively on behalf of certain life insurance policyholders under the segregated funds. The policyholders share all rewards and risks of the performance of the segregated funds.

(b) Total assets of the Segregated Funds

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Corporate debentures	2,186,245	1,863,670	39,781	205,485
Government securities	251,628	4,590,795	251,628	4,502,269
Government securities purchased under resale agreements and short-term loans	377,413	644,346	194,144	420,045
Investment properties	1,773,095	1,746,891	1,773,095	1,746,891
Quoted equities	568,901	1,272,700	103,414	1,040,533
Unit trust shares	6,571,352	935,362	8,521,968	2,859,714
Other assets	368,225	561,632	337,761	221,970
	<u>12,096,859</u>	<u>11,615,396</u>	<u>11,221,791</u>	<u>10,996,907</u>

(c) Income by type on Segregated Funds' Investments

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Corporate debentures	329,952	98,042	10,896	49,167
Government securities	76,636	755,257	57,537	740,025
Government securities purchased under resale agreements and short-term loans	21,386	18,785	19,164	15,912
Investment properties	102,318	154,316	102,318	154,316
Quoted equities	(31,032)	70,301	(22,717)	222,653
Unit trust shares	167,088	643,344	431,061	651,615
	<u>666,348</u>	<u>1,740,045</u>	<u>598,259</u>	<u>1,833,688</u>

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## 22. Related Party Balances and Transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party, in making financial or operational decisions.

The Group is controlled by Sagicor Financial Corporation, a company incorporated and domiciled in Barbados, which owns 51.00% (2011 – 59.20%) of the ordinary stock units. Pan-Jamaican Investment Trust Limited owns 32.76% (2011 – 24.78%) of the ordinary stock units. The remaining 16.24% (2011 – 16.02%) of the stock units is widely held.

Related parties include the Pooled Investment Funds and the Segregated Funds managed by the Group.

Related companies include ultimate parent company, parent company and fellow subsidiaries.

(a) The statement of financial position includes the following balances with related parties and companies:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Financial investments -				
Ultimate parent company	<u>1,559,145</u>	<u>1,407,763</u>	<u>1,559,145</u>	<u>1,407,763</u>
Due from related companies -				
Ultimate parent company	365,627	49,159	352,634	48,384
Parent company	43,166	65,204	43,166	55,010
Subsidiary companies	6,002	-	394,493	579,235
Segregated funds	-	56,979	-	-
Pooled Pension Investment Funds	626,387	200,979	218,713	193,665
Other related companies	158,680	3,197	158,680	595
Other managed funds	<u>45,770</u>	<u>54,545</u>	<u>45,770</u>	<u>54,545</u>
	<u>1,245,632</u>	<u>430,063</u>	<u>1,213,456</u>	<u>931,434</u>

## 22. Related Party Balances and Transactions (Continued)

(a) (continued):

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Due to related companies -				
Parent company	24,621	28,552	-	-
Subsidiary companies	-	-	83,165	-
Other related companies	11,997	-	5,734	-
Segregated funds	137,309	138,151	133,688	138,151
Other managed funds	<u>69,352</u>	<u>-</u>	<u>41,452</u>	<u>-</u>
	<u>243,279</u>	<u>166,703</u>	<u>264,039</u>	<u>138,151</u>
Directors and key management personnel -				
Loans	-	20,234	-	-
Customer deposits	-	(37,414)	-	-
Securities sold under repurchase agreements	<u>-</u>	<u>(127,814)</u>	<u>-</u>	<u>-</u>

(b) The above balances include the following transactions with related parties and companies

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Ultimate parent company -				
Investment income	<u>117,242</u>	<u>110,204</u>	<u>117,242</u>	<u>110,204</u>
Parent company -				
Shared services fees	<u>61,580</u>	<u>81,245</u>	<u>42,522</u>	<u>58,409</u>
Subsidiary companies -				
Investment income	<u>-</u>	<u>-</u>	<u>64,544</u>	<u>58,926</u>
Fellow subsidiaries -				
Administration fee income	-	-	32,103	32,774
Management fee income	-	-	124,057	121,656
Shared services fees	<u>-</u>	<u>-</u>	<u>9,428</u>	<u>184,734</u>
Segregated funds -				
Investment management fee income	<u>262,401</u>	<u>234,389</u>	<u>211,572</u>	<u>192,508</u>

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## 22. Related Party Balances and Transactions (Continued)

(c) The income statement includes the following transactions with related parties and companies:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Sagicor Pooled Investment Funds -				
Lease rental expense	276,114	238,741	257,067	224,726
Management fee income	474,213	462,737	474,213	462,737
Administration fee income	282,947	262,632	61	80
Directors and key management personnel -				
Interest expense	6,940	5,909	-	-
Other related parties -				
Interest and other income earned	19,453	-	23,185	57,396
Key management compensation -				
Salaries and other short term benefits	493,196	374,727	280,853	236,950
Share based payments	196,780	208,756	155,601	132,897
Contributions to pensions and insurance schemes	20,793	22,760	17,528	15,211
	710,769	606,243	453,982	385,058
Directors' emoluments -				
Fees	43,478	42,051	25,421	25,320
Other expenses	5,018	1,327	4,691	1,327
Management remuneration (included above)	172,051	157,502	94,269	77,938
	220,547	200,880	124,381	104,585

## 23. Investment in Subsidiaries

	The Company	
	2012 \$'000	2011 \$'000
Balance as at 1 January	17,621,027	12,927,631
Acquired during the year	538,417	2,439,437
	18,159,444	15,367,068
Fair value adjustment	2,117,623	2,253,959
Balance as at 31 December	20,277,067	17,621,027

Investments were made in the following subsidiaries during the year:

	2012 \$'000	2011 \$'000
Sagicor St. Lucia Limited	538,417	-
Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited)	-	2,439,437

During the year, the company injected its 50% share of capital in a joint venture company, Sagicor Costa Rica SCR, S.A., through its wholly-owned subsidiary, Sagicor St. Lucia Limited. At year end, the company's share of capital invested was US\$6 million.

During the year, the Costa Rica Regulatory Authorities gave provisional approval for the Sagicor Costa Rica SCR, S.A. to be licensed as an insurance company, and on February 20, 2013, it obtained final approval for it to commence business.

## 24. Share Capital

	The Group and The Company	
	2012 \$'000	2011 \$'000
Authorised:		
13,598,340,000 (2011 – 13,598,340,000)		
Ordinary shares		
Issued and fully paid:		
3,760,992,000 (2011 – 3,760,992,000)		
Ordinary shares at no par	7,854,938	7,854,938

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## 25. Capital Redemption Reserve

This represents the capital redemption reserve fund arising on the redemption of preference shares in the company and one of its subsidiaries, Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited) (PCFS), in conformity with the provisions of the Jamaican Companies Act.

## 26. Stock Options Reserve

Long-term Incentive plan

The company offers stock grants and stock options to senior executives as part of its long-term incentive plan. The company has set aside 150,000,000 of its authorised but un-issued shares of \$0.10 each for the stock grants and stock options.

In January 2007, the company introduced a new Long Term Incentive (LTI) plan which replaced the previous Stock Option plan. Under the LTI plan, executives are entitled but not obliged to purchase the company stock at a pre-specified price at some future date, once a pre-determined performance objective is met. The options are granted each year on the date of the Board of Directors Human Resources Committee meeting following the performance year at which the stock option awards are approved. Stock options vest in 4 equal installments beginning the first December 31 following the grant date and for the next three December 31st 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 of Sagicor Life Jamaica Limited stock on 31 March of the measurement year. The exercise price of the options is the closing bid price on 31 March 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 as follows:

	The Company			
	2012		2011	
	Options (thousands)	Weighted Average exercise price in \$ per share	Options (thousands)	Weighted Average exercise price in \$ per share
At beginning of year	48,122	6.18	40,917	6.23
Granted - 2010			17,393	6.51
- 2011	7,968	7.52	-	-
Expired	(3,335)	6.99	(3,251)	8.10
Exercised	(8,165)	5.98	(6,937)	6.44
At end of year	<u>44,590</u>	<u>6.39</u>	<u>48,122</u>	<u>6.18</u>
Exercisable at the end of the period	<u>25,821</u>	<u>6.49</u>	<u>25,494</u>	<u>6.56</u>

## 26. Stock Options Reserve (Continued)

Stock options outstanding at the end of the year for the company have the following expiry dates and exercise prices:

Expiry Date	Number of Options		
	Exercise Price	2012 \$'000	2011 \$'000
Dec 2012	9.00	-	1,958
Dec 2014	7.92	5,827	6,956
Dec 2015	7.92	4,294	5,294
Dec 2016	4.20	11,919	16,521
Dec 2017	6.51	14,582	17,393
Dec 2018	7.52	7,968	-
		<u>44,590</u>	<u>48,122</u>

For options outstanding at the end of the year for the company, exercise prices range from \$4.20 to \$7.92 (2011 - \$4.20 to \$9.00). The remaining contractual terms range from 1 to 6 years (2011 - 1 to 6 years).

The weighted average share price for options exercised during the year was \$5.98 (2011 - \$6.44) and the company's share of the cost of these options was \$39,838,000 (2011 - \$18,685,000).

The stock options reserve balance at the year-end represents the accumulated fair value of services provided by employees in consideration for shares, as measured by reference to the fair value of the shares. The fair value of the options granted during the year as determined using the Black-Scholes valuation model was \$15,406,983. The significant inputs into the model were share price of \$10.75, dividend yield of 5.49%, standard deviation of the expected share price returns of 25%, and annual risk free interest rate of 7.65%. The expected volatility is based on statistical analysis of monthly share prices over the preceding seven years.

The Group and the company recognized cumulative expenses of \$88,228,000 and \$57,499,000 (2011 - \$95,895,000 and \$70,547,000) and share options expense of which \$107,528,000 and \$97,225,000 (2011 - \$120,298,000 and \$56,056,000) in the income statement of the Group and the company, respectively.

The company also has in place a share purchase plan which enables its administrative and sales staff to purchase a pool of Sagicor Life Jamaica Limited shares at 75% of the closing bid price on December 31 each year. During the year, the Staff Share Purchase Plan Trust purchased 6,180,000 shares over the Stock Exchange for a total value of \$66,149,000. There is no cost to the company as the discounted shares will be transferred in 2013.

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## 26. Stock Options Reserve (Continued)

One of the company's subsidiaries, Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited), offers stock options to employees who have completed the minimum eligibility period of employment. Options are conditional on the employee completing a minimum service period of one year (the eligibility period). Options are forfeited if the employee leaves Sagicor Investments Jamaica Limited before the options vest. Options were granted as follows:

- (i) 4,074,246 stock options on 1 April 2007. These options expire on 31 March 2014. The exercise price for the options is \$18.00. These options vest over four years – 25% each anniversary date of the grant. 174,242 stock units have been taken up during the year (485,791 to date). Contracts for 927,116 of these stocks units were forfeited to date.
- (ii) 3,100,273 stock options on 1 April 2008. These options expire on 31 March 2015. The exercise price for the options is \$20.50. These options vest over four years – 25% each anniversary date of the grant. 347,356 stock units have been taken up during the year (470,347 to date). Contracts for 335,358 of these stock units were forfeited to date.
- (iii) 5,785,288 stock options on 1 April 2009. These options expire on 31 March 2016. The exercise price for the options is \$12.20. These options vest over four years – 25% each anniversary date of the grant. 810,335 stock units have been taken up during the year (1,785,676 to date). Contracts for 578,137 of these stock units were forfeited to date.
- (iv) 3,137,791 stock options on 1 April 2010. These options expire on 31 March 2017. The exercise price for the options is \$18.00. These options vest over four years – 25% each anniversary date of the grant. 186,606 units have been taken up during the year (244,044 to date). Contracts for 184,222 of these stock units were forfeited to date.
- (v) 2,635,606 stock options on 1 April 2011. These options expire on 31 March 2018. The exercise price for the options is \$19.20. These options vest over four years – 25% each anniversary date of the grant. 86,528 units have been taken up during the year and to date. Contracts for 259,586 of these stock units were forfeited to date.
- (vi) 1,172,441 stock option on 1 April 2012. These options expire on 31 March 2019. The exercise price for the option is \$26.48. These options vest over four years – 25% each anniversary date of the grant. Contracts for 70,617 of these stock units were forfeited to date.

## 26. Stock Options Reserve (Continued)

Details of the stock options outstanding are as follows:

<b>Sagicor Investments Jamaica Limited</b>				
	<b>Number of stock options 2012</b>	<b>Weighted average exercise price 2012</b>	<b>Number of stock options 2011</b>	<b>Weighted average exercise price 2011</b>
	<b>'000</b>	<b>\$</b>	<b>'000</b>	<b>\$</b>
Balance at beginning of year	12,956	16.54	11,393	16.01
Granted	3,808	21.44	3,138	18.00
Exercised	(1,605)	15.68	(1,275)	14.68
Lapsed/forfeited	(680)	17.92	(300)	21.75
	<u>14,479</u>	<u>17.76</u>	<u>12,956</u>	<u>16.54</u>
Exercisable at the end of the year	<u>8,384</u>	<u>17.36</u>	<u>6,935</u>	<u>17.41</u>

For options outstanding at the end of the year for Sagicor Investments Jamaica Limited, the exercise price ranges from \$12.00 to \$26.48 (2011 - \$12.20 to \$20.50). The weighted average remaining contractual term is three years (2011 – three years).

Options for 1,605,067 (2011 – 1,274,942) stock units were exercised during the year. The weighted average stock unit price at the date of exercise for options exercised during the year was \$21.65 (2011 - \$14.72).

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## 27. Investment and Fair Value Reserves

This represents the unrealised surplus or deficit on the re-measurement of available-for-sale securities, the revaluation of property, plant and equipment, an adjustment for gains or losses on investments in subsidiaries, an adjustment for equity investments deemed impaired and an adjustment for gains or losses on available-for-sale securities which have matured or have been disposed. An analysis of the investment and fair value reserves is as follows:

	The Group		The Company	
	2012 \$000	2011 \$000	2012 \$000	2011 \$000
Owner-occupied properties	431,151	487,519	348,664	405,032
Unrealised gains on investments in subsidiaries	-	-	10,848,144	8,730,522
Unrealised gains on available-for-sale securities	452,784	300,656	(181,965)	(310,948)
	<u>883,935</u>	<u>788,175</u>	<u>11,014,843</u>	<u>8,824,605</u>

## 28. Currency Translation Reserve

This represents the unrealised foreign exchange gains and losses on the translation of subsidiaries with functional currencies other than the Jamaican dollar.

## 29. Other Reserves

### (a) Special Investment Reserve

This represents a non-distributable reserve under the provisions of the Insurance Regulations, 2001 (Note 2(s)).

### (b) Loan Loss Reserve

This is a non-distributable reserve representing the excess of the allowance for impairment losses determined using the Bank of Jamaica's regulatory requirements over the amount determined under IFRS.

## 30. Dividends Declared

	The Group and The Company	
	2012 \$'000	2011 \$'000
First interim dividend – 28 cents per share (2011 – 34 cents per share)	1,053,078	1,278,737
Second interim dividend - 28 cents per share (2011 – 31 cents per share)	1,053,078	1,165,906
	<u>2,106,156</u>	<u>2,444,643</u>

The dividends paid for 2012 and 2011 represented a dividend per stock unit of \$0.56 and \$0.65 respectively.

## 31. Due to Banks and Other Financial Institutions

	%	The Group		The Company	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Long Term Loans -</b>					
Development Bank of Jamaica Limited (DBJ) -					
Jamaican dollar	various	215,791	292,253	-	-
United States dollar	various	-	1,894	-	-
European Investment Bank (EIB) -					
Jamaican dollar	various	133,453	294,114	-	-
United States dollar	various	41,749	58,432	-	-
The National Export-Import Bank of Jamaica Limited (EXIM) -					
Jamaican dollar	8	32,150	48,463	-	-
United States dollar	9-13	45,603	65,266	-	-
National Housing Trust NHT-					
Jamaican dollar	various	684,929	658,644	684,929	658,644
Credit Suisse NY-					
United States dollar	7.25	745,855	695,396	-	-
		<u>1,899,530</u>	<u>2,114,462</u>	<u>684,929</u>	<u>658,644</u>
<b>Short Term Loans -</b>					
Citibank N.A. -					
United States dollar		-	3,573,611	-	3,573,611
UBS AG London-					
United States dollar	3.789	3,704,528	-	3,704,528	-
Oppenheimer & Co. Inc. -					
United States dollar	2	449,173	957,788	-	-
Morgan Stanley Smith Barney -					
	1.067-				
United States dollar	1.152	4,488,593	4,547,579	-	-
		<u>8,642,294</u>	<u>9,078,978</u>	<u>3,704,528</u>	<u>3,573,611</u>
<b>Bank Overdrafts -</b>					
Bank of Jamaica -					
Jamaican dollar		-	3,597	-	-
National Commercial Bank Jamaica Limited -					
Jamaican dollar		140,219	212,769	140,219	212,769
		<u>140,219</u>	<u>216,366</u>	<u>140,219</u>	<u>212,769</u>
		<u>10,682,043</u>	<u>11,409,806</u>	<u>4,529,676</u>	<u>4,445,024</u>



# Notes to the Financial Statements

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## 31. Due to Banks and Other Financial Institutions (Continued)

### (a) Development Bank of Jamaica Limited (DBJ)

The agreement with the Development Bank of Jamaica Limited (DBJ) allows DBJ, at its absolute discretion, to approve J\$ financing to Sagicor Investments Jamaica Limited (SIL) (formerly Pan Caribbean Financial Services Limited), for on-lending to customers for development projects which meet the criteria of DBJ and on such terms and conditions as DBJ may stipulate.

Funds disbursed to SIJL bear interest at DBJ's lending rate prevailing at the date of approval of each disbursement unless otherwise varied by DBJ and are extended to customers at a maximum spread as stipulated by DBJ.

### (b) European Investment Bank (EIB)

A facility was established in the amount of €4,000,000 on 20 December 2002 for the provision of financing to small and medium sized projects in the productive and related service sectors in Jamaica. The loan is disbursed to SIL in tranches. The draw downs may be done in United States dollar or Jamaican dollar. The loan is repayable in the Euro equivalent of the outstanding loan balance by 7 equal instalments commencing 5 December 2008.

### (c) The National Export-import Bank of Jamaica Limited (EXIM)

SIL and its subsidiary, Sagicor Bank Jamaica Limited (SBJL) (formerly PanCaribbean Bank Limited), are approved financial institutions of the National Export-Import Bank of Jamaica Limited. Through this partnership, financing is provided which is utilised to finance customers with viable projects within EXIM's guidelines.

Trade credit, short term and medium term loans are offered to customers engaged in manufacturing, agriculture tourism and export trading. The loans to customers are for varying terms and at a maximum spread as stipulated by EXIM.

### (d) National Housing Trust

This is a third party financing agreement between the company and the National Housing Trust, and attracts interest at rates ranging from 0.75% to 7%.

### (e) Credit Suisse NY

This represents a fixed rate loan at interest rate of 7.25%. The loan is secured by International Corporate bonds totalling US\$12,895,480, a Royal Bank of Scotland Corporate bond totalling US\$1,181,640, a Petroleum Company of Trinidad & Tobago Limited Corporate bond totalling US\$1,329,000 and a Government of Barbados Corporate bond totalling US\$263,457. This loan is repayable in full on 21 August 2014.

