

**Sagicor Group Jamaica Limited**

**Financial Statements  
31 December 2014**

# Sagicor Group Jamaica Limited

Index

31 December 2014

---

	Page	Note	Page
<b>Independent Auditors' Report to the Members</b>			
<b>Financial Statements</b>			
Consolidated statement of financial position	1-2	31 Other reserves	97
Consolidated income statement	3	32 Dividends declared	98
Consolidated statement of comprehensive income	4	33 Net profit and retained earnings	98
Consolidated statement of changes in equity	5-6	34 Deposit and security liabilities	99-102
Consolidated statement of cash flows	7	35 Other liabilities	103
Company statement of financial position	8	36 Insurance contract liabilities	103-108
Company income statement	9	37 Investment contract liabilities	109
Company statement of cash flows	10	38 Other policy liabilities	110
Company Statement of changes in equity	11	39 Investment contracts benefits	110
<b>Notes to the financial statements</b>			
1 Identification and activities	12-14	40 Premium income	110-111
2 Summary of significant accounting policies	15-43	41 Net investment income	112-113
3 Critical accounting estimates and judgments in applying accounting policies	44-48	42 Fee and other income	114
4 Responsibilities of the appointed actuary and external auditors	48	43 Insurance benefits and claims	114
5 Segmental financial information	48-52	44 Finance costs	114
6 Cash resources	53	45 Administration expenses	115
7 Cash and Cash Equivalent	53	46 Commission and sales expense	116
8 Cash reserve at the Bank of Jamaica	53	47 Taxation	116-118
9 Financial investments	54-57	48 Earnings per stock unit	118-119
10 Derivative financial instruments and hedging activity	58	49 Cash flows	120-121
11 Loans and leases, after allowance for credit losses	59-60	50 Fair values of financial Instruments	122-125
12 Pledged assets	60	51 Insurance and financial risk management	126-160
13 Investment properties	61	52 Sensitivity analysis	161-166
14 Investment in joint venture	61-63	53 Capital management	167-169
15 Interest in structured entities	64-66	54 Fiduciary risk	170
16 Investment in associated company	67	55 Contingent liabilities	170
17 Investment in subsidiaries	67-68	56 Litigations	170
18 Intangible assets	69-70	57 Acquisition of Subsidiary	171
19 Property, plant and equipment	71-72		
20 Reinsurance contracts	72		
21 Retirement benefits	73-83		
22 Deferred income taxes	84-86		
23 Taxation recoverable	86		
24 Other assets	87		
25 Related party balances and transactions	88-90		
26 Share capital	90		
27 Equity Reserves	91-94		
28 Stock options reserve	95-96		
29 Investment and fair value reserve	97		
30 Currency translation reserve	97		



## ***Independent Auditors' Report***

To the Members of  
Sagicor Group Jamaica Limited

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

We have audited the accompanying consolidated financial statements of Sagicor Group Jamaica Limited and its subsidiaries, set out on pages 1 to 171, which comprise the consolidated statement of financial position as at 31 December 2014 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 Group Jamaica Limited standing alone, which comprise the statement of financial position as at 31 December 2014 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.

---

*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 E.A. Crawford P.E. Williams L.A. McKnight L.E. Augier A.K. Jain B.L. Scott B.J. Denning  
G.A. Reece P.A. Williams R.S. Nathan



**Members of Sagicor Group Jamaica Limited  
Independent Auditors' Report  
Page 2**

***Opinion***

In our opinion, the consolidated financial statements of Sagicor Group Jamaica Limited and its subsidiaries, and the financial statements of Sagicor Group Jamaica Limited standing alone give a true and fair view of the financial position of Sagicor Life Jamaica Limited and its subsidiaries and Sagicor Group Jamaica Limited standing alone as at 31 December 2014, and of their financial performance and cash flows for the year then ended, so far as concerns the members of Sagicor Group 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.

A handwritten signature in black ink, appearing to read 'D. M. ...', is written over the printed name and date.

Chartered Accountants  
3 March 