### (f) UBS AG London

This represents a loan facility in the amount of US\$40,000,000. The loan attracts interest rate of one month LIBOR plus 3.4% per annum and is secured by a Kingdom of Bahrain bond totalling US\$1,076,200, a Republic of Italy bond totalling US\$1,161,355, a Government of Bermuda bond totalling US\$1,176,096, a Commonwealth of Bahamas bond totalling US\$4,599,000, a Government of Cayman Islands bond totalling US\$8,288,000, Government of Trinidad and Tobago bonds totalling US\$11,654,725, Government of Jamaica Global bonds totalling US\$28,778,875, a Petroleum Company of Trinidad & Tobago Limited Corporate bond totalling US\$4,099,018 and International Corporate bonds totalling US\$2,396,016. This loan is repayable in full in April 2013.

## 31. Due to Banks and Other Financial Institutions (Continued)

### (g) Oppenheimer & Co. Inc.

This represents amounts due to the broker for securities purchased by Sagicor Life of the Cayman Islands Ltd. under margin loan facilities. The facilities attract interest rate of 2% per annum. These loans are repayable on demand and secured International Corporate bonds totalling US\$16,105,471 and a Government of Barbados Corporate bond totalling US\$105,383.

### (h) Morgan Stanley Smith Barney

This represents amounts due to the broker for securities purchased by Sagicor Life of the Cayman Islands Ltd. under margin loan facilities. The facilities attract interest rates ranging from 1.067% to 1.152% per annum. These loans are repayable on demand and secured by International Corporate bonds totalling US\$67,395,106, an International Municipal bond totalling US\$593,475 and Equities totaling US\$514,427.

### (i) Bank Overdrafts

The bank overdraft balance represents book overdraft at year end. The actual balances at bank were positive at year end.

The Group has not had any defaults of principal, interest or other breaches with respect to its liabilities during the year.

## 32. Customer Deposits and Other Accounts

These represent the balance of customer accounts held with the Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited). They are initially stated at the nominal amount when funds are received and subsequently stated at amortised cost using the effective interest method.

# Notes to the Financial Statements

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## 33. Structured Products

	The Group	
	2012	2011
	\$'000	\$'000
Principal protected notes -		
With no interest guaranteed	315,566	274,913
With interest guaranteed	394,512	-
7.15% US dollar amortizing notes	144,022	-
	<u>854,100</u>	<u>274,913</u>

### Principal Protected Notes

Principal protected notes comprise a fixed income element with or without an interest guarantee (included above) and an equity-indexed option element disclosed in Note 10. These notes entitle the holders to participate in any positive returns on the equity-indexed options and they also include a principal protection feature. If the return on the index is negative, the holder will obtain the principal invested in the notes with no interest guarantee and principal plus interest for the notes with an interest guarantee. The maturity of these notes range from 2013 to 2017.

### US Dollar Amortizing Notes

The 7.15% US dollar amortizing notes are structured securities whereby the principal is amortised quarterly with the final repayment by February 2015.

## 34. Provisions

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
At beginning of year	-	200,000	-	-
Utilised during the year	-	(200,000)	-	-
At end of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Provisions represented management's estimate of amounts likely to be paid based on claims against the Group which were pending before the Courts.

## 35. Other Liabilities

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Accounts payable and accruals	532,212	673,733	315,701	478,858
Accrued vacation	65,488	58,800	39,200	32,242
Annuities payable	1,082	1,303	1,082	1,303
Dividends payable	69,636	53,555	69,636	53,555
Due to related parties (Note 22)	243,279	166,703	264,039	138,151
Due to brokers	-	763,587	-	763,587
Bonus payable	341,130	265,658	252,072	202,205
Premiums not applied	889,736	1,192,467	829,613	1,144,110
Reinsurance payable	87,637	150,816	77,204	78,378
Mortgage principal and real estate payables	312,217	315,042	312,217	315,042
Customer settlement accounts	77,081	97,988	-	-
Regulatory fees	4,332	-	-	-
Items in course of payment	89,962	119,179	-	-
Fees received in advance	5,299	10,494	-	-
Unearned reinsurance commissions	7,047	6,484	-	-
Miscellaneous	622,888	401,232	378,384	215,985
	<u>3,349,026</u>	<u>4,277,041</u>	<u>2,539,148</u>	<u>3,423,416</u>

# Notes to the Financial Statements

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## 36. Insurance Contract Liabilities

(a) Composition by line of business is as follows:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Group annuities	20,742,390	17,778,500	20,023,429	17,360,362
Group insurance	3,869,405	3,788,900	3,823,410	3,749,114
Individual insurance	3,047,930	2,075,067	1,736,946	1,085,704
<b>Total</b>	<b>27,659,725</b>	<b>23,642,467</b>	<b>25,583,785</b>	<b>22,195,180</b>

(b) Movements in insurance liabilities:

	The Group			
	2012			
	Group	Individual	Group	Total
	Annuities	Insurance	Insurance	
	\$'000	\$'000	\$'000	\$'000
Balance at the beginning of the year	17,778,500	2,075,067	3,788,900	23,642,467
Normal changes in policyholders' liabilities (Note 36(d))	2,434,773	890,753	77,502	3,403,028
Changes as a result of revaluation	529,117	82,110	3,003	614,230
<b>Balance at end of year</b>	<b>20,742,390</b>	<b>3,047,930</b>	<b>3,869,405</b>	<b>27,659,725</b>

	The Group			
	2011			
	Group	Individual	Group	Total
	Annuities	Insurance	Insurance	
	\$'000	\$'000	\$'000	\$'000
Balance at the beginning of the year	14,529,309	2,201,116	3,576,555	20,306,980
Normal changes in policyholders' liabilities (Note 36(d))	3,187,594	(135,567)	211,949	3,263,976
Changes as a result of revaluation	61,597	9,518	396	71,511
<b>Balance at end of year</b>	<b>17,778,500</b>	<b>2,075,067</b>	<b>3,788,900</b>	<b>23,642,467</b>

## 36. Insurance Contract Liabilities (Continued)

(b) Movements in insurance liabilities (continued):

	The Company			
	2012			
	Group	Individual	Group	Total
	Annuities	Insurance	Insurance	
	\$'000	\$'000	\$'000	\$'000
Balance at beginning of year	17,360,362	1,085,704	3,749,114	22,195,180
Normal changes in policyholders' liabilities (Note 36(d))	2,175,979	651,242	74,296	2,901,517
Changes as a result of revaluation	487,088	-	-	487,088
<b>Total</b>	<b>20,023,429</b>	<b>1,736,946</b>	<b>3,823,410</b>	<b>25,583,785</b>

	The Company			
	2011			
	Group	Individual	Group	Total
	Annuities	Insurance	Insurance	
	\$'000	\$'000	\$'000	\$'000
Balance at beginning of year	14,299,910	944,637	3,521,387	18,765,934
Normal changes in policyholders' liabilities (Note 36(d))	3,002,076	141,067	227,727	3,370,870
Changes as a result of revaluation	58,376	-	-	58,376
<b>Total</b>	<b>17,360,362</b>	<b>1,085,704</b>	<b>3,749,114</b>	<b>22,195,180</b>

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## 36. Insurance Contract Liabilities (Continued)

(c) Investment and other assets supporting policyholders' and other liabilities:

	The Group				
	2012				
	Insurance	Pensions and Annuities	Other Liabilities	Capital and Surplus	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Quoted equities	-	-	-	1,475,089	1,475,089
Investment properties	-	-	-	627,731	627,731
Fixed income securities	22,180,183	25,411,058	67,711,686	10,245,313	125,548,240
Mortgages	486,598	1,058,485	-	105,235	1,650,318
Other assets	794,867	-	10,873,677	21,947,529	33,616,073
Segregated fund assets	12,096,859	-	-	-	12,096,859
	<u>35,558,507</u>	<u>26,469,543</u>	<u>78,585,363</u>	<u>34,400,897</u>	<u>175,014,310</u>

	2011				
	Insurance	Pensions and Annuities	Other Liabilities	Capital and Surplus	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Quoted equities	-	-	-	1,250,805	1,250,805
Investment properties	-	-	-	792,452	792,452
Fixed income securities	20,085,564	21,567,768	68,798,022	9,479,287	119,930,641
Mortgages	475,352	1,053,330	-	46,389	1,575,071
Other assets	765,766	-	6,684,127	18,484,275	25,934,168
Segregated fund assets	11,615,396	-	-	-	11,615,396
	<u>32,942,078</u>	<u>22,621,098</u>	<u>75,482,149</u>	<u>30,053,208</u>	<u>161,098,533</u>

## 36. Insurance Contract Liabilities (Continued)

(c) Investment and other assets supporting policyholders' and other liabilities (continued):

	The Company				
	2012				
	Insurance	Pensions and Annuities	Other Liabilities	Capital and Surplus	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Quoted equities	-	-	-	757,178	757,178
Investment properties	-	-	-	373,181	373,181
Fixed income securities	17,162,383	24,641,314	104,208	1,932,120	43,840,025
Mortgages	486,598	1,058,485	-	94,162	1,639,245
Other assets	332,787	-	208,751	29,508,899	30,050,437
Segregated fund assets	11,221,791	-	-	-	11,221,791
	<u>29,203,559</u>	<u>25,699,799</u>	<u>312,959</u>	<u>32,665,540</u>	<u>87,881,857</u>

	2011				
	Insurance	Pensions and Annuities	Other Liabilities	Capital and Surplus	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Quoted equities	-	-	-	446,783	446,783
Investment properties	-	-	-	479,800	479,800
Fixed income securities	15,281,483	21,112,177	422,173	3,756,852	40,572,685
Mortgages	475,352	1,053,330	-	24,552	1,553,234
Other assets	337,309	-	1,824,736	23,786,006	25,948,051
Segregated fund assets	10,996,907	-	-	-	10,996,907
	<u>27,091,051</u>	<u>22,165,507</u>	<u>2,246,909</u>	<u>28,493,993</u>	<u>79,997,460</u>

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## 36. Insurance Contract Liabilities (Continued)

(d) Changes in policy liabilities were caused by the following business activities and changes in actuarial assumptions:

	The Group			
	2012			
	Group Annuities \$'000	Individual Insurance \$'000	Group Insurance \$'000	Total \$'000
Change in assumed investment yields and inflation rate	297,140	(61,732)	832	236,240
Change due to the issuance of new policies and the decrements on in-force policies	2,628,781	811,762	23,698	3,464,241
Change due to other actuarial assumptions	(491,148)	140,723	52,972	(297,453)
	<u>2,434,773</u>	<u>890,753</u>	<u>77,502</u>	<u>3,403,028</u>
	2011			
	Group Annuities \$'000	Individual Insurance \$'000	Group Insurance \$'000	Total \$'000
	Change in assumed investment yields and inflation rate	(40,935)	168,510	27,444
Change due to the issuance of new policies and the decrements on in-force policies	3,285,953	801,480	134,443	4,221,876
Change due to other actuarial assumptions	(57,424)	(1,105,557)	50,062	(1,112,919)
	<u>3,187,594</u>	<u>(135,567)</u>	<u>211,949</u>	<u>3,263,976</u>

## 36. Insurance Contracts Liabilities (Continued)

(d) Changes in policy liabilities were caused by the following business activities and changes in actuarial assumptions (continued).

	The Company			
	2012			
	Group Annuities \$'000	Group Insurance \$'000	Individual Insurance \$'000	Total \$'000
Change in assumed investment yields and inflation rate	175,397	(29,919)	(496,730)	(351,252)
Change due to the issuance of new policies and the decrements on in-force policies	2,483,671	24,449	1,441,841	3,949,961
Change due to other actuarial assumptions	(483,089)	79,766	(293,869)	(697,192)
	<u>2,175,979</u>	<u>74,296</u>	<u>651,242</u>	<u>2,901,517</u>
	2011			
	Group Annuities \$'000	Group Insurance \$'000	Individual Insurance \$'000	Total \$'000
	Change in assumed investment yields and inflation rate	(64,429)	27,444	112,527
Change due to the issuance of new policies and the decrements on in-force policies	3,123,971	150,221	931,692	4,205,884
Change due to other actuarial assumptions	(57,466)	50,062	(903,152)	(910,556)
	<u>3,002,076</u>	<u>227,727</u>	<u>141,067</u>	<u>3,370,870</u>

(e) Policy assumptions

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

Insurance and investment contract liabilities have two major assumptions, best estimate assumptions and provisions for adverse deviation assumptions.

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

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## 36. Insurance Contracts Liabilities (Continued)

### (e) Policy assumptions (continued)

#### Life Insurance and Annuity Contracts

#### (i) Best estimate assumptions

Assumptions cover the lifetime of the policies and are made for many variables including mortality, morbidity, investment yields, rates of policy termination, operating expenses and certain taxes.

#### (ii) Mortality and morbidity

The assumptions are based on past group and industry experience. For individual life policies the Group bases its assumption on the Canadian Institute of Actuaries 86-92 male and female aggregate mortality tables which are 15 year select and ultimate mortality tables. For accidental death and dismemberment benefits the Group bases its assumptions on the 1959 Accidental Death Benefit table for rider benefits and the Canadian Population Accident 1990-1992 sex distinct table for coupon products. Critical illness incidence rates are based on British population sex-distinct incidence rates developed by the Institute of Actuaries. Group annuitant mortality is based on the Society of Actuaries 1994 Group Annuitant male and female basic mortality tables with projection scale AA for improvements in mortality. Individual Annuitant mortality is based on the Society of Actuaries 2012 Individual Annuitant male and female Period mortality tables with projection scale G2 beyond 2012 for improvements in mortality.

#### (iii) Investment yields

The Group broadly matches assets and liabilities by line of business. The projected cash flows from these assets are combined with future reinvestment rates derived from the current economic outlook and the Group's investment policy to determine expected rates of return on these assets for all future years. The gross long term ultimate reinvestment rate (after 20 years) is based on expectations of risk-free government bond yields. The gross rate is adjusted to take into account investment expenses, investment income taxes and asset default. Assumptions taking into account inflation are that real returns after 30 years will be between 0.6% and 1.8%.

#### (iv) Lapses and persistency

Lapses relate to termination of policies due to non-payment of premiums. Surrender and withdrawals relate to voluntary termination of policies by policyholders. Policy termination assumptions are based on the Group's own experience and vary by type of product. Lapse rates in the first year of a policy range between 7% and 30% of insurance amounts issued. Lapse rates after 20 policy years are assumed to be between 1% and 9.5% of insurance amounts in force. Partial withdrawal rates average about 16% of fund values available from policies in force.

## 36. Insurance Contracts Liabilities (Continued)

### (e) Policy assumptions (continued)

#### Life Insurance and Annuity Contracts (continued)

#### (v) Policy expenses

Policy maintenance expenses are derived from the Group's own internal cost studies projected into the future with an allowance for inflation. All expenses, including overhead, are functionally allocated by line of business, between the administration of the business and the acquisition of the business. All expenses related to the administration of the business are used to determine the policy maintenance unit costs. No expenses related to the acquisition of the business are included in the unit expense assumption used in the valuation of the actuarial liabilities. Interest sensitive and Universal life policies are assumed to be twice as costly to administer as traditional life policies. The inflation assumption is kept consistent with the investment assumption. The initial inflation rate is based on average calendar year inflation over the last 2 years and declines over the life of the policies such that real returns after 30 years are between 0.6% and 1.8%.

#### (vi) Provision for adverse deviation assumptions

To recognise the uncertainty in establishing best estimate assumptions, to allow for possible deterioration in experience and to provide greater comfort that the reserves are adequate to pay future benefits, the Appointed Actuary is required to include a margin for adverse deviation in each assumption. The impact of these margins is to increase reserves and so decrease the income that would be recognised on inception of the policy. The Canadian Institute of Actuaries standards indicate that margins are to be between 5% and 20% of the best estimate assumptions. The Group uses margins for each assumption at the mid to conservative end of the range, taking into account the risk profiles of the business.

#### (vii) Asset default

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

#### (viii) Changes in assumptions

Every financial year, the expectations of the Group with respect to the best estimate assumptions and the margins for adverse deviation described above are reviewed. All assumptions are updated as appropriate to reflect the circumstances of the Group.

#### 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 balance sheet date.

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## 37. Investment Contract Liabilities

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Fair value -				
Segregated funds (unit-linked)	12,096,859	11,615,396	11,221,791	10,996,907
Amortised cost -				
Amounts on deposit	7,032,761	6,894,239	4,877,133	4,461,515
Deposit administration fund	3,271,323	3,030,867	3,261,750	3,016,405
Other investment contracts	492,773	427,910	157,449	172,160
	<u>10,796,857</u>	<u>10,353,016</u>	<u>8,296,332</u>	<u>7,650,080</u>
	<u>22,893,716</u>	<u>21,968,412</u>	<u>19,518,123</u>	<u>18,646,987</u>

All financial liabilities at fair value through profit or loss are designated by the Group to be in this measurement category. The maturity value of these financial liabilities is determined by the fair value of the linked assets, at maturity date. There will be no difference between the carrying amount and the maturity amount at the maturity date.

The fair value of financial liabilities at amortised cost is based on a discounted cash flow valuation technique. This discount rate is determined by current market assessment of the time value of money and risk specific to the liability.

Movement of the Deposit Administration Funds:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Balance at the beginning of the year	3,030,867	3,234,044	3,016,405	3,182,071
Deposits received	442,412	2,193,514	442,412	2,191,249
Interest earned	227,324	243,610	226,634	243,610
Service charges	(29,232)	(28,841)	(29,232)	(28,841)
Withdrawals	(401,086)	(2,611,926)	(394,469)	(2,571,684)
Revaluation adjustment	1,038	466	-	-
Balance at the end of the year	<u>3,271,323</u>	<u>3,030,867</u>	<u>3,261,750</u>	<u>3,016,405</u>

These represent funds managed on behalf of pension plans administered by the Group and the company. Interest credited to the funds is paid at a fixed annual rate of return, with the rate being revised on an annual basis. At the end of the year, there were 160 (2011 - 165) clients in the company. The average interest rate paid by the company during the year was 6.55% (2011 - 7.5%).

## 38. Other Policy Liabilities

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Insurance benefits payable	1,586,601	1,544,841	1,506,579	1,416,063
Provision for unearned premiums	107,593	75,142	-	-
Policy dividends and other funds on deposit	719,915	685,728	353,281	344,351
	<u>2,414,109</u>	<u>2,305,711</u>	<u>1,859,860</u>	<u>1,760,414</u>

## 39. Investment Contracts Benefits

Benefits from unit linked investment contracts without fixed terms for the Group amounting to \$2,731,251,000 (2011 - \$2,270,975,000) are accrued to the account of the policyholders as the fair value of the net gains arising from the underlying linked assets. All these contracts are designated at fair value through profit or loss.

## 40. Premium Income

(a) Gross premiums by line of business:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Group insurance -				
Group creditor life	522,253	558,314	522,253	558,314
Group health	6,377,052	5,562,504	6,377,052	5,562,504
Group life	1,678,414	1,439,093	1,557,914	1,311,977
	8,577,719	7,559,911	8,457,219	7,432,795
Individual insurance -				
Individual life	8,764,119	7,847,072	7,704,431	6,888,977
Individual health	319,410	280,052	319,410	280,052
Individual annuities	131,403	194,262	-	-
	9,214,932	8,321,386	8,023,841	7,169,029
Bulk annuities	428,536	2,153,169	428,536	2,153,169
Annuities	1,871,003	1,143,802	1,871,003	1,143,802
Property and casualty	238,480	188,345	-	-
	<u>20,330,670</u>	<u>19,366,613</u>	<u>18,780,599</u>	<u>17,898,795</u>

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## 40. Premium Income (Continued)

(b) Reinsurance premiums by line of business:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Group insurance -				
Group health	175,532	115,351	175,532	115,351
Group life	92,621	83,174	23,965	23,235
	268,153	198,525	199,497	138,586
Individual life	282,953	210,642	174,199	74,908
Property and casualty	249,360	192,035	-	-
	800,466	601,202	373,696	213,494
Net premiums	<u>19,530,204</u>	<u>18,765,411</u>	<u>18,406,903</u>	<u>17,685,301</u>

(c) Net premiums by geography:

	The Group	
	2012	2011
	\$'000	\$'000
Jamaica	18,406,903	17,685,301
Cayman Islands	1,123,301	1,080,110
	<u>19,530,204</u>	<u>18,765,411</u>

## 41. Investment Income

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Interest income -				
Short term deposits	11,672	15,621	2,663	5,754
Corporate debentures	1,378,513	1,057,259	80,727	83,634
Investment securities	8,938,393	8,514,948	4,009,583	3,660,520
Loans	1,075,557	1,166,189	176,600	171,910
Policy loans	81,378	81,145	40,267	44,257
Government securities purchased under resale agreements	47,623	86,643	44,290	51,421
Other	17,143	16,531	23,245	21,307
	11,550,279	10,938,336	4,377,375	4,038,803
Dividends	19,495	16,720	634,186	499,254
Net gains on sale of mortgage portfolio	-	33,647	-	33,647
Net realised gains on investment securities	1,312,302	1,563,586	45,927	517,532
Other investment losses	(104,419)	(89,364)	(21,461)	(28,269)
	<u>12,777,657</u>	<u>12,462,925</u>	<u>5,036,027</u>	<u>5,060,967</u>

## 42. Impairment Charge

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Equity investments	<u>5,117</u>	<u>834,207</u>	<u>-</u>	<u>8,362</u>

Included in Group's impairment charge for the year is an amount of \$5,117,000 (2011 - \$787,197,000) recorded by one of the company's subsidiaries, Sagicor Life of the Cayman Islands Ltd., in respect of impairment against shares in an Exchange Traded Fund (ETF). The carrying value of these shares before impairment was \$21,727,000 (2011 - \$1,180,765,000).



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## 43. Interest Expense

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Customer deposits and repurchase liabilities	3,018,331	2,925,658	-	-
Due to banks and other financial institutions	118,027	282,565	183,654	147,808
Investment contracts	574,270	694,090	465,214	604,100
Other	396,442	134,475	-	-
	<u>4,107,070</u>	<u>4,036,788</u>	<u>648,868</u>	<u>751,908</u>

## 44. Fee Income

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Administration fees	1,191,273	1,137,933	863,252	793,567
Other				
Surrender charges	124,772	124,059	120,025	120,025
Wholesale banking fees	5,380	6,048	-	-
Credit related fees, net	32,933	36,155	-	-
Stockbrokerage fees	40,118	30,438	-	-
Treasury fees	19,388	20,190	-	-
Trust fees	50,321	47,751	-	-
Corporate finance fees	44,314	-	-	-
Miscellaneous fees	35,271	18,880	29,884	17,477
	<u>352,497</u>	<u>283,521</u>	<u>149,909</u>	<u>137,502</u>
	<u>1,543,770</u>	<u>1,421,454</u>	<u>1,013,161</u>	<u>931,069</u>

## 45. Insurance Benefits and Claims

	The Group				The Company			
	Year ended 31 December 2012			2011	Year ended 31 December 2012			2011
	Gross incurred \$'000	Reinsured \$'000	Net \$'000	Net Claims \$'000	Gross incurred \$'000	Reinsured \$'000	Net \$'000	Net Claims \$'000
Death and disability	1,779,421	(49,527)	1,729,894	1,503,615	1,674,728	(43,592)	1,631,136	1,399,807
Maturities	9,858	-	9,858	24,441	7,749	-	7,749	15,356
Surrenders and withdrawals	968,186	-	968,186	862,303	791,174	-	791,174	664,312
Annuities and pensions	2,097,922	-	2,097,922	1,679,353	2,050,281	-	2,050,281	1,645,962
Policy dividends and bonuses	45,463	-	45,463	47,948	7,429	-	7,429	7,694
Health insurance	5,206,707	(78,025)	5,128,682	4,568,543	5,206,707	(78,025)	5,128,682	4,567,281
Other benefits	398,812	(18,496)	380,316	365,848	360,481	(16,878)	343,603	304,773
	<u>10,506,369</u>	<u>(146,048)</u>	<u>10,360,321</u>	<u>9,052,051</u>	<u>10,098,549</u>	<u>(138,495)</u>	<u>9,960,054</u>	<u>8,605,185</u>

## 46. Finance Costs

Finance costs represent interest costs incurred on loans used for business development.

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## 47. Administration Expenses

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Auditors' remuneration -				
Current year	60,477	58,666	30,000	30,000
Prior year	(365)	-	(1,000)	-
Office accommodation	589,448	539,040	416,155	387,144
Communication and technology	446,693	434,285	256,035	265,273
Advertising and branding	332,692	231,113	180,123	131,001
Sales convention and incentives	96,689	92,735	83,081	87,281
Postage, printing and office supplies	109,964	104,368	72,121	77,389
Policy stamp duties and reimbursements	38,472	80,021	32,858	57,282
Regulators fees	147,878	130,189	103,153	88,935
Directors costs	48,496	44,574	30,112	27,843
Legal and professional fees	126,731	66,237	59,262	44,824
Legal claims	45,617	40,838	-	-
Services outsourced	371,561	255,077	166,218	130,311
Other expenses	488,894	440,761	319,728	403,085
	<u>2,903,247</u>	<u>2,517,904</u>	<u>1,747,846</u>	<u>1,730,368</u>

## 48. Salaries, Pension Contributions and Other Staff Benefits

### (a) Employees

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Salaries	2,693,961	2,450,134	1,563,397	1,422,489
Payroll taxes	266,346	240,917	161,575	145,824
Pension costs (Note 15)	279,942	197,560	252,348	185,214
Other post-retirement benefits (Note 15)	130,653	190,322	121,881	171,059
Share based compensation	130,257	122,602	94,952	63,977
Other	226,711	177,338	73,736	55,215
	<u>3,727,870</u>	<u>3,378,873</u>	<u>2,267,889</u>	<u>2,043,778</u>

	The Group		The Company	
	2012	2011	2012	2011
	No.	No.	No.	No.
Number of employees at year end -				
Full - time administrative	858	864	456	454
Part - time administrative	201	184	123	137
	<u>1,059</u>	<u>1,048</u>	<u>579</u>	<u>591</u>

### (b) Contractors – sales agents

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Agents' commissions and bonuses	3,186,483	2,897,686	2,879,769	2,613,796
	<u>No.</u>	<u>No.</u>	<u>No.</u>	<u>No.</u>
Number of insurance sales agents at year end	529	500	491	463

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## 49. Taxation

(a) Tax is computed as follows:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current year taxation -				
Investment income tax @ 15%	209,176	461,054	209,176	461,054
Income tax at 33 1/3%	574,653	569,821	-	-
	783,829	1,030,875	209,176	461,054
Deferred income tax (Note 19) -				
Deferred tax charge/(credit) relating to the origination and reversal of temporary differences	79,401	(146,666)	76,925	(166,397)
Taxation	<u>863,230</u>	<u>884,209</u>	<u>286,101</u>	<u>294,657</u>
Premium tax @ 3%	386,197	343,614	386,197	343,614
Asset tax @ 0.14%	164,047	-	53,476	-
Withholding tax	808	-	808	-
Premium and other taxes	<u>551,052</u>	<u>343,614</u>	<u>440,481</u>	<u>343,614</u>

- (i) Investment tax applicable to the long term insurance business of the company is 15% on income, other than premium income, less certain expenses incurred in the generation of that income.
- (ii) Investment tax applicable to the health insurance business of the company is 15% of taxable profits of that line of business.
- (iii) Income tax at 33 1/3% is payable on taxable profits of Sagicor Property Services Limited, Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited), Employee Benefits Administrator Limited, Sagicor Insurance Brokers Limited and Sagicor International Administrators Limited.
- (iv) Subject to the agreement of the Taxpayer Audit and Assessment Department, losses of certain subsidiary companies, available for set off against future taxable profits amount to approximately \$172,707,000 (2011 - \$146,051,000).
- (v) Premium tax charges for the company include tax on deposits relating to the segregated funds totalling \$3,088,624,000 (2011 - \$2,694,536,000). The income from these funds is not included in the financial statements of the company. The company recovers these charges through premium income charged to the funds for the provision of life insurance coverage.
- (vi) During the year, a new asset tax was introduced at a rate of 0.14% of total assets less required capital and withholding taxes due from Tax Administration of Jamaica (TAJ).

## 49. Taxation (Continued)

(b) Reconciliation of applicable tax charges to effective tax charge:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Investment income tax -				
Gross investment income	<u>12,777,657</u>	<u>12,462,925</u>	<u>5,036,027</u>	<u>5,060,967</u>
Tax at 15%	1,916,649	1,869,439	755,404	759,145
Adjusted for:				
Deductible expenses	(228,768)	(220,987)	(228,768)	(220,987)
Income not subject to tax	(329,995)	(293,248)	(329,995)	(293,248)
Net investment income not subject to investment tax	(1,161,245)	(1,110,294)	-	-
Expenses not deductible for tax purposes	93,106	60,765	93,106	60,765
Net effect of other charges and allowances	<u>(3,646)</u>	<u>(11,018)</u>	<u>(3,646)</u>	<u>(11,018)</u>
	<u>286,101</u>	<u>294,657</u>	<u>286,101</u>	<u>294,657</u>
Income tax -				
Profit before taxation	<u>7,204,942</u>	<u>6,638,676</u>	<u>-</u>	<u>-</u>
Tax at 33 1/3%	2,401,647	2,212,892	-	-
Adjusted for:				
Investment income not subject to income tax	(1,877,649)	(1,613,436)	-	-
Prior year under provision	13,383	19,780	-	-
Net effect of other charges and allowances	<u>39,748</u>	<u>(29,684)</u>	<u>-</u>	<u>-</u>
	<u>577,129</u>	<u>589,552</u>	<u>-</u>	<u>-</u>
Taxation expense	<u>863,230</u>	<u>884,209</u>	<u>286,101</u>	<u>294,657</u>

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## 49. Taxation (Continued)

(c) The tax (charge)/credit relating to components of other comprehensive income is as follows:

	The Group					
	2012			2011		
	Before tax \$'000	Tax (charge)/ credit \$'000	After tax \$'000	Before tax \$'000	Tax (charge)/ credit \$'000	After tax \$'000
Fair value (losses)/gains on available-for-sale investments	(210,512)	331,994	121,482	139,735	(92,372)	47,363
Cash flow hedge	(51,554)	13,334	(38,220)	(11,643)	3,881	(7,762)
Unrealised (losses)/gains on owner-occupied properties	(59,966)	3,598	(56,368)	31,591	(29,611)	1,980
Retranslation of foreign operations	551,579	-	551,579	10,637	-	10,637
Other comprehensive income	229,547	348,926	578,473	170,320	(118,102)	52,218
Deferred income taxes (Note 19)		348,926			(118,102)	

	The Company					
	2012			2011		
	Before tax \$'000	Tax (charge)/ credit \$'000	After tax \$'000	Before tax \$'000	Tax (charge)/ credit \$'000	After tax \$'000
Fair value gains on available-for-sale investments	165,740	(6,649)	159,091	(61,832)	22,663	(39,169)
Unrealised (losses)/gains on owner-occupied properties	(59,966)	3,598	(56,368)	31,591	(29,611)	1,980
Unrealised gains on investment in subsidiaries	2,117,623	-	2,117,623	2,253,959	-	2,253,959
Other comprehensive income	2,223,397	(3,051)	2,220,346	2,223,718	(6,948)	2,216,770
Deferred income taxes (Note 19)		(3,051)			(6,948)	

## 50. Earnings per Stock Unit

(i) Basic earnings per stock unit is calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary shares in issue during the year.

	2012 \$'000	2011 \$'000
Net profit attributable to stockholders	5,790,660	5,522,830
Weighted average number of ordinary stock units in issue ('000)	3,760,992	3,760,992
Basic earnings per stock unit	\$1.54	\$1.47

(ii) Diluted earnings per stock unit is calculated adjusting the weighted average number of ordinary stock unit outstanding to assume conversion of all dilutive potential ordinary shares under the following schemes:

(a) An Employee Share Ownership Plan.

(b) Effective 1 May 2003, the Group instituted a share based compensation plan for Executives. A new long-term Incentive Plan was put in place from January 2007. Shares amounting to 150,000,000 have been set aside to cover share grants and options to Executives.

The company adopted a policy not to issue new shares to satisfy the staff share ownership plans, options being exercised or grants being awarded. Instead, the required shares are being purchased over the Jamaica Stock Exchange in the name of the Staff Share Purchase Trust or the Long-term Incentive Plan.

	2012 \$'000	2011 \$'000
Net profit attributable to stockholders	5,790,660	5,522,830
Weighted average number of ordinary stock units in issue ('000)	3,764,515	3,766,308
Fully diluted earnings per stock unit	\$1.54	\$1.47

(ii) The weighted average number of ordinary stock units used in the basic and diluted earnings per stock unit computations may be reconciled as follows:

	2012 '000	2011 '000
Weighted average number of ordinary stock units for the purposes of the computation of basic earnings per stock unit	3,760,992	3,760,992
Effect of dilutive potential ordinary stock units – stock options	3,523	5,316
Weighted average number of ordinary stock units for the purposes of the computation of diluted earnings per stock unit	3,764,515	3,766,308

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## 51. Fair Values of Financial Instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market price is used to determine fair value where an active market exists as it is the best evidence of the fair value of a financial instrument. However, market prices are not available for a significant number of the financial assets and liabilities held and issued by the Group. Therefore, for financial instruments where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at statement of financial position dates.

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates. The following methods and assumptions have been used:

- (i) Investment securities at fair value through profit or loss are measured at fair value by reference to quoted prices when available. If quoted market prices are not available, then fair values are estimated on the basis of pricing models, or discounted cash flows. Fair value is equal to the carrying amount of these items.
- (ii) Investment securities classified as available-for-sale are measured at fair value by reference to quoted market prices or dealer quotes when available. If quoted market prices are not available, then fair values are based on pricing models or other recognised valuation techniques. Investments in unit trusts are based on prices quoted by the fund managers.
- (iii) The fair value of the interest rate swap is calculated as the present value of the estimated future cash flows. The fair value of currency forward contracts is determined using quoted forward exchange rates. The fair value of the equity indexed options and the exchange traded funds that are shorted are based on quoted prices. The fair value of the cross currency swap is based on the present value of the net future cash payments and receipts, which fluctuate based on changes in market interest rates and the euro/U.S. dollar exchange rate.
- (iv) The fair value of demand deposits and customer accounts with no specific maturity is assumed to be the amount payable on demand at the year end date. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using interest rates for new deposits.
- (v) The fair value of variable rate financial instruments is assumed to approximate their carrying amounts.
- (vi) Loans are net of provision for impairment. The estimated fair value of loans represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value; and
- (vii) Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

Differences between the fair values and the carrying values are accounted for in determining the amount of policyholders' liabilities that must be set aside each year.

## 51. Fair Values of Financial Instruments (Continued)

The table below summaries the carrying amount and fair value of financial assets and financial liabilities not presented on the Group and company's statement of financial position at their fair value:

	The Group			
	Carrying Value 2012 \$000	Fair Value 2012 \$000	Carrying Value 2011 \$000	Fair Value 2011 \$000
<b>Financial Assets</b>				
Financial investments - held to maturity	1,853,904	2,023,535	1,715,800	1,879,981
Financial investments – loans and receivables	39,823,361	40,404,565	38,471,367	39,371,007
Loans & leases, after allowance for credit losses	<u>9,391,290</u>	<u>10,184,836</u>	<u>9,259,647</u>	<u>9,441,591</u>
<b>Financial Liabilities</b>				
Securities sold under agreements to repurchase	55,694,733	55,749,391	53,948,289	53,063,660
Customer deposits and other accounts	11,090,266	12,222,760	10,599,897	10,061,772
Due to banks and other financial institutions	<u>10,682,043</u>	<u>10,693,911</u>	<u>11,409,806</u>	<u>11,498,606</u>
	The Company			
	Carrying Value 2012 \$000	Fair Value 2012 \$000	Carrying Value 2011 \$000	Fair Value 2011 \$000
<b>Financial Assets</b>				
Financial investments – loans and receivables	38,829,249	39,450,895	37,059,528	38,122,385
Lease receivables, after allowance for credit losses	<u>1,767</u>	<u>1,767</u>	<u>1,767</u>	<u>1,767</u>
<b>Financial Liabilities</b>				
Due to banks and other financial institutions	<u>4,529,676</u>	<u>4,529,676</u>	<u>4,445,024</u>	<u>4,445,024</u>

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## 51. Fair Values of Financial Instruments (Continued)

The following table provides an analysis of financial instruments that are measured in the statement of financial position at fair value at 31 December 2012, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- (i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- (iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	<b>The Group</b>			
	<b>2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>				
Financial investments	19,776,654	58,056,772	3,635,521	81,468,947
Pledged assets	-	3,943,434	-	3,943,434
Derivative financial instruments	-	4,253,104	-	4,253,104
	<u>19,776,654</u>	<u>66,253,310</u>	<u>3,635,521</u>	<u>89,665,485</u>
<b>Financial Liabilities</b>				
Derivative financial instruments	-	4,310,566	-	4,310,566
Structured products	-	854,100	-	854,100
	<u>-</u>	<u>5,164,666</u>	<u>-</u>	<u>5,164,666</u>
	<b>2011</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>				
Financial investments	16,934,438	53,266,412	3,694,877	73,895,727
Pledged assets	-	7,831,016	-	7,831,016
Derivative financial instruments	-	595,192	244,228	839,420
	<u>16,934,438</u>	<u>61,692,620</u>	<u>3,939,105</u>	<u>82,566,163</u>
<b>Financial Liabilities</b>				
Derivative financial instruments	111,498	589,102	-	700,600
Structured products	-	274,913	-	274,913
	<u>111,498</u>	<u>864,015</u>	<u>-</u>	<u>975,513</u>

## 51. Fair Values of Financial Instruments (Continued)

	<b>The Company</b>			
	<b>2012</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>				
Financial investments	<u>3,599,282</u>	<u>1,981,896</u>	<u>654,204</u>	<u>6,235,382</u>
	<b>2011</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>				
Financial investments	<u>2,778,110</u>	<u>2,025,885</u>	<u>455,244</u>	<u>5,259,239</u>

There were no transfers between Level 1 and 2 in the year.

Reconciliation of level 3 items -

	<b>The Group</b>		<b>The Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of year	3,939,105	3,163,809	455,244	304,303
Total gains - other comprehensive income	2,452	57,138	-	-
Total gains - income statement	263,052	110,971	41,117	-
Purchases	157,843	1,337,233	157,843	455,244
Settlements	<u>(726,931)</u>	<u>(730,046)</u>	<u>-</u>	<u>(304,303)</u>
Balance at end of year	<u>3,635,521</u>	<u>3,939,105</u>	<u>654,204</u>	<u>455,244</u>

The gains or losses recorded in the income statement are included in Note 41.

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## 52. Insurance and Financial Risk Management

The Group's activities expose it to a variety of financial risks and those activities necessitate the analysis, evaluation, control and/or acceptance of some degree of risk or combination of risks. Taking various types of risk is core to the financial services business and operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group has a risk management framework with clear terms of reference. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the Board of Directors to Executive Management committees and senior managers. Policy frameworks which set out the risk profiles for the Group's risk management, control and business conduct standards for the Group's operations have been put in place. Each policy has a member of Executive Management charged with overseeing compliance with that policy.

The Board of Directors is ultimately responsible for the establishment and oversight of the risk management framework. The Board of Directors has established committees/departments/structures for managing and monitoring risks, as follows:

### (i) Board Audit Committee

The Board Audit Committee comprises independent directors. The Committee:

- Oversees how management monitors internal controls, compliance with the Group's risk management policies and adequacy of the risk management framework to risks faced by the Group;
- Reviews the Group's annual and quarterly financial statements, related policies and assumptions and any accompanying reports or statements; and
- Reviews the internal audit function as well as the external auditor's independence, objectivity and effectiveness.

The Board Audit Committee is assisted in its oversight role by the Internal Audit Department. The Internal Audit Department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board Audit Committee.

### (ii) Board Investment Committee

The Board Investment Committee comprises independent directors. As part of its Terms of Reference, the Committee:

- Oversees the Group's financial risk management framework.
- Approves the investment policies within which the Group's investment portfolios are managed;
- Reviews the performance of the Group's investment portfolios;
- Ensures adherence to prudent standards in making investment and lending decisions and in managing investments and loans; and
- Approves new investment projects over certain thresholds, ensuring the required rates of returns are considered.

## 52. Insurance and Financial Risk Management (Continued)

### (iii) Asset/Liability Management (ALM) Committee

The Group has in place an Asset/Liability Management (ALM) Committee. This Committee:

- Monitors the profile of the Group's assets and liabilities;
- Plans, directs and monitors various financial risks including, interest rate risk, equity risk, liquidity risk, currency risk and country risk;
- Provides guidance to the Investment Managers with regards to the appropriateness of investments assigned or purchased to support the liabilities of the various lines of business; and
- Monitors market interest rates and establishes the credited rate for various investment contracts.

### (iv) Anti-Money Laundering (AML)

The Group has assigned responsibility for AML and anti-fraud to a designated department. The responsibilities of this department include:

- Maintaining and communicating the AML and Anti-fraud policies and procedures;
- Interrogating financial transactions to identify suspicious and threshold reportable items;
- Coordinating information received from operating departments on reportable items;
- Ensuring that adequate anti-fraud controls are in place; and
- Filing required reports with Management, Board of Directors and Regulatory bodies.

### (v) Regulatory Compliance

The Board has assigned responsibility for monitoring regulatory compliance to a designated department. This department maintains a catalogue of all required regulatory filings and follows-up the respective departments to ensure timely submissions. The Department files the required performance reports with management and the Board of Directors.

### (vi) Enterprise Risk Management

The Group utilises an Enterprise Risk Management (ERM) framework, including policies and procedures designed to identify, measure and control risk in all business activities. The policies and procedures are reviewed periodically by senior managers and the Board of Directors.

The framework provides for quarterly evaluation of risks by senior management, with reporting to the Board Audit Committee. The risk exposures are prioritised each year and the top twenty (20) risks reported on.

Boards of subsidiary companies and management teams carry similar operating structures where applicable.

The most important types of risk facing the Group are insurance risk, reinsurance risk, credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

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## 52. Insurance and Financial Risk Management (Continued)

### (a) Insurance risk

The Group issues both short term and long term contracts that transfer insurance risk or financial risk or both.

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the company faces under its insurance contracts is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

#### Long term insurance contracts

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

For long-term contracts in-force, 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.

#### (i) Frequency and severity of claims

For contracts where death is the insured risk the most significant factors that could increase the overall frequency and severity of claims are epidemics (such as AIDS) and wide-ranging lifestyle changes, such as in eating, smoking and exercise habits resulting in earlier or more claims than expected. For contracts where survival is the insured risk, the most significant improvement in medical science and social conditions that would increase longevity.

At present, these risks do not vary significantly in relation to the location of the risk insured by the group. However, undue concentration by amounts could have an impact on the severity of benefit payments on a portfolio basis.

## 52. Insurance and Financial Risk Management (Continued)

### (a) Insurance risk (continued)

#### Long term insurance contracts

#### (i) Frequency and severity of claims (continued)

For contracts with fixed and guaranteed benefits and fixed return premiums, there are no mitigating terms and conditions that reduce the insurance risk accepted.

The table below presents the company's concentration of insured benefits across five bands of insured benefits per individual life assured. The benefit insured figures are shown gross and net of the reinsurance contracts described below in Note 52(b). At year-end, none of these insurance contracts had triggered a recovery under the reinsurance held by the Group. As was the case in the previous year, the risk is concentrated at the higher value bands. (These tables do not include annuity contracts, for which a separate analysis is reported in following pages).

Individual Life Benefits Assured per Life ('000)	The Group			
	Total Benefits Insured			
	Before Reinsurance \$'000	%	After Reinsurance \$'000	%
2012				
0 - 200	94,548,880	12	84,435,197	11
200 - 400	76,478,747	9	65,956,131	9
400 - 800	76,681,945	10	68,148,246	9
800 - 1000	75,270,919	9	70,657,410	9
More than 1,000	490,617,423	60	460,911,236	62
Total	813,597,914	100	750,108,220	100
Individual Life Benefits Assured per Life ('000)				
2011				
0 - 200	26,911,057	4	23,241,875	4
200 - 400	23,008,496	3	22,052,749	3
400 - 800	50,681,082	7	50,058,934	7
800 - 1000	64,025,551	9	61,932,827	9
More than 1,000	569,569,084	77	516,300,369	77
Total	734,195,270	100	673,586,754	100



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## 52. Insurance and Financial Risk Management (Continued)

### (a) Insurance risk (continued)

Long term insurance contracts (continued)

#### (i) Frequency and severity of claims (continued)

Individual Life Benefits Assured per Life ('000)	The Company			
	Total Benefits Insured			
	Before Reinsurance \$'000	%	After Reinsurance \$'000	%
2012				
0 - 200	8,765,141	1	8,733,127	2
200 - 400	15,316,912	3	15,308,992	3
400 - 800	49,759,731	8	49,457,010	8
800 - 1000	70,212,326	11	68,437,387	11
More than 1,000	482,904,373	77	458,490,728	76
Total	<u>626,958,483</u>	<u>100</u>	<u>600,427,244</u>	<u>100</u>

Individual Life Benefits Assured per Life ('000)	Total Benefits Insured			
	Before Reinsurance \$'000	%	After Reinsurance \$'000	%
	2011			
0 - 200	9,186,810	2	9,147,518	2
200 - 400	15,482,931	3	15,472,366	3
400 - 800	45,717,756	8	45,372,989	9
800 - 1000	62,831,134	11	60,780,809	11
More than 1,000	428,141,636	76	401,073,453	75
Total	<u>561,360,267</u>	<u>100</u>	<u>531,847,135</u>	<u>100</u>

## 52. Insurance and Financial Risk Management (Continued)

### (a) Insurance risk (continued)

Long term insurance contracts (continued)

#### (i) Frequency and severity of claims (continued)

The table below represents the company's concentration of insured benefits across five bands of insured benefits per group individual life assured. The benefit insured figured are shown gross and net of reinsurance.

Group Life Benefits Assured per Life ('000)	The Group			
	Total Benefits Insured			
	Before Reinsurance \$'000	%	After Reinsurance \$'000	%
2012				
0 - 200	20,598,734	6	12,190,508	4
200 - 400	1,961,826	1	778,271	-
400 - 800	722,116	-	224,992	-
800 - 1,000	23,525	-	23,525	-
More than 1,000	340,867,860	93	340,867,860	96
	<u>364,174,061</u>	<u>100</u>	<u>354,085,156</u>	<u>100</u>

Group Life Benefits Assured per Life ('000)	Total Benefits Insured			
	Before Reinsurance \$'000	%	After Reinsurance \$'000	%
	2011			
0 - 200	18,492,037	5	10,791,549	3
200 - 400	2,475,347	1	1,757,213	1
400 - 800	580,968	1	164,358	1
800 - 1,000	8,095	1	8,095	1
More than 1,000	328,039,245	92	326,429,245	94
	<u>349,595,692</u>	<u>100</u>	<u>339,150,460</u>	<u>100</u>

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## 52. Insurance and Financial Risk Management (Continued)

### (a) Insurance risk (continued)

Long term insurance contracts (continued)

#### (i) Frequency and severity of claims (continued)

Group Life Benefits Assured per Life ('000)	The Company			
	Total Benefits Insured			
	Before Reinsurance \$'000	%	After Reinsurance \$'000	%
2012				
0 - 200	339	-	339	-
200 - 400	2,598	-	2,598	-
400 - 800	10,689	-	10,689	-
800 - 1,000	23,525	-	23,525	-
More than 1,000	340,709,687	100	340,709,687	100
	<u>340,746,838</u>	<u>100</u>	<u>340,746,838</u>	<u>100</u>

Group Life Benefits Assured per Life ('000)	Total Benefits Insured			
	Before Reinsurance \$'000	%	After Reinsurance \$'000	%
	2011			
0 - 200	619	1	619	1
200 - 400	2,502	1	2,502	1
400 - 800	14,700	1	14,700	1
800 - 1,000	8,095	1	8,095	1
More than 1,000	327,928,513	96	326,318,512	96
	<u>327,954,429</u>	<u>100</u>	<u>326,344,428</u>	<u>100</u>

## 52. Insurance and Financial Risk Management (Continued)

### (a) Insurance risk (continued)

Long term insurance contracts (continued)

#### (i) Frequency and severity of claims (continued)

The following tables for the company's annuity insurance contracts illustrate the concentration of risk based on five bands that group these contracts in relation to the amount payable per annum as if the annuity was in payment at the year end. The greatest risk concentration remains at the highest band, which is consistent with the prior year. The Group does not hold any reinsurance contracts against the liabilities carried for these contracts.

Annuity Payable per annum per annuitant ('000)	The Group	
	Total Benefits Insured \$'000	%
2012		
0 - 20	90,863	2
20 - 40	102,897	2
40 - 80	1,947,543	46
80 - 100	-	-
More than 100	2,114,206	50
Total	<u>4,255,509</u>	<u>100</u>

Annuity Payable per annum per annuitant ('000)	Total Benefits Insured	
	\$'000	%
2011		
0 - 20	26,139	1
20 - 40	38,126	2
40 - 80	69,846	4
80 - 100	69,963	4
More than 100	1,746,516	89
Total	<u>1,950,590</u>	<u>100</u>

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## 52. Insurance and Financial Risk Management (Continued)

### (a) Insurance risk (continued)

Long term insurance contracts (continued)

#### (i) Frequency and severity of claims (continued)

Annuity Payable per annum per annuitant ('000)	The Company	
	Total Benefits Insured	
2012	\$'000	%
0 – 20	68,231	2
20 - 40	74,390	2
40 - 80	1,943,626	46
80 - 100	-	-
More than 100	2,114,206	50
Total	4,200,453	100

Annuity Payable per annum per annuitant ('000)	Total Benefits Insured	
	\$'000	%
2011		
0 - 20	9,653	1
20 - 40	18,712	1
40 - 80	66,192	3
80 - 100	69,963	4
More than 100	1,746,516	91
Total	1,911,036	100

For interest-sensitive and unit-linked contracts the Group charges for mortality risks on a monthly basis for all insurance contracts and has the right to alter these charges based on mortality experience and hence to minimise its exposure to mortality risk. Delays in implementing increases in charges, and market or regulatory restraints over the extent of any increases may reduce this mitigating effect.

The Group manages these risks through its underwriting strategy and reinsurance arrangements.

## 52. Insurance and Financial Risk Management (Continued)

### (a) Insurance risk (continued)

Long term insurance contracts (continued)

#### (i) Frequency and severity of claims (continued)

The underwriting strategy is intended to ensure that the risks underwritten are well diversified in terms of type of risk and the level of insured benefits. The Group reinsures the excess of the insured benefit for new business for standard risks under an excess of loss reinsurance arrangement. Medical impaired lives are reinsured at lower levels. The Group does not place any reinsurance for contracts that insure survival risk. Insurance risk for contracts is also affected by the policyholders' rights to pay reduced or no future premiums, to terminate the contract completely, or to exercise a guaranteed annuity option. As a result, the amount of insurance risk is also subject to the policyholders' behaviour. On the assumption that the policyholders will make decisions rationally, overall risk can be assumed to be aggravated by such behaviour.

The Group has factored the impact of policyholders' behaviour into the assumptions used to measure these liabilities.

#### (ii) Sources of uncertainty in the estimation of future benefit payments and premium payments

Uncertainty in the estimation of future benefit payments and premium receipts for long term insurance contracts arises from the unpredictability of long term changes in overall levels of mortality and the variability in the policyholder behaviour.

The Group uses appropriate base tables of standard mortality according to the type of contract being written. An investigation as to the actual experience of the Group is carried out, and statistical methods are used to adjust the crude mortality rates to produce a best estimate of expected mortality for the future. The best estimate of future mortality is based on standard industry tables adjusted for the group's overall experience. For contracts that insure survival, an adjustment is made for future mortality improvements based on the mortality investigations performed by independent actuarial bodies. The Group maintains voluntary termination statistics to investigate the deviation of actual termination experience against assumptions. Statistical methods are used to determine appropriate termination rates to be used for the best estimate assumption.

#### (iii) Process used in deriving assumptions

The assumptions for short term life contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

For long-term insurance contracts, at the reporting date, the Group determines current best estimate assumptions in relation to future deaths, voluntary terminations, investment returns and administration expenses. The best estimate assumptions are determined based on experience studies and the current circumstances of the business. A margin for adverse deviation based on expected deterioration or mis-estimation of the mean, is added to the best estimate assumptions to derive the valuation assumptions which are used for calculating the liabilities arising under the insurance contracts.

See Note 36(e) for detail policy assumptions.

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## 52. Insurance and Financial Risk Management (Continued)

### (a) Insurance risk (continued)

#### Short-duration life and health insurance contracts

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

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

The principal risks arising from short-term insurance contracts are premium risk, claims risk and reinsurance risk (See Note 52(b)).

Premium risk is the risk that the premium rate has been set too low for the risk being assumed.

Claims risk is the risk that:

- the number of claims may exceed expectations
- the severity of claims incurred may exceed expectations
- the claim amount may develop during the interval between occurrence and settlement.

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

#### (i) Frequency and severity of claims

These contracts are mainly issued to employers to insure their commitments to their employees in terms of their employee benefit plans. This risk is affected by the nature of the industry in which the employer operates. The risk of death and disability will vary by industry. Undue concentration of risk by industry will therefore increase the risk of a change in the underlying average mortality or morbidity of employees in a given industry, with significant effects on the overall insurance risk.

Insurance risk under disability contracts is also dependent on economic conditions in the industry. The Group attempts to manage this risk through its underwriting, claims handling and reinsurance policy. Excess of loss reinsurance contracts have been purchased by the Group to limit the maximum loss on any one life and health claims, see Note 52(b) for retention limits.

## 52. Insurance and Financial Risk Management (Continued)

### (a) Insurance risk (continued)

#### Short-duration life and health insurance contracts (continued)

#### (ii) Sources of uncertainty in the estimation of future claim payments

There is no need to estimate mortality rates or morbidity rates for future years because these contracts have short duration.

#### (iii) Process used in deriving assumptions

The assumptions for short-duration life contracts and the process used in deriving these assumptions have remained substantially unchanged since the previous year.

See Note 36(e) for detail policy assumptions.

The process to derive the assumptions for short-duration life contracts is similar to long-term insurance contracts. However, the short-term nature of the mortality risk underwritten makes the Group's estimate of the liability covering death benefit payments less uncertain than in the case of long-term contracts.

#### Short-duration property and casualty insurance contracts

#### Casualty insurance risks

Certain casualty risks for the Group and its affiliates are covered through the subsidiary, Sagicor Re Insurance Company Limited.

The frequency and severity of casualty claims can be affected by several factors. The most significant casualty risks under the professional indemnity, directors and officers liability, medical malpractice, contractors all risk, employer's liability and public liability policies are slip and fall accidents at the insured premises, and damage to areas occupied or contents at the insured premises due to blocked drains or burst pipes. In addition, increasing level of awards, the increasing number of cases coming to court and inflation all impact on ultimate claims costs. The Group manages these risks through its underwriting strategy and proactive claims handling. The underwriting strategy concentrates on fully reinsuring the exposures to casualty risks.

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## 52. Insurance and Financial Risk Management (Continued)

### (a) Insurance risk (continued)

Short-duration property and casualty insurance contracts (continued)

#### (ii) Property insurance risks

Property risks for the Group and its affiliates are covered through one of its subsidiaries, Sagicor Re Insurance Company Limited (Sagicor Re).

For property insurance contracts, climatic changes give rise to more frequent and severe extreme weather events (for example, river flooding, hurricanes, etc.) and their consequences (for example, subsidence claims). For certain contracts, there is a maximum amount payable for claims in any policy year.

The Sagicor Re has the right to re-price the risk on renewal. It also has the ability to impose deductibles and reject fraudulent claims. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured, and claims payment limits are always included to cap the amount payable on occurrence of the insured event. The cost of rebuilding properties, of replacement or indemnity for contents are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm or flood damage.

All of the property and casualty risks insured by Sagicor Re are reinsured with unrelated reinsurance companies. However, in the event that these reinsurers are unable to meet their obligations under the reinsurance agreements, Sagicor Re would be liable to pay the gross amount of settled claims, subject to a "catch all clause". Sagicor Re mitigates the risks associated with failure of its reinsurers by transacting only with well-established reinsurance companies. The reinsurers are primarily located in Europe, however, a portion of reinsurance is placed with reinsurers located in the Caribbean.

### (b) 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 established capability to meet their contractual obligations and which generally have high credit ratings. The credit ratings of reinsurers are monitored.

For its property risks, the Group uses facultative reinsurance on a quota share and layered basis to cover single events and multiple claims arising from catastrophes. The insurer may be required to pay an additional premium to reinstate the reinsurance coverage where a claim exhausts the reinsurance limit.

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

## 52. Insurance and Financial Risk Management (Continued)

### (b) Reinsurance risk (continued)

Retention limits represent the level of risk retained by the insurer. The Board of Directors approved policy retention limits. Coverage in excess of these limits is ceded to reinsurers up to the treaty limit. The retention programs used by the Group are summarised below:

Type of insurance contract	Retention by insurers
Health insurance contracts with groups	Retention per individual to a maximum J\$1,000,000.
Life insurance contracts with individuals	Retention per individual to a maximum of J\$35,000,000 and US\$500,000.
Life insurance contracts with groups	Retention per individual to a maximum of J\$35,000,000 and US\$100,000.

### (c) Cash flow and fair value interest rate risk

Cash flow risk is the risk that the 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 value of a financial instrument will fluctuate because of changes in market interest rates. The company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. 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 Asset and Liability Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored at least quarterly.

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.

The Group monitors interest rate risk by calculating the mean duration of the investment portfolio and the liabilities issued. The mean duration is an indicator of the sensitivity of the assets and liabilities to change in current interest rates. The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using best estimate assumptions (Note 36(e) for further details).

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

#### (i) Long term traditional insurance contracts and some investment contracts

Insurance and investment contracts with guaranteed and fixed terms have benefit payments that are fixed and guaranteed at the inception of the contract. The financial components of these benefits may include a guaranteed fixed interest rate and hence the Group's primary financial risk on these contracts is the risk that interest income and capital redemptions from the financial assets backing the liabilities is insufficient to fund the guaranteed benefits payable.

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## 52. Insurance and Financial Risk Management (Continued)

### (c) Cash flow and fair value interest rate risk (continued)

#### (ii) Long term insurance contracts and investment contracts without fixed terms

For unit-linked contracts the Group matches all the assets on which the unit prices are based with assets in the portfolio. There is no price, currency, credit, or interest rate risk for these contracts.

The Group's primary exposure to financial risk for these contracts is the risk of volatility in asset management fees due to the impact of interest rate and market price movements on the fair value of the assets held in the linked funds, on which investment management fees are based.

A decrease of 10% in the value of the assets would reduce the asset management fees to \$236,165,000 (2011 - \$173,257,000) per annum.

Unit-linked and interest-sensitive universal life type contracts have embedded surrender options. These embedded derivatives vary in response to the change in a financial variable (such as equity prices and interest rates). At year end, all embedded derivatives within insurance liabilities were closely related to the host contract and did not require separation.

#### (iii) Short term contracts

For short term insurance contracts, the Group has matched the insurance liabilities with a portfolio of debt securities. The financial assets in this portfolio are characterised by interest rate risk.

Short term liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest bearing.

The following tables summarise carrying amounts of statement of financial position assets, liabilities and equity in order to arrive at the Group and company's interest rate gap based on earlier of contractual repricing or maturity dates.

The disclosures provided in this note are based on the Group and company's investment portfolio as at 31 December 2012 and 2011.

## 52. Insurance and Financial Risk Management (Continued)

### (c) Cash flow and fair value interest rate risk (continued)

	The Group						Total
	2012						
	Immediately Rate Sensitive	Within 3 months	3-12 months	1-5 years	Over 5 years	Non- Interest bearing	
\$000	\$000	\$000	\$000	\$000	\$000	\$000	
<b>Assets</b>							
Cash resources	4,519,784	-	-	-	-	225,453	4,745,237
Cash reserve at Bank of Jamaica	735,494	-	-	-	-	-	735,494
Financial investments and pledged assets	-	31,582,294	3,549,349	28,471,681	59,445,238	4,700,667	127,749,229
Securities purchased under resale agreements	-	1,261,839	523,078	3,426	-	5,567	1,793,910
Derivative financial instruments	-	-	-	3,933,704	-	319,400	4,253,104
Loans & leases, after allowance for credit losses	-	2,511,013	1,724,819	3,186,946	1,871,199	97,313	9,391,290
Reinsurance contracts	-	-	-	-	-	239,079	239,079
Other assets	-	-	-	-	-	3,397,865	3,397,865
Segregated funds' assets	22,352	457,919	58,001	519,659	1,739,645	9,299,283	12,096,859
<b>Non-financial assets:</b>							
Investment properties	-	-	-	-	-	627,731	627,731
Investment in associated companies	-	-	-	-	-	2,725	2,725
Property, plant and equipment	-	-	-	-	-	1,687,846	1,687,846
Retirement benefit assets	-	-	-	-	-	220,211	220,211
Intangible assets	-	-	-	-	-	4,165,089	4,165,089
Deferred income taxes	-	-	-	-	-	19,133	19,133
Taxation recoverable	-	-	-	-	-	2,566,172	2,566,172
Other assets	-	-	-	-	-	1,323,336	1,323,336
<b>Total assets</b>	<b>5,277,630</b>	<b>35,813,065</b>	<b>5,855,247</b>	<b>36,115,416</b>	<b>63,056,082</b>	<b>28,896,870</b>	<b>175,014,310</b>

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## 52. Insurance and Financial Risk Management (Continued)

### (c) Cash flow and fair value interest rate risk (continued)

	The Group						
	2012						
	Immediately Rate Sensitive	Within 3 months	3-12 months	1-5 years	Over 5 years	Non- Interest bearing	Total
\$000	\$000	\$000	\$000	\$000	\$000	\$000	
<b>Liabilities</b>							
Securities sold under repurchase agreements	-	46,634,047	8,584,192	29,460	-	447,034	55,694,733
Due to Banks and other financial institutions	-	5,091,406	3,763,810	1,287,661	530,420	8,746	10,682,043
Customer deposits and other accounts	-	7,962,570	1,907,618	420,575	737,732	61,771	11,090,266
Structured products	-	-	-	528,953	-	325,147	854,100
Derivative financial instruments	-	-	-	3,998,369	-	312,197	4,310,566
Other liabilities	-	-	-	-	-	3,349,026	3,349,026
Segregated funds' liabilities	-	69,871	181,735	1,426,612	10,418,641	-	12,096,859
Insurance contracts liabilities	-	482,350	1,477,077	7,876,089	15,715,015	2,109,194	27,659,725
Investment contracts liabilities	-	7,202,272	1,719,625	1,874,960	-	-	10,796,857
Other policy liabilities	-	719,915	-	-	-	1,694,194	2,414,109
<b>Non-financial liabilities:</b>							
Taxation payable	-	-	-	-	-	316,418	316,418
Deferred income taxes	-	-	-	-	-	324,942	324,942
Retirement benefit obligations	-	-	-	-	-	1,023,769	1,023,769
<b>Total liabilities</b>	<b>-</b>	<b>68,162,431</b>	<b>17,634,057</b>	<b>17,442,679</b>	<b>27,401,808</b>	<b>9,972,438</b>	<b>140,613,413</b>
<b>On statement of financial position interest sensitivity gap</b>	<b>5,277,630</b>	<b>(32,349,366)</b>	<b>(11,778,810)</b>	<b>18,672,737</b>	<b>35,654,274</b>	<b>18,924,432</b>	<b>34,400,897</b>
<b>Cumulative interest sensitivity gap</b>	<b>5,277,630</b>	<b>(27,071,736)</b>	<b>(38,850,546)</b>	<b>(20,177,809)</b>	<b>15,476,465</b>	<b>34,400,897</b>	

## 52. Insurance and Financial Risk Management (Continued)

### (c) Cash flow and fair value interest rate risk (continued)

	The Group						
	2011						
	Immediately Rate Sensitive	Within 3 months	3-12 months	1-5 years	Over 5 years	Non- Interest bearing	Total
\$000	\$000	\$000	\$000	\$000	\$000	\$000	
<b>Assets</b>							
Cash resources	2,716,206	-	-	-	-	163,967	2,880,173
Cash reserve at Bank of Jamaica	519,732	-	-	-	-	-	519,732
Financial investments and pledged assets	-	27,036,545	659,619	27,636,221	62,764,835	4,498,167	122,595,387
Securities purchased under resale agreements	-	762,801	232,516	-	-	5,275	1,000,592
Derivative financial instruments	-	244,228	-	-	-	595,192	839,420
Loans & leases, after allowance for credit losses	-	2,183,941	2,675,624	2,762,320	1,544,319	93,443	9,259,647
Reinsurance contracts	-	-	-	-	-	240,222	240,222
Other assets	-	-	-	-	-	2,450,754	2,450,754
Segregated funds' assets	19,842	1,907,582	56,306	1,168,148	3,966,775	4,496,743	11,615,396
<b>Non-financial assets:</b>							
Investment properties	-	-	-	-	-	792,452	792,452
Investment in associated companies	-	-	-	-	-	2,725	2,725
Property, plant and equipment	-	-	-	-	-	1,535,046	1,535,046
Retirement benefit assets	-	-	-	-	-	212,955	212,955
Intangible assets	-	-	-	-	-	4,314,637	4,314,637
Deferred income taxes	-	-	-	-	-	158,723	158,723
Taxation recoverable	-	-	-	-	-	1,752,734	1,752,734
Other assets	-	-	-	-	-	927,938	927,938
<b>Total assets</b>	<b>3,255,780</b>	<b>32,135,097</b>	<b>3,624,065</b>	<b>31,566,689</b>	<b>68,275,929</b>	<b>22,240,973</b>	<b>161,098,533</b>

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## 52. Insurance and Financial Risk Management (Continued)

### (c) Cash flow and fair value interest rate risk (continued)

	The Group						
	2011						
	Immediately Rate Sensitive	Within 3 months	3-12 months	1-5 years	Over 5 years	Non- Interest bearing	Total
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Liabilities</b>							
Securities sold under repurchase agreements	-	47,553,404	6,056,655	9,955	-	328,275	53,948,289
Due to Banks and other financial institutions	-	5,744,965	3,531,664	1,340,416	573,110	219,651	11,409,806
Customer deposits and other accounts	-	5,856,821	3,369,539	611,857	688,353	73,327	10,599,897
Structured products	-	-	-	-	-	274,913	274,913
Derivative financial instruments	-	-	-	-	-	700,600	700,600
Other liabilities	-	-	-	-	-	4,277,041	4,277,041
Segregated funds' liabilities	-	61,194	228,183	483,943	10,842,076	-	11,615,396
Insurance contracts liabilities	-	422,264	1,269,799	6,825,109	13,149,379	1,975,916	23,642,467
Investment contracts liabilities	-	7,319,242	1,742,845	1,290,929	-	-	10,353,016
Other policy liabilities	-	685,727	-	-	-	1,619,984	2,305,711
<b>Non-financial liabilities:</b>							
Taxation payable	-	-	-	-	-	333,059	333,059
Deferred income taxes	-	-	-	-	-	734,057	734,057
Retirement benefit obligations	-	-	-	-	-	851,073	851,073
<b>Total liabilities</b>	<b>-</b>	<b>67,643,617</b>	<b>16,198,685</b>	<b>10,562,209</b>	<b>25,252,918</b>	<b>11,387,896</b>	<b>131,045,325</b>
<b>On statement of financial position interest sensitivity gap</b>	<b>3,255,780</b>	<b>(35,508,520)</b>	<b>(12,574,620)</b>	<b>21,004,480</b>	<b>43,023,011</b>	<b>10,853,077</b>	<b>30,053,208</b>
<b>Cumulative interest sensitivity gap</b>	<b>3,255,780</b>	<b>(32,252,740)</b>	<b>(44,827,360)</b>	<b>(23,822,880)</b>	<b>19,200,131</b>	<b>30,053,208</b>	

## 52. Insurance and Financial Risk Management (Continued)

### (c) Cash flow and fair value interest rate risk (continued)

	The Company						
	2012						
	Immediately Rate Sensitive	Within 3 months	3-12 months	1-5 years	Over 5 years	Non- Interest bearing	Total
\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>							
Cash resources	510,108	-	-	-	-	107	510,215
Financial investments	-	2,003,488	1,169,361	1,681,635	38,241,046	2,058,681	45,154,211
Securities purchased under resale agreements	-	1,400,968	6,091	3,426	-	4,619	1,415,104
Lease receivables	-	1,199	-	-	-	568	1,767
Reinsurance contracts	-	-	-	-	-	101,640	101,640
Other assets	-	-	-	-	-	2,979,521	2,979,521
Segregated funds' assets	22,352	275,244	39,179	92,766	73,160	10,719,090	11,221,791
<b>Non-financial assets:</b>							
Investment properties	-	-	-	-	-	373,181	373,181
Investment in associated companies	-	-	-	-	-	2,725	2,725
Property, plant and equipment	-	-	-	-	-	1,328,930	1,328,930
Retirement benefit assets	-	-	-	-	-	184,482	184,482
Intangible assets	-	-	-	-	-	2,223,774	2,223,774
Taxation recoverable	-	-	-	-	-	833,951	833,951
Other assets	-	-	-	-	-	1,273,498	1,273,498
Investment in subsidiaries	-	-	-	-	-	20,277,067	20,277,067
<b>Total assets</b>	<b>532,460</b>	<b>3,680,899</b>	<b>1,214,631</b>	<b>1,777,827</b>	<b>38,314,206</b>	<b>42,361,834</b>	<b>87,881,857</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	-	153,608	3,731,810	162,935	479,343	1,980	4,529,676
Other liabilities	-	-	-	-	-	2,539,148	2,539,148
Segregated funds' liabilities	-	69,871	181,735	1,426,613	9,543,572	-	11,221,791
Insurance contracts liabilities	-	469,991	1,408,441	7,602,630	14,039,526	2,063,197	25,583,785
Investment contracts liabilities	-	6,770,181	115,004	1,411,147	-	-	8,296,332
Other policy liabilities	-	353,281	-	-	-	1,506,579	1,859,860
<b>Non-financial liabilities:</b>							
Taxation payable	-	-	-	-	-	95,969	95,969
Deferred income taxes	-	-	-	-	-	148,563	148,563
Retirement benefit obligations	-	-	-	-	-	941,193	941,193
<b>Total liabilities</b>	<b>-</b>	<b>7,816,932</b>	<b>5,436,990</b>	<b>10,603,325</b>	<b>24,062,441</b>	<b>7,296,629</b>	<b>55,216,317</b>
<b>On statement of financial position interest sensitivity gap</b>	<b>532,460</b>	<b>(4,136,033)</b>	<b>(4,222,359)</b>	<b>(8,825,498)</b>	<b>14,251,765</b>	<b>35,065,205</b>	<b>32,665,540</b>
<b>Cumulative interest sensitivity gap</b>	<b>532,460</b>	<b>(3,603,573)</b>	<b>(7,825,932)</b>	<b>(16,651,430)</b>	<b>(2,399,665)</b>	<b>32,665,540</b>	



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## 52. Insurance and Financial Risk Management (Continued)

### (c) Cash flow and fair value interest rate risk (continued)

	The Company						
	2011						
	Immediately Rate Sensitive	Within 3 months	3-12 months	1-5 years	Over 5 years	Non- Interest bearing	Total
\$000	\$000	\$000	\$000	\$000	\$000	\$000	
<b>Assets</b>							
Cash resources	277,818	-	-	-	-	107	277,925
Financial investments	-	2,840,950	126,683	1,105,740	36,671,806	1,716,569	42,461,748
Securities purchased under resale agreements	-	438,684	8,903	-	-	676	448,263
Lease receivables	-	1,199	-	-	-	568	1,767
Reinsurance contracts	-	-	-	-	-	97,555	97,555
Other assets	-	-	-	-	-	2,475,983	2,475,983
Segregated funds' assets	19,842	1,660,644	48,904	991,836	2,426,415	5,849,266	10,996,907
<b>Non-financial assets:</b>							
Investment properties	-	-	-	-	-	479,800	479,800
Investment in associated companies	-	-	-	-	-	2,725	2,725
Property, plant and equipment	-	-	-	-	-	1,312,264	1,312,264
Retirement benefit assets	-	-	-	-	-	184,482	184,482
Taxation recoverable	-	-	-	-	-	384,220	384,220
Intangible assets	-	-	-	-	-	2,331,722	2,331,722
Other assets	-	-	-	-	-	921,072	921,072
Investment in subsidiaries	-	-	-	-	-	17,621,027	17,621,027
<b>Total assets</b>	<b>297,660</b>	<b>4,941,477</b>	<b>184,490</b>	<b>2,097,576</b>	<b>39,098,221</b>	<b>33,378,036</b>	<b>79,997,460</b>
<b>Liabilities</b>							
Due to banks and other financial institutions	-	231,084	3,483,408	164,177	447,462	118,893	4,445,024
Other liabilities	-	-	-	-	-	3,423,416	3,423,416
Segregated funds' liabilities	-	61,194	228,183	483,943	10,223,587	-	10,996,907
Insurance contracts liabilities	-	413,037	1,237,402	6,599,273	12,009,339	1,936,129	22,195,180
Investment contracts liabilities	-	6,310,152	117,466	1,222,462	-	-	7,650,080
Other policy liabilities	-	344,351	-	-	-	1,416,063	1,760,414
<b>Non-financial liabilities:</b>							
Taxation payable	-	-	-	-	-	187,224	187,224
Deferred income taxes	-	-	-	-	-	68,587	68,587
Retirement benefit obligations	-	-	-	-	-	776,635	776,635
<b>Total liabilities</b>	<b>-</b>	<b>7,359,818</b>	<b>5,066,459</b>	<b>8,469,855</b>	<b>22,680,388</b>	<b>7,926,947</b>	<b>51,503,467</b>
<b>On statement of financial position interest sensitivity gap</b>	<b>297,660</b>	<b>(2,418,341)</b>	<b>(4,881,969)</b>	<b>(6,372,279)</b>	<b>16,417,833</b>	<b>25,451,089</b>	<b>28,493,993</b>
<b>Cumulative interest sensitivity gap</b>	<b>297,660</b>	<b>(2,120,681)</b>	<b>(7,002,650)</b>	<b>(13,374,929)</b>	<b>3,042,904</b>	<b>28,493,993</b>	

## 52. Insurance and Financial Risk Management (Continued)

### (c) Cash flow and fair value interest rate risk (continued)

The table summarises the average effective yields by the earlier of the contractual repricing or maturity dates:

	The Group					
	2012					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 Years	Over 5 Years	Weighted Average
%	%	%	%	%	%	
Cash resources	0.17	-	-	-	-	0.17
Securities sold under agreements to repurchase	-	4.76	3.01	-	-	4.24
Investments <sup>(1)</sup>	-	7.24	4.26	8.60	9.60	8.63
Loans	-	17.60	9.28	9.93	9.03	10.68
Mortgages <sup>(2)</sup>	-	11.14	11.14	11.14	11.14	11.14
Policy loans	-	-	-	-	10.43	10.43
Investment contracts	-	5.02	5.02	5.02	5.02	5.02
Bank overdraft	17.88	-	-	-	-	17.88
Deposits	-	2.28	4.10	4.18	10.00	3.87
Amounts due to banks and other financial institutions	-	5.66	4.23	8.02	7.63	5.37
	2011					
	Immediately rate sensitive	Within 3 months	3 to 12 months	1 to 5 Years	Over 5 Years	Weighted Average
	%	%	%	%	%	%
Cash resources	0.36	-	-	-	-	0.36
Securities sold under agreements to repurchase	-	4.97	4.28	5.48	-	4.91
Investments <sup>(1)</sup>	-	7.41	13.62	12.96	8.96	9.29
Loans	-	18.17	12.12	9.58	10.04	11.95
Mortgages <sup>(2)</sup>	-	13.70	13.70	13.70	13.70	13.70
Policy loans	-	-	-	-	10.00	10.00
Investment contracts	-	5.84	5.84	5.84	5.84	5.84
Bank overdraft	17.80	-	-	-	-	17.80
Deposits	-	3.58	3.76	6.13	10.00	3.72
Amounts due to banks and other financial institutions	-	6.42	7.05	8.63	8.75	6.87

(1) Yields are based on book values and contractual interest adjusted for amortization of premiums and discounts.

(2) Yields are based on book values, net of allowances for impairment and contractual interest rates.

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## 52. Insurance and Financial Risk Management (Continued)

### (c) Cash flow and fair value interest rate risk (continued)

#### 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 53.

The effects of changes in interest rates of assets backing other policy liabilities, deposit and security liabilities and equity are considered below.

### (d) Credit risk

The Group takes on exposure to credit risk, which is the risk that its customers, clients or counterparties will cause a financial loss for the Group by failing to discharge their contractual obligations. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-statement of financial position financial instruments, such as loan commitments. The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a single counterparty or groups of related counterparties and to geographical and industry segments.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Credit-related commitment risks arise from guarantees which may require payment on behalf of customers. Such payments are collected from customers based on the terms of the letters of credit. They expose the Group to similar risks to loans and these are mitigated by the same control policies and processes

Key areas where the Group is exposed to credit risk are:

- (i) Reinsurers' share of insurance liabilities – see Note 52(b) for details of reinsurance risk.
- (ii) Amounts due from reinsurers in respect of claims already paid.
- (iii) Loans, leases, mortgages and investments

#### **Credit review process**

The Group has established a credit quality review process involving regular analysis of the ability of borrowers and other counterparties to meet interest and capital repayment obligations.

#### (i) Loans and leases

The Group assesses the probability of default of individual counterparties using internal ratings. Clients of the Group are segmented into five rating classes. The Group's rating scale, which is shown below, reflects the range of default probabilities defined for each rating class.

Group's internal rating scale:

Group's rating	Description of the grade
1	Standard
2	Potential Problem Credit
3	Sub-Standard
4	Doubtful
5	Loss

## 52. Insurance and Financial Risk Management (Continued)

### (d) Credit risk (continued)

#### **Credit review process (continued)**

#### (i) Loans and leases (continued)

Exposure to credit risk is managed in part by obtaining collateral and corporate and personal guarantees. Counterparty limits are established by the use of a credit classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risk to which it is exposed and take corrective action.

#### (ii) Investments and cash

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. It does not generally require collateral in respect of other financial assets, mainly premiums receivable. There is a credit policy in place to minimise the Group's exposure to credit risk. Limits may be placed on the amount of risk accepted in relation to one borrower. As a result of the Central Securities Depository (CSD), all domestic Government of Jamaica securities have been dematerialised which has significantly reduced the settlement risk. At the year end date, the only significant concentration of credit risk related to the Group's investments in Government of Jamaica securities.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position without taking into account any collateral or any credit enhancements.

#### **Collateral and other credit enhancements**

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of different types of collateral.

The main types of collateral obtained are as follows:

Loans and leases – cash and near cash securities, mortgages over commercial and residential properties, charges over business assets such as premises, equipment, inventory, accounts receivable, stocks and other securities and motor vehicles.

Securities lending and reverse repurchase transactions – cash or Government of Jamaica securities.

The Group also obtains guarantees from parent companies for loans to their subsidiaries and personal guarantees for loans given to private companies.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral held.

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(expressed in Jamaican dollars unless otherwise indicated)

## 52. Insurance and Financial Risk Management (Continued)

### (d) Credit risk (continued)

#### Impairment

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades or infringement of the original terms of the contract.

The Group addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances are provided for financial assets that are above materiality thresholds based on a review conducted at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at year end date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

In addition, collectively assessed allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by taking into consideration historical losses on the portfolio, current economic conditions and expected receipts and recoveries once impaired.

#### Commitments and guarantees

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognized on the statement of financial position, they do not contain credit risk and are therefore part of the overall risk of the Group.

The internal rating systems described above focus more on credit-quality mapping from the inception of lending activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the year end date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements are usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

## 52. Insurance and Financial Risk Management (Continued)

### (d) Credit risk (continued)

The impairment provision shown in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two rating classes (doubtful and loss). The tables below show the Group's loans and leases and the associated impairment provision for each internal rating classes:

#### Group and company's rating

	The Group			
	2012		2011	
	Loans and leases \$'000	Impairment provision \$'000	Loans and leases \$'000	Impairment provision \$'000
Standard	8,759,820	-	8,673,862	-
Potential Problem Credit	274,849	-	85,247	-
Sub-Standard	140,004	43,699	303,314	46,162
Doubtful	65,259	13,837	135,110	34,673
Loss	391,284	182,390	313,093	170,144
	<u>9,631,216</u>	<u>239,926</u>	<u>9,510,626</u>	<u>250,979</u>

	The Company			
	2012		2011	
	Loans and leases \$'000	Impairment provision \$'000	Loans and leases \$'000	Impairment provision \$'000
Standard	-	-	-	-
Potential Problem Credit	1,767	-	1,767	-
Sub-Standard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
	<u>1,767</u>	<u>-</u>	<u>1,767</u>	<u>-</u>

# Notes to the Financial Statements

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## 52. Insurance and Financial Risk Management (Continued)

### (d) Credit risk (continued)

#### Maximum exposure to credit risk before collateral held or other credit enhancements

The following table represents a worst case scenario of credit risk exposure to the Group and company at 31 December 2012 and 2011, without taking account of any collateral held or other credit enhancements. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

	Maximum exposure			
	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Credit risk exposures relating to on-statement of financial position are as follows:				
Cash and balances due from other financial institutions (excluding cash on hand)	5,179,367	3,397,683	599,688	420,799
Securities purchased under agreements to resell	1,793,910	1,000,592	1,415,104	448,263
Investment securities	125,539,932	120,589,409	44,307,453	41,871,984
Loans & leases, net of allowance for credit losses	9,391,290	9,259,647	1,767	1,767
Reinsurance contracts	239,079	240,222	101,640	97,555
Other assets	3,397,865	2,450,754	2,979,521	2,475,983
	<u>145,541,443</u>	<u>136,938,307</u>	<u>49,405,173</u>	<u>45,316,351</u>
Credit risk exposures relating to items not on the statement of financial position are as follows:				
Loan commitments	1,607,370	786,260	86,821	89,922
Guarantees and letters of credit	833,447	1,078,739	-	-
	<u>2,440,817</u>	<u>1,864,999</u>	<u>86,821</u>	<u>89,922</u>

## 52. Insurance and Financial Risk Management (Continued)

### (d) Credit risk (continued)

#### Loans and leases

(i) Credit quality of loans and leases are summarised as follows:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Neither past due nor impaired -				
Standard	6,292,449	7,054,722	-	-
Past due but not impaired	2,742,220	1,704,387	1,767	1,767
Impaired	596,547	751,517	-	-
<b>Gross</b>	<u>9,631,216</u>	<u>9,510,626</u>	<u>1,767</u>	<u>1,767</u>
Less: provision for credit losses	(239,926)	(250,979)	-	-
<b>Net</b>	<u>9,391,290</u>	<u>9,259,647</u>	<u>1,767</u>	<u>1,767</u>

Loans and leases become past due when payments are not received on contractual repayment dates. The majority of past due loans are not considered impaired.

(ii) Aging analysis of past due but not impaired loans and leases:

	The Group		The Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Less than 30 days	628,366	1,225,853	-	-
31 to 60 days	1,675,961	395,040	-	-
61 to 90 days	436,126	81,727	-	-
More than 90 days	1,767	1,767	1,767	1,767
	<u>2,742,220</u>	<u>1,704,387</u>	<u>1,767</u>	<u>1,767</u>

Financial assets other than loans and leases that are past due but not impaired are mortgage loans up to three months of \$12,416,000 (2011 - \$14,698,000).

The Group and the company hold adequate collateral for past due not impaired loans and leases.

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## 52. Insurance and Financial Risk Management (Continued)

### (d) Credit risk (continued)

#### Loans and leases (continued)

#### (iii) Financial assets – individually impaired

Financial assets that are individually impaired before taking into consideration the cash flows from collateral held are as follows:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Equities	5,117	834,207	-	8,362
Loans and leases	596,547	751,517	-	-
Mortgage loans	206,604	164,442	201,625	148,619

The fair value of collateral that the Group and company held as security for individually impaired loans was \$1,673,663,000 (2011 - \$749,328,000) and \$883,475,000 (2011 - \$193,811,000) respectively.

There are no financial assets other than those listed above that were individually impaired.

#### (iv) Renegotiated loans and leases

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

#### (v) Repossessed collateral

The Group and the company can obtain assets by taking possession of collateral held as security.

Repossession properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. In general, the Group and the company do not occupy repossessed properties for business use.

The Group is in the process of repossessing collateral totaling \$13,300,000 (2011 - \$8,800,000).

## 52. Insurance and Financial Risk Management (Continued)

### (d) Credit risk (continued)

#### Credit exposure

#### Investments and cash

The following table summarises the credit exposure of the Group and company to businesses and government by sectors in respect of investments and cash:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Government of Jamaica securities	86,763,526	86,261,138	35,362,459	34,524,837
Foreign government securities	4,773,268	3,416,901	2,587,653	2,208,773
Corporate bonds	27,289,010	24,500,229	1,484,789	573,721
Financial institutions	6,967,710	4,393,039	2,010,173	868,386
Mortgage loans	1,650,318	1,575,071	1,639,245	1,553,234
Policy loans	794,867	765,766	332,787	337,309
Promissory notes	1,599,049	1,404,369	1,599,049	1,404,369
	129,837,748	122,316,513	45,016,155	41,470,629
Interest receivable	2,675,461	2,671,171	1,306,090	1,270,417
	132,513,209	124,987,684	46,322,245	42,741,046

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.

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31 December 2012

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## 52. Insurance and Financial Risk Management (Continued)

### (d) Credit risk (continued)

#### Credit exposure (continued)

The Group's exposures to individual counterparty credit risks exceeding 2.5% of exposures by class are set out below:

	The Group		The Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
<b>Debt securities:</b>				
Government of Jamaica debt securities	88,901,277	91,930,025	36,566,869	35,671,764
<b>Deposits and cash:</b>				
Bank of America	2,746,063	986,392	-	-
Citibank N.A.	440,836	674,418	-	-
National Commercial Bank Jamaica Limited	403,809	196,775	287,715	158,982
The Bank of Nova Scotia Jamaica Limited	80,416	192,999	13,245	12,326
<b>Reinsurance contracts:</b>				
Swiss Re - rated A+ (superior) by A.M Best	126,264	116,039	101,640	97,555
Munich Re - rated A+ (superior) by A.M Best	4,768	17,086	-	-

Exposure to credit risk is also managed in part by obtaining collateral and guarantees for mortgage loans. For mortgage loans, the collateral is real estate property, and the approved loan is usually no more than 95% of collateral value.

Policy loans are advanced on the security of the underlying insurance policy cash values. Cash loans are advanced to a maximum of 80% of the cash surrender value. Automatic premium loans are advanced to the extent of available cash surrender value.

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

#### Past due and impaired financial investments

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.

Mortgages less than 90 days past due are not assessed for impairment unless other information is available to indicate the contrary.

## 52. Insurance and Financial Risk Management (Continued)

### (e) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The Group is exposed to daily calls on their available cash resources from overnight placement of funds, maturing placement of funds, loan draw-downs and guarantees. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of investment of maturing funds can be predicted with a high level of certainty. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

#### Liquidity risk management process

The Group's liquidity management process, as carried out within the Group and monitored by the Treasury Department, includes:

- (i) Monitoring future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure funding if required;
- (ii) Maintaining a portfolio of highly marketable and diverse assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- (iii) Maintaining committed lines of credit and optimising cash returns on investments;
- (iv) Monitoring statement of financial position liquidity ratios against internal and regulatory requirements. The most important of these is to maintain limits on the ratio of net liquid assets to customer liabilities; and managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month, respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for companies ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

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

The disclosures provided in this note are based on the Group's and the company's investment portfolio as at 31 December 2012 and 2011.

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## 52. Insurance and Financial Risk Management (Continued)

### (e) Liquidity risk (continued)

The tables below present the undiscounted cash flows payable (both interest and principal cash flows) of the Group and company's financial and non-financial liabilities based on contractual repayment obligations. The Group expects that many policyholders/customers will not request repayment on the earliest date the Group could be required to pay. The expected maturity dates of financial assets and liabilities are based on estimates made by management as determined by retention history.

	The Group					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No specific maturity	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Undiscounted Financial Liabilities - 31 December 2012</b>						
Securities sold under repurchase agreements	47,179,441	8,912,447	31,716	-	-	56,123,604
Due to banks and other financial institutions	5,207,486	4,021,462	1,381,918	923,488	-	11,534,354
Customer deposits and other accounts	7,992,236	1,993,314	481,446	1,378,264	-	11,845,260
Structured products	124,987	61,997	790,042	-	-	977,026
Derivative financial instruments	513,117	1,498,532	2,383,501	-	-	4,395,150
Other liabilities	3,259,273	67,897	-	-	21,856	3,349,026
Segregated funds' liabilities	69,871	181,735	1,426,613	10,418,640	-	12,096,859
Insurance contracts liabilities	482,350	1,477,077	7,876,089	17,824,209	-	27,659,725
Investment contracts liabilities	7,202,272	1,719,625	1,934,220	-	-	10,856,117
Other policy liabilities	719,915	1,694,194	-	-	-	2,414,109
<b>Total undiscounted liabilities</b>	<b>72,750,948</b>	<b>21,628,280</b>	<b>16,305,545</b>	<b>30,544,601</b>	<b>21,856</b>	<b>141,251,230</b>
<b>Undiscounted Financial Liabilities - 31 December 2011</b>						
Securities sold under repurchase agreements	48,126,125	6,257,813	11,058	-	-	54,394,996
Due to banks and other financial institutions	5,872,245	3,977,164	1,509,805	932,414	-	12,291,628
Customer deposits and other accounts	5,880,553	3,450,887	717,880	1,285,874	-	11,335,194
Structured products	-	-	91,105	273,009	-	364,114
Derivative financial instruments	111,498	338,397	225,184	25,521	-	700,600
Other liabilities	3,351,036	779,099	-	124,666	22,240	4,277,041
Segregated funds' liabilities	61,194	228,183	483,943	10,842,076	-	11,615,396
Insurance contracts liabilities	422,264	1,269,799	6,825,109	15,125,295	-	23,642,467
Investment contracts liabilities	7,368,969	1,756,781	1,379,510	-	-	10,505,260
Other policy liabilities	685,727	1,619,984	-	-	-	2,305,711
<b>Total undiscounted liabilities</b>	<b>71,879,611</b>	<b>19,678,107</b>	<b>11,243,594</b>	<b>28,608,855</b>	<b>22,240</b>	<b>131,432,407</b>

## 52. Insurance and Financial Risk Management (Continued)

### (e) Liquidity risk (continued)

	The Company					Total
	Within 3 months	3-12 months	1-5 years	Over 5 years	No specific maturity	
	\$000	\$000	\$000	\$000	\$000	
<b>Undiscounted Financial Liabilities - 31 December 2012</b>						
Due to banks and other financial institutions	197,288	3,794,936	238,321	921,887	-	5,152,432
Other liabilities	2,537,260	1,888	-	-	-	2,539,148
Segregated funds' liabilities	69,871	181,735	1,426,613	9,543,572	-	11,221,791
Insurance contracts liabilities	469,991	1,408,441	7,602,630	16,102,723	-	25,583,785
Investment contracts liabilities	6,770,181	115,004	1,456,102	-	-	8,341,287
Other policy liabilities	353,281	1,506,579	-	-	-	1,859,860
<b>Total undiscounted liabilities</b>	<b>10,397,872</b>	<b>7,008,583</b>	<b>10,723,666</b>	<b>26,568,182</b>	<b>-</b>	<b>54,698,303</b>
<b>Undiscounted Financial Liabilities - 31 December 2011</b>						
Due to banks and other financial institutions	239,474	3,707,626	243,713	890,005	-	5,080,818
Other liabilities	2,598,663	700,087	-	-	124,666	3,423,416
Segregated funds' liabilities	61,194	228,183	483,943	10,223,587	-	10,996,907
Insurance contracts liabilities	413,037	1,237,402	6,599,273	13,945,468	-	22,195,180
Investment contracts liabilities	6,354,974	119,212	1,238,159	-	-	7,712,345
Other policy liabilities	344,351	1,416,063	-	-	-	1,760,414
<b>Total undiscounted liabilities</b>	<b>10,011,693</b>	<b>7,408,573</b>	<b>8,565,088</b>	<b>25,059,060</b>	<b>124,666</b>	<b>51,169,080</b>

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## 52. Insurance and Financial Risk Management (Continued)

### (e) Liquidity risk (continued)

The tables below reflect the expected maturities of the Group and company's discounted financial and non-financial assets and liabilities at the year end date.

	The Group					
	2012					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No specific maturity	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Assets</b>						
Cash resources	4,745,237	-	-	-	-	4,745,237
Cash reserve at Bank of Jamaica	735,494	-	-	-	-	735,494
Financial investments & pledged assets	9,909,007	4,475,333	38,861,996	73,228,279	1,274,614	127,749,229
Securities purchased under resale agreements	1,267,372	523,112	3,426	-	-	1,793,910
Derivative financial instruments	440,632	1,616,916	2,195,556	-	-	4,253,104
Loans and leases, after allowance for credit losses	3,696,294	1,833,025	3,222,682	639,289	-	9,391,290
Reinsurance contracts	-	239,079	-	-	-	239,079
Other assets	1,778,086	683,995	12,490	514,514	408,780	3,397,865
Segregated funds' assets	664,454	141,409	558,837	1,818,810	8,913,349	12,096,859
<b>Non-financial assets:</b>						
Investment properties	-	-	-	-	627,731	627,731
Investment in associated companies	-	-	-	-	2,725	2,725
Property, plant and equipment	-	-	-	-	1,687,846	1,687,846
Retirement benefit assets	-	-	-	220,211	-	220,211
Intangible assets	-	-	-	4,165,089	-	4,165,089
Deferred income taxes	-	19,133	-	-	-	19,133
Taxation recoverable	2,566,172	-	-	-	-	2,566,172
Other assets	1,323,336	-	-	-	-	1,323,336
<b>Total assets</b>	<b>27,126,084</b>	<b>9,532,002</b>	<b>44,854,987</b>	<b>80,586,192</b>	<b>12,915,045</b>	<b>175,014,310</b>

## 52. Insurance and Financial Risk Management (Continued)

### (e) Liquidity risk (continued)

	The Group					
	2012					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No specific maturity	Total
	\$000	\$000	\$000	\$000	\$000	\$000
<b>Liabilities</b>						
Securities sold under repurchase agreements	47,017,317	8,647,956	29,460	-	-	55,694,733
Due to banks and other financial institutions	5,129,325	3,889,774	1,183,421	479,523	-	10,682,043
Customer deposits and other accounts	8,024,491	1,907,618	420,424	737,733	-	11,090,266
Structured products	121,994	45,919	686,187	-	-	854,100
Derivative financial instruments	448,365	1,382,927	2,479,274	-	-	4,310,566
Other liabilities	3,259,273	67,897	-	-	21,856	3,349,026
Segregated funds' liabilities	69,871	181,735	1,426,613	10,418,640	-	12,096,859
Insurance contracts liabilities	482,350	1,477,077	7,876,089	17,824,209	-	27,659,725
Investment contracts liabilities	7,202,272	1,719,625	1,874,960	-	-	10,796,857
Other policy liabilities	719,915	1,694,194	-	-	-	2,414,109
<b>Non-financial liabilities:</b>						
Taxation payable	316,418	-	-	-	-	316,418
Deferred income taxes	-	324,942	-	-	-	324,942
Retirement benefit obligations	-	-	-	1,023,769	-	1,023,769
<b>Total liabilities</b>	<b>72,791,591</b>	<b>21,339,664</b>	<b>15,976,428</b>	<b>30,483,874</b>	<b>21,856</b>	<b>140,613,413</b>
<b>On statement of financial position interest sensitivity gap</b>	<b>(45,665,507)</b>	<b>(11,807,662)</b>	<b>28,878,559</b>	<b>50,102,318</b>	<b>12,893,189</b>	<b>34,400,897</b>
<b>Cumulative interest sensitivity gap</b>	<b>(45,665,507)</b>	<b>(57,473,169)</b>	<b>(28,594,610)</b>	<b>21,507,708</b>	<b>34,400,897</b>	
	2011					
Total assets	17,859,166	5,289,146	41,461,960	88,841,734	7,646,527	161,098,533
Total liabilities	71,953,721	19,927,639	10,809,219	28,332,506	22,240	131,045,325
<b>On statement of financial position interest sensitivity gap</b>	<b>(54,094,555)</b>	<b>(14,638,493)</b>	<b>30,652,741</b>	<b>60,509,228</b>	<b>7,624,287</b>	<b>30,053,208</b>
<b>Cumulative interest sensitivity gap</b>	<b>(54,094,555)</b>	<b>(68,733,048)</b>	<b>(38,080,307)</b>	<b>22,428,921</b>	<b>30,053,208</b>	



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## 52. Insurance and Financial Risk Management (Continued)

### (e) Liquidity risk (continued)

	The Company					
	2012					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-Interest bearing	Total
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>Assets:</b>						
Cash resources	510,215	-	-	-	-	510,215
Financial investments	2,047,231	1,339,564	1,681,635	39,330,307	755,474	45,154,211
Securities purchased under resale agreements	1,405,553	6,125	3,426	-	-	1,415,104
Lease receivables	1,767	-	-	-	-	1,767
Reinsurance contracts	-	101,640	-	-	-	101,640
Other assets	1,446,977	617,682	4,548	514,514	395,800	2,979,521
Segregated funds' assets	423,572	115,473	131,945	152,324	10,398,477	11,221,791
<b>Non-financial assets:</b>						
Investment properties	-	-	-	-	373,181	373,181
Investment in associated companies	-	-	-	-	2,725	2,725
Property, plant and equipment	-	-	-	-	1,328,930	1,328,930
Retirement benefit assets	-	-	-	184,482	-	184,482
Intangible assets	-	-	-	2,223,774	-	2,223,774
Taxation recoverable	833,951	-	-	-	-	833,951
Other assets	1,273,498	-	-	-	-	1,273,498
Investment in subsidiaries	-	-	-	-	20,277,067	20,277,067
<b>Total assets</b>	<b>7,942,764</b>	<b>2,180,484</b>	<b>1,821,554</b>	<b>42,405,401</b>	<b>33,531,654</b>	<b>87,881,857</b>
<b>Liabilities</b>						
Due to banks and other financial institutions	153,608	3,733,790	162,935	479,343	-	4,529,676
Other liabilities	2,537,260	1,888	-	-	-	2,539,148
Segregated funds' liabilities	69,871	181,735	1,426,613	9,543,572	-	11,221,791
Insurance contracts liabilities	469,991	1,408,441	7,602,630	16,102,723	-	25,583,785
Investment contracts liabilities	6,770,181	115,004	1,411,147	-	-	8,296,332
Other policy liabilities	353,281	1,506,579	-	-	-	1,859,860
<b>Non-financial liabilities:</b>						
Taxation payable	95,969	-	-	-	-	95,969
Deferred income taxes	-	148,563	-	-	-	148,563
Retirement benefit obligations	-	-	-	941,193	-	941,193
<b>Total liabilities</b>	<b>10,450,161</b>	<b>7,096,000</b>	<b>10,603,325</b>	<b>27,066,831</b>	<b>-</b>	<b>55,216,317</b>
<b>On statement of financial position interest sensitivity gap</b>	<b>(2,507,397)</b>	<b>(4,915,516)</b>	<b>(8,781,771)</b>	<b>15,338,570</b>	<b>33,531,654</b>	<b>32,665,540</b>
<b>Cumulative interest sensitivity gap</b>	<b>(2,507,397)</b>	<b>(7,422,913)</b>	<b>(16,204,684)</b>	<b>(866,114)</b>	<b>32,665,540</b>	

## 52. Insurance and Financial Risk Management (Continued)

### (e) Liquidity risk (continued)

	The Company					
	2011					
	Within 3 months	3-12 months	1-5 years	Over 5 years	Non-Interest bearing	Total
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Total assets	6,887,662	1,019,263	2,737,076	43,845,753	25,507,706	79,997,460
Total liabilities	10,145,705	7,370,089	8,469,855	25,393,152	124,666	51,503,467
<b>On statement of financial position interest sensitivity gap</b>	<b>(3,258,043)</b>	<b>(6,350,826)</b>	<b>(5,732,779)</b>	<b>18,452,601</b>	<b>25,383,040</b>	<b>28,493,993</b>
<b>Cumulative interest sensitivity gap</b>	<b>(3,258,043)</b>	<b>(9,608,869)</b>	<b>(15,341,648)</b>	<b>3,110,953</b>	<b>28,493,993</b>	

Assets available to meet all of the liabilities and to cover outstanding loan commitments include cash, central bank balances, items in the course of collection, investment securities and other eligible bills, loans and advances to banks, and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. In addition, debt securities and treasury and other bills have been pledged to secure liabilities. The Group is also able to meet unexpected net cash outflows by selling securities and accessing additional funding sources from other financing institutions.

### (f) Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk mainly arise from changes in foreign currency exchange rates and interest rates. Market risk is monitored by the Investment department which carries out extensive research and monitors the price movement of financial assets on the local and international markets. Market risk exposures are measured using sensitivity analysis.

#### Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market price, other than those arising from currency or interest rate risk, whether those changes are caused by factors specific to the instrument or affecting all similar instruments in the market.

The Group is exposed to equity securities price risk because of investments held by the Group and classified as available-for-sale or at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with limits set by the Group.

The Group's investments in equity securities are publicly traded on the Jamaica Stock Exchange (JSE) and the National Association of Securities Dealers Automated Quotation System (NASDAQ). The Group's sensitivity to equity securities price risk is disclosed in Note 53(iii).

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## 52. Insurance and Financial Risk Management (Continued)

### (f) Market risk (continued)

#### Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Foreign exchange risk occurs when the Group takes an open position in a currency. To control this exchange risk the Asset and Liability Committee (ALCO) has approved limits for net open position in each currency for both intra-day and overnight position. This limit may vary from time to time as determined by ALCO.

The Group also has transactional currency exposure. Such exposure arises from having financial assets in currencies other than those in which financial liabilities are expected to settle. The Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign assets to address short term imbalances.

The Group's operations in the Cayman Islands create two additional sources of currency risk:

- The operating results of the Group's foreign subsidiaries in the Group financial statements are translated at the average exchange rate prevailing during the period.
- The equity investment in the foreign subsidiaries is translated into Jamaican dollars using the closing exchange rate.

#### Concentrations of currency risk

The Group and the company are most sensitive to currency risk in its operating currencies which float against the United States dollar.

The following tables summarise the exposure of the Group and the company to foreign currency exchange rate risk. Included in the tables are the Group and the company's assets and liabilities at carrying amounts categorized by currency.

## 52. Insurance and Financial Risk Management (Continued)

### (f) Market risk (continued)

#### Currency risk (continued)

Concentrations of currency risk (continued)

	The Group			
	2012			
	Jamaican \$	US\$	Other	Total
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
Cash resources	810,097	3,306,872	628,268	4,745,237
Cash reserve at Bank of Jamaica	280,883	419,776	34,835	735,494
Financial investments and pledged assets	58,131,228	64,824,242	4,793,759	127,749,229
Securities purchased under resale agreements	1,049,171	559,600	185,139	1,793,910
Derivative financial instruments	-	4,253,104	-	4,253,104
Loans & leases, after allowance for credit losses	2,170,723	7,220,567	-	9,391,290
Reinsurance contracts	101,640	137,439	-	239,079
Other assets	2,809,852	525,601	62,412	3,397,865
Segregated funds' assets	9,042,418	3,054,441	-	12,096,859
<b>Non-financial assets:</b>				
Investment properties	373,181	254,550	-	627,731
Investment in associated companies	2,725	-	-	2,725
Property, plant and equipment	1,646,563	41,283	-	1,687,846
Retirement benefit assets	220,211	-	-	220,211
Intangible assets	3,675,563	489,526	-	4,165,089
Deferred income taxes	19,133	-	-	19,133
Taxation recoverable	2,566,172	-	-	2,566,172
Other assets	1,323,336	-	-	1,323,336
<b>Total assets</b>	<b>84,222,896</b>	<b>85,087,001</b>	<b>5,704,413</b>	<b>175,014,310</b>
<b>Financial liabilities</b>				
Securities sold under repurchase agreements	24,774,022	29,928,200	992,511	55,694,733
Due to banks and other financial institutions	1,249,132	9,432,911	-	10,682,043
Customer deposits and other accounts	1,979,764	8,919,558	190,944	11,090,266
Structured products	-	854,100	-	854,100
Derivative financial instruments	-	43,915	4,266,651	4,310,566
Other liabilities	2,327,927	982,137	38,962	3,349,026
Segregated funds' liabilities	11,221,791	875,068	-	12,096,859
Insurance contracts liabilities	18,201,900	9,457,825	-	27,659,725
Investment contracts liabilities	6,877,940	3,918,917	-	10,796,857
Other policy liabilities	1,859,860	554,249	-	2,414,109
<b>Non-financial liabilities:</b>				
Taxation payable	316,418	-	-	316,418
Deferred income taxes	324,942	-	-	324,942
Retirement benefit obligations	1,023,769	-	-	1,023,769
<b>Total liabilities</b>	<b>70,157,465</b>	<b>64,966,880</b>	<b>5,489,068</b>	<b>140,613,413</b>
<b>Net on statement of financial position</b>	<b>14,065,431</b>	<b>20,120,121</b>	<b>215,345</b>	<b>34,400,897</b>

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## 52. Insurance and Financial Risk Management (Continued)

### (f) Market risk (continued)

#### Currency risk (continued)

Concentrations of currency risk (continued)

	The Group			
	2011			
	Jamaican \$	US\$	Other	Total
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
Cash resources	500,691	1,602,658	776,824	2,880,173
Cash reserve at Bank of Jamaica	266,768	231,437	21,527	519,732
Financial investments and pledged assets	61,401,247	59,925,938	1,268,202	122,595,387
Securities purchased under resale agreements	61,070	915,692	23,830	1,000,592
Derivative financial instruments		839,420	-	839,420
Loans & leases, after allowance for credit losses	2,518,861	6,740,786	-	9,259,647
Reinsurance contracts	97,555	142,667	-	240,222
Other assets	2,215,427	235,327	-	2,450,754
Segregated funds' assets	8,770,069	2,845,327	-	11,615,396
<b>Non-financial assets:</b>				
Investment properties	479,800	312,652	-	792,452
Investment in associated companies	2,725	-	-	2,725
Property, plant and equipment	1,492,874	42,172	-	1,535,046
Retirement benefit assets	212,955	-	-	212,955
Intangible assets	3,857,902	456,735	-	4,314,637
Deferred income taxes	158,723	-	-	158,723
Taxation recoverable	1,752,734	-	-	1,752,734
Other assets	927,938	-	-	927,938
<b>Total assets</b>	<b>84,717,339</b>	<b>74,290,811</b>	<b>2,090,383</b>	<b>161,098,533</b>
<b>Financial liabilities</b>				
Securities sold under repurchase agreements	28,677,732	24,467,161	803,396	53,948,289
Due to banks and other financial institutions	1,362,275	10,047,469	62	11,409,806
Customer deposits and other accounts	2,841,699	7,563,549	194,649	10,599,897
Structured products	-	274,913	-	274,913
Derivative financial instruments	-	27,710	672,890	700,600
Other liabilities	3,739,004	534,412	3,625	4,277,041
Segregated funds' liabilities	10,996,907	618,489	-	11,615,396
Insurance contracts liabilities	15,604,472	8,037,995	-	23,642,467
Investment contracts liabilities	6,342,393	4,010,623	-	10,353,016
Other policy liabilities	1,748,025	557,686	-	2,305,711
<b>Non-financial liabilities:</b>				
Taxation payable	333,059	-	-	333,059
Deferred income taxes	734,057	-	-	734,057
Retirement benefit obligations	851,073	-	-	851,073
<b>Total liabilities</b>	<b>73,230,696</b>	<b>56,140,007</b>	<b>1,674,622</b>	<b>131,045,325</b>
<b>Net on statement of financial position</b>	<b>11,486,643</b>	<b>18,150,804</b>	<b>415,761</b>	<b>30,053,208</b>

## 52. Insurance and Financial Risk Management (Continued)

### (f) Market risk(continued)

#### Currency risk (continued)

Concentrations of currency risk (continued)

	The Company			
	2012			
	Jamaican \$	US\$	Other	Total
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
Cash resources	499,611	8,582	2,022	510,215
Financial investments	25,407,985	19,746,226	-	45,154,211
Securities purchased under resale agreements	1,370,573	44,531	-	1,415,104
Lease receivables	1,767	-	-	1,767
Reinsurance contracts	101,640	-	-	101,640
Other assets	2,979,114	407	-	2,979,521
Segregated funds' assets	9,042,418	2,179,373	-	11,221,791
<b>Non-financial assets:</b>				
Investment properties	373,181	-	-	373,181
Investment in associated companies	2,725	-	-	2,725
Property, plant and equipment	1,328,930	-	-	1,328,930
Retirement benefit asset	184,482	-	-	184,482
Intangible assets	2,223,774	-	-	2,223,774
Taxation recoverable	833,951	-	-	833,951
Other assets	1,273,498	-	-	1,273,498
Investment in subsidiaries	10,729,623	9,547,444	-	20,277,067
<b>Total assets</b>	<b>56,353,272</b>	<b>31,526,563</b>	<b>2,022</b>	<b>87,881,857</b>
<b>Financial liabilities</b>				
Due to banks and other financial institutions	822,135	3,707,541	-	4,529,676
Other liabilities	2,538,827	321	-	2,539,148
Segregated funds' liabilities	11,221,791	-	-	11,221,791
Insurance contracts liabilities	18,201,900	7,381,885	-	25,583,785
Investment contracts liabilities	6,877,940	1,418,392	-	8,296,332
Other policy liabilities	1,859,860	-	-	1,859,860
<b>Non-financial liabilities:</b>				
Taxation payable	95,969	-	-	95,969
Deferred income taxes	148,563	-	-	148,563
Retirement benefit obligations	941,193	-	-	941,193
<b>Total liabilities</b>	<b>42,708,178</b>	<b>12,508,139</b>	<b>-</b>	<b>55,216,317</b>
<b>Net on statement of financial position</b>	<b>13,645,094</b>	<b>19,018,424</b>	<b>2,022</b>	<b>32,665,540</b>

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## 52. Insurance and Financial Risk Management (Continued)

### (f) Market risk (continued)

#### Currency risk (continued)

Concentrations of currency risk (continued)

	The Company			
	2011			
	Jamaican \$	US\$	Other	Total
	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>				
Cash resources	270,634	5,949	1,342	277,925
Financial investments	24,694,134	17,767,614	-	42,461,748
Securities purchased under resale agreements	400,439	47,824	-	448,263
Lease receivables	1,767	-	-	1,767
Reinsurance contracts	97,555	-	-	97,555
Other assets	2,475,802	181	-	2,475,983
Segregated funds' assets	8,770,069	2,226,838	-	10,996,907
<b>Non-financial assets:</b>				
Investment properties	479,800	-	-	479,800
Investment in associated companies	2,725	-	-	2,725
Property, plant and equipment	1,312,264	-	-	1,312,264
Retirement benefit asset	184,482	-	-	184,482
Intangible assets	2,331,722	-	-	2,331,722
Taxation recoverable	384,220	-	-	384,220
Other assets	921,072	-	-	921,072
Investment in subsidiaries	10,796,112	6,824,915	-	17,621,027
<b>Total assets</b>	<b>53,122,797</b>	<b>26,873,321</b>	<b>1,342</b>	<b>79,997,460</b>
<b>Financial liabilities</b>				
Due to banks and other financial institutions	658,644	3,786,380	-	4,445,024
Other liabilities	3,423,389	27	-	3,423,416
Segregated funds' liabilities	10,996,907	-	-	10,996,907
Insurance contracts liabilities	15,604,472	6,590,708	-	22,195,180
Investment contracts liabilities	6,342,390	1,307,690	-	7,650,080
Other policy liabilities	1,748,025	12,389	-	1,760,414
<b>Non-financial liabilities:</b>				
Taxation payable	187,224	-	-	187,224
Deferred income taxes	68,587	-	-	68,587
Retirement benefit obligations	776,635	-	-	776,635
<b>Total liabilities</b>	<b>39,806,273</b>	<b>11,697,194</b>	<b>1,342</b>	<b>51,503,467</b>
<b>Net on statement of financial position</b>	<b>13,316,524</b>	<b>15,176,127</b>	<b>1,342</b>	<b>28,493,993</b>

## 53. Sensitivity Analysis

Actuarial liabilities for the Group and company comprise 52.22% and 54.48% (2011 – 49.34% and 52.10%) respectively of total Policyholders' Funds. The determination of actuarial liabilities is sensitive to a number of assumptions, and changes in those assumptions could have a significant effect on the valuation results. These factors are discussed in detail in Note 36(e).

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

In summary, the valuation of actuarial liabilities of life insurance and annuity contracts is sensitive to:

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

The Appointed Actuary tests the actuarial liabilities under several economic scenarios. These tests have been done and the liabilities have been derived from the scenarios which produce the worst results.

The assumption for future investment yields has a significant impact on actuarial liabilities.

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

- Mortality and morbidity
- Operating expenses and taxes
- Lapse rates

### (ii) Dynamic capital adequacy testing (DCAT)

DCAT is a technique used to assess the adequacy of an insurer's future 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 statement of financial position at a given date.

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

The purpose of the DCAT is:

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

A DCAT analysis has been completed for Sagicor Life Jamaica Limited and Sagicor Life of the Cayman Islands Ltd.

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## 53. Sensitivity Analysis (Continued)

### (ii) Dynamic capital adequacy testing (DCAT) (continued)

The results are as follows:

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

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

Overall, this scenario produces adverse results in 2012 and for the next five years.

#### (ii) High interest rate. An assumed increase in portfolio rate of 0.5% per year for 10 years. Overall, this scenario produces favourable results in 2012 and for the next five years.

#### (iii) Low interest rate. An assumed decrease in portfolio rate of 0.5% for 10 years was tested in this scenario. Overall, this scenario produces adverse results in 2012 and for the next five years.

#### (iv) Worsening mortality and morbidity. To test this scenario, mortality and morbidity rates were increased for life insurance, health and critical illness products and decreased for annuity products. For life insurance, health and critical illness products, rates were increased by 3% of the base rate per year for 5 years. For annuity products, rates were decreased by 3% of the base rate for 5 years. Overall, this scenario produces adverse results in 2012 and for the next five years.

#### (v) Higher expenses. Higher unit maintenance expenses were tested by setting the unit expense rate for each projection year 5% greater than the unit expense rate assumed in the base scenario. Overall, this scenario produces adverse results in 2012 and for the next five years.

#### (vi) Level new business. New business planned for 2013 was maintained for the 5 year period. Overall, this scenario has no effect on the liabilities in 2012 but produces favourable results for the next five years.

#### (vii) Double new business. New business planned for the 5 year period was projected to grow at twice the rate of growth anticipated in the base scenario. Overall, this scenario has no effect on the 2012 liabilities, but will produce net lower liabilities over the next five years.

## 53. Sensitivity Analysis (Continued)

### (ii) Dynamic capital adequacy testing (DCAT) (continued)

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

The following table represents the estimated sensitivity of each of the above scenarios to net actuarial liabilities totalling \$27,659,725,000 and \$25,583,785,000 for the Group and company respectively at the year-end date.

<u>The Group</u>			
Variable	Change in Variable	2012 Change in Liability \$'000	2011 Change in Liability \$'000
Worsening of mortality/morbidity	+3% for 5 yrs.	2,505,069	2,037,697
Improvement in annuitant mortality	-3% for 5 yrs.	438,426	379,403
Lowering of investment return	-0.5% for 10 yrs.	11,134,082	9,615,263
Worsening of base renewal expense and inflation rate	+5% for 5 yrs.	1,680,768	1,721,165
Worsening of lapse rate	x2 or x0.5	4,180,217	3,845,357
High Interest	+0.5% for 10 yrs.	<u>(7,544,631)</u>	<u>(6,513,759)</u>
<u>The Company</u>			
Variable	Change in Variable	2012 Change in Liability \$'000	2011 Change in Liability \$'000
Worsening of mortality/morbidity	+3% for 5 yrs.	2,201,503	1,828,851
Improvement in annuitant mortality	-3% for 5 yrs.	424,111	372,687
Lowering of investment return	-0.5% for 10 yrs.	10,644,513	9,094,614
Worsening of base renewal expense and inflation rate	+5% for 5 yrs.	1,621,337	1,580,390
Worsening of lapse rate	x2 or x0.5	3,833,366	3,577,069
High Interest	+0.5% for 10 yrs.	<u>(6,833,523)</u>	<u>(6,052,483)</u>

# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 53. Sensitivity Analysis (Continued)

### (iii) Sensitivity arising from a decline in equity prices

The Group is sensitive to fair value risk on its financial assets at fair value through profit or loss and available for sale equity securities. The effects of an increase by 10% and a decrease by 10% in equity prices at the year end date are set out below.

	The Group	
	Carrying Value \$'000	Effect of 10% change at 31 December 2012 \$'000
<b>Financial assets at fair value through profit or loss and available for sale equity securities:</b>		
Listed on Jamaica Stock Exchange	267,466	26,746
Listed on US stock exchanges	606,718	60,672
Other	675,530	67,553
	<u>1,549,714</u>	<u>154,971</u>

	The Company	
	Carrying Value \$'000	Effect of 10% change at 31 December 2012 \$'000
<b>Available for sale equity securities:</b>		
Listed on Jamaica Stock Exchange	217,444	21,744
Other	539,734	53,973
	<u>757,178</u>	<u>75,717</u>

## 53. Sensitivity Analysis (Continued)

### (iv) Sensitivity arising from currency risk

The Group and the company are most sensitive to currency risk in its operating currencies which float against the United States dollar.

The effect of a further 10% (2011 – 15%) depreciation and a 1% (2011 – 5%) appreciation in the Jamaican dollar (JMD) relative to the United States dollar (USD) at the year end date is considered in the following tables.

	The Group					
	2012			2011		
	Balances Denominated in other than JMD \$'000	Effect of a 10% depreciation at 31 December 2012 \$'000	Effect of a 1% appreciation at 31 December 2012 \$'000	Balances denominated in other than JMD \$'000	Effect of a 15% depreciation at 31 December 2011 \$'000	Effect of a 5% appreciation at 31 December 2011 \$'000
	Statement of financial position:					
Assets	90,791,414	104,410,126	89,883,500	76,381,194	87,838,373	72,562,134
Liabilities	70,455,948	77,501,543	69,751,389	57,814,629	66,486,823	54,923,898
Net position	<u>20,335,466</u>	<u>26,908,583</u>	<u>20,132,111</u>	<u>18,566,565</u>	<u>21,351,550</u>	<u>17,638,236</u>
Income statement:						
Net income	-	5,926,022	(138,645)	-	1,814,342	(604,781)
Equity	-	647,095	(64,710)	-	970,643	(323,548)

	The Company					
	2012			2011		
	Balances Denominated in other than JMD \$'000	Effect of a 10% Depreciation at 31 December 2012 \$'000	Effect of a 1% Appreciation at 31 December 2012 \$'000	Balances denominated in other than JMD \$'000	Effect of a 15% Depreciation at 31 December 2011 \$'000	Effect of a 5% appreciation at 31 December 2011 \$'000
	Statement of financial position:					
Assets	31,528,585	34,681,444	31,213,299	26,874,663	30,905,862	25,530,930
Liabilities	12,508,139	13,758,953	12,383,057	11,697,194	13,451,773	11,112,334
Net position	<u>19,020,446</u>	<u>20,922,491</u>	<u>18,830,242</u>	<u>15,177,469</u>	<u>17,454,089</u>	<u>14,418,596</u>
Income statement:						
Net income	-	1,902,045	(190,204)	-	2,276,620	(758,873)

# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 53. Sensitivity Analysis (Continued)

### (v) Development of Property and Casualty claims

The development of an insurer's claims in the course of settlement provides a measure of its ability to estimate the ultimate value of claims incurred. In the table below, the estimate of total claims incurred for each year is provided at successive year ends. The most recent estimate is then reconciled to the liability recognised in the statement of financial position.

	2010	2011	2012	Total
Gross	\$'000	\$'000	\$'000	\$'000
<b>Estimate of ultimate claims incurred:</b>				
At the end of the reporting year	32,685	15,693	2,836	51,214
One year later	32,302	4,570	-	36,872
Two years later	26,691	-	-	26,691
Current estimate of cumulative claims	26,691	4,570	2,836	34,097
Cumulative payments to date	(24,994)	(3,805)	(205)	(29,004)
Liability recognised in the statement of financial position	1,697	765	2,631	5,093
Liability in respect of prior years and ULAE				1,671
Total liability				6,764

The reinsurers' share of the amounts in the following table is set out below.

Reinsurers' share	2010	2011	2012	Total
	\$'000	\$'000	\$'000	\$'000
<b>Estimate of ultimate claims incurred:</b>				
At the end of the reporting year	32,685	15,693	2,836	51,214
One year later	32,302	4,570	-	36,872
Two years later	26,691	-	-	26,691
Current estimate of cumulative claims	26,691	4,570	2,836	34,097
Cumulative payments to date	(24,995)	(3,804)	(205)	(29,004)
Recoverable recognised in the statement of financial position	1,697	765	2,631	5,093
Recoverable in respect of prior years				1,671
Total recoverable from reinsurers				6,764

## 53. Sensitivity Analysis (Continued)

### (vi) Interest rate sensitivity

For the Sagicor Investments Jamaica (formerly Pan Caribbean Financial Services) Banking Group, the following table indicates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the Banking Group's income statement and stockholders' equity.

The sensitivity of the profit or loss is the effect of the assumed changes in interest rates on net income based on the floating rate of financial assets and financial liabilities. The sensitivity of stockholders' equity 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.

	Sagicor Investments Jamaica Group			
	Effect on	Effect on	Effect on	Effect on
	Net Profit	Equity	Net Profit	Equity
	2012	2012	2011	2011
	\$'000	\$'000	\$'000	\$'000
Change in percentage				
J\$: -1%, US\$: -0.5%				
(2011 - J\$: -1%, US\$: -0.5%)	(271,477)	529,347	(218,789)	753,395
J\$: +4%, US\$: +2.5%				
(2011 - J\$: +1%, US\$: +0.5%)	1,149,154	(1,470,312)	218,789	(783,088)

## 54. Capital Management

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

- To comply with capital requirements established by insurance, banking and other financial intermediary regulatory authorities;
- To comply with internationally recognised capital requirements for insurance, where local regulations do not meet these international standards;
- To safeguard its ability to meet future obligations to policyholders, depositors, note-holders and stockholders;
- To provide adequate returns to stockholders by pricing insurance, investment and other contracts commensurately with the level of risk; and
- To maintain a strong capital base which are sufficient for the future development of the Group's operations.

# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 54. Capital Management (Continued)

The principal capital resources of the Group comprise its stockholders' equity, its non controlling interest equity, and its debt financing. The summary of these resources at the year end is as follows:

	2012	2011
	\$'000	\$'000
Stockholders' equity	32,644,250	28,289,966
Non-controlling interests	1,756,647	1,763,242
Total statement of financial position capital resources	<u>34,400,897</u>	<u>30,053,208</u>

The Group deploys its capital resources to activities carried out through various lines of business in operating companies which are either insurance entities or provide other financial services. The capital is deployed in such a manner as to ensure that each line of business generates the desired return on capital employed, that the operating companies have adequate and sufficient capital resources to carry out their activities and to meet regulatory requirements.

Required capital adequacy information is filed with the regulators in the countries in which the Group operates, Jamaica monthly; Cayman Islands annually.

The capital adequacy of the principal operating entities within the Group is set out below.

### (a) Sagicor Life Jamaica Limited

Capital adequacy is managed at the operating company level. It is calculated monthly by the Appointed Actuary and reviewed by Executive Management and the Board of Directors. In addition, The company seeks to maintain internal capital adequacy at levels higher than the regulatory requirements. To assist in evaluating the current business and strategy opportunities, a risk-based capital approach is one of the core measures of financial performance. The risk-based assessment measure which has been adopted is the Minimum Continuing Surplus and Capital Requirement (MCCSR) standard as per the Insurance Regulations, 2001. The minimum standard required Insurance Regulations 2001 at the year end date is an MCCSR of 150%. The MCCSR for the Sagicor Life Jamaica Limited as at 31 December 2012 and 2011 is set out below.

	2012	2011
Sagicor Life Jamaica Limited	<u>162.9%</u>	<u>160.4%</u>

## 54. Capital Management (Continued)

### (b) Sagicor Life of the Cayman Islands Ltd

During the year, the Cayman Islands Insurance (Capital and Solvency) (Class A Insurers) Regulations became effective. The minimum capital requirement for a local Class A insurer was established as the greater of US\$300,000, or the square root of the sum of the square of five risk components – assets, policy liabilities, subsidiaries, catastrophe exposure and foreign exchange. Additionally, the prescribed capital for a local Class A insurer must be at least 125% of the minimum capital requirement. As at the year-end date, the prescribed capital requirement was US\$26,978,000 and available capital when expressed as a percentage of prescribed capital, was 333.5%.

The MCCSR for Sagicor Life of the Cayman Ltd., based on the Canadian Regulatory Standards, is set out below.

	2012	2011
Sagicor Life of the Cayman Islands Ltd.	<u>656.4%</u>	<u>574.6%</u>

### (c) Sagicor Investments Jamaica (formerly Pan Caribbean Financial Services) Group

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

- (i) To comply with the capital requirements set by the regulators of the financial markets where the entities within the Group operate;
- (ii) To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for stockholders and benefits for other stakeholders; and
- (iii) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored monthly by the Group's 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:

- (i) Hold the minimum level of the regulatory capital; and
- (ii) Maintain a minimum ratio of total regulatory capital to the risk-weighted assets.

The Group's regulatory capital is divided into two tiers:

- (i) Tier 1 capital: share capital, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 capital; and
- (ii) Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and revaluation on property, plant and equipment.

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-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.



# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 54. Capital Management (Continued)

- (c) Sagicor Investments Jamaica (formerly Pan Caribbean Financial Services Limited) Group (continued)  
The table below summarises the composition of regulatory capital and the ratios of the regulated companies within the Banking Group for the years ended 31 December 2012 and 2011. During those two years, the individual entities within the Banking Group complied with all of the externally imposed capital requirements to which they are subject.

The regulated companies within the Group are Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited) and Sagicor Bank Jamaica Limited (formerly PanCaribbeanBank Limited).

	Sagicor Investments Jamaica Limited		Sagicor Bank Jamaica Limited	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Tier 1 capital	7,463,231	7,041,585	3,077,292	2,567,871
Tier 2 capital	1,389,657	1,380,884	73,929	71,610
Total regulatory capital	8,852,888	8,422,469	3,151,221	2,639,481
Total required capital	5,157,277	3,520,793	1,486,036	10,034,935
<b>Risk-weighted assets:</b>				
On-statement of financial position	15,232,982	10,542,524	11,018,083	7,725,499
Off-statement of financial position	-	-	1,219,130	894,705
Foreign exchange exposure	421,074	1,292,447	2,623,142	1,720,001
Total risk-weighted assets	15,654,056	11,834,971	14,860,355	10,340,205
Actual capital base to risk weighted assets	17%	21%	21%	26%
Required capital base to risk weighted assets	10%	10%	10%	10%

- (d) Derivative products

The Group's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed constantly 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 the same credit risk management procedures to assess and approve potential credit exposures that are used for traditional lending.

## 55. Fiduciary Risk

Certain subsidiaries in the Group provide custody, trustee, corporate administration, investment management or advisory services to third parties which involve these subsidiaries making allocation and purchase and sale decisions in relation to a wide range of financial instruments. These assets are not included in these financial statements. As at 31 December 2012, these subsidiaries had financial assets under administration of approximately \$120,408,621,000 (2011 - \$96,703,297,000).

## 56. Commitments

In the normal course of business, the Group has entered into commitments at the year end date for which no provision has been made in these financial statements. The off statement of financial position commitments and their maturity profiles are as follows:

	The Group			
	Contractual cash flows within 1 year \$'000	Contractual Cash flows 1-5 years \$'000	Contractual Cash flows after 5 years \$'000	Current year Total \$'000
<b>At 31 December 2012</b>				
Loan commitments	247,759	1,282,141	77,470	1,607,370
Guarantees, acceptances and other financial facilities	382,971	417,594	32,882	833,447
Operating lease commitments	428,689	698,668	60,955	1,188,312
	1,059,419	2,398,403	171,307	3,629,129
<b>At 31 December 2011</b>				
Loan commitments	402,883	284,572	98,805	786,260
Guarantees, acceptances and other financial facilities	628,241	417,099	33,399	1,078,739
Operating lease commitments	373,804	374,733	39,969	788,506
	1,404,928	1,076,404	172,173	2,653,505
	The Company			
	Contractual cash flows within 1 year \$'000	Contractual Cash flows 1 - 5 years \$'000	Contractual Cash flows after 5 years \$'000	Current year Total \$'000
<b>At 31 December 2012</b>				
Loan commitments	86,821	-	-	86,821
Operating lease commitments	289,065	289,065	-	578,130
	375,886	289,065	-	664,951
<b>At 31 December 2011</b>				
Loan commitments	89,922	-	-	89,922
Operating lease commitments	245,951	189,633	-	435,584
	335,873	189,633	-	525,506

# Notes to the Financial Statements

31 December 2012

(expressed in Jamaican dollars unless otherwise indicated)

## 57. Contingent Liabilities

### (a) Universal life policies

The design of a Universal Life policy is such that on realistic assumptions, the fund value built-up from premiums paid and from investment earnings is required in later years to pay the administrative costs and mortality charges.

A review of the company's Universal Life policies portfolio in 2004 revealed that approximately 17,000 Universal Life policies were affected by fund values which were insufficient to cover these costs through the life of the policies.

Once the issue was recognised, the company initiated discussion with the Regulators, the Financial Services Commission (FSC), as a result of which the affected policyholders were given the opportunity to reduce their existing coverage under the policies or to increase the premiums at their expense. Approximately 95% of these policyholders agreed to adjustments to their policies.

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

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

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

### (b) Legal proceedings

The Group and the company are subject to various claims, disputes and legal proceedings, as part of the normal course of business. Provision is made for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated.

In respect of claims asserted against the Group which, according to the principles outlined above, have not been provided for, management is of the opinion that such claims are either without merit, can be successfully defended or will result in exposure to the Group which is immaterial to both the financial position and results of operations.

## 58. Subsequent Events

### (a) Government of Jamaica National Debt Exchange

On 12 February 2013 the Government of Jamaica (GOJ) announced a public invitation to participate in its National Debt Exchange (NDX) programme in respect of specific domestic debt instruments. The NDX involves the voluntary exchange of the majority of the GOJ's existing domestic debt instruments for new debt instruments having longer maturities and lower coupon interest rates. The Group has agreed to participate in the programme.

As a large holder of Government of Jamaica (GOJ) bonds with long-term liabilities for insurance and annuities, the NDX programme had a negative impact on our actuarial reserves. The full impact of this has been taken into consideration in arriving at the actuarial reserves for the 2012 results.

(i) The total face value of bonds exchanged by the Group and company were as follows:

	<u>The Group</u>	<u>The Company</u>
	<u>\$'000</u>	<u>\$'000</u>
J\$ Denominated Bonds	50,244,151	20,362,945
US\$ Denominated and indexed bonds	<u>7,492,010</u>	<u>40,880</u>
	<u>57,736,161</u>	<u>20,403,825</u>

The face value of bonds exchanged for funds under management were \$39,934,733,000 and \$33,362,762,000 for the Group and the company respectively.

(ii) Interest rates were reduced as follows:

	<u>J\$ Portfolio</u>	<u>US\$ Portfolio</u>
Sagicor Life Jamaica Limited	12.49% to 11.49%	6.75% to 5.25%
Sagicor Investments Jamaica Limited Group	<u>8.28% to 7.66%</u>	<u>7.05% to 5.25%</u>

(iii) Durations were increased as follows:

	<u>J\$ Portfolio</u>	<u>US\$ Portfolio</u>
Sagicor Life Jamaica Limited	6.44 years to 7.33 years	9.12 years to 9.13 years
Sagicor Investments Jamaica Limited Group	<u>0.74 years to 1.55 years</u>	<u>1.66 years to 5.84 years</u>

### (b) Dividend declaration

On 28 February 2013, the Board of Directors of the company declared a final dividend for 2012 of \$0.19 per share with a record date of 15 March 2013 and a payment date of 28 March 2013.

## SAGICOR LIFE JAMAICA BRANCH DIRECTORY

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Darla Brown

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Delroy Scarlett  
Carla Peterkin

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Leslie George Francis  
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Norman Holt

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Agency Manager  
Ramoath Watson

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Unit Manager  
Pauline Channer  
Diana McLaughlin-Prijohn

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Monica Robotham

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#### BRANCH MANAGER

Mark Lindsay



# FORM OF PROXY



I \_\_\_\_\_ of \_\_\_\_\_ being a member of Sagicor Life Jamaica Limited hereby appoint \_\_\_\_\_ of \_\_\_\_\_ or failing him of \_\_\_\_\_ as my proxy to vote for me on my behalf at the Annual General Meeting of the Company to be held on the 28th day of May 2013 at 3:00 p.m. and at any adjournment thereof.

The Proxy will vote on the under-mentioned resolutions as indicated:

Resolutions	For	Against
1. To receive the Audited Accounts and Report of the Directors for the year ended December 31, 2012		
2. To elect Directors		
In accordance with Articles 99 and 97		
Paul Facey		
Stephen Facey		
Paul Hanworth		
Peter Clarke		
3. To fix the remuneration of Directors		
4. To appoint Auditors and authorize the Directors to fix their remuneration		
5. To ratify interim dividends and declare them final		

NOTE: If this form is returned without any indication as to how the person appointed proxy shall vote, he will exercise his discretion as to how he votes or whether he abstains from voting.

As witness my hand this \_\_\_\_\_ day of \_\_\_\_\_ 2013

Signature \_\_\_\_\_

\$100.00  
Stamp to be  
affixed

NOTE: (1) If this form is returned without any indication as to how the person appointed proxy shall vote, he will exercise his discretion as to how he votes or whether he abstains from voting.  
 (2) To be valid, this proxy must be lodged with the Secretary of the Company, 28-48 Barbados Avenue, Kingston 5, not less than 48 hours before the time appointed for holding the meeting.  
 A proxy need not be a member of the Company.



## Talk to Us

### Head Office:

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28-48 Barbados Avenue, Kingston 5  
Tel: 929-8920-9

### Website:

[www.sagicorjamaica.com](http://www.sagicorjamaica.com)

### Comments and Suggestions

[MyExperience@sagicor.com](mailto:MyExperience@sagicor.com)

### Customer Contact Centre:

1 - 888 - SAGICOR  
(724-4267)

### Don't forget to:



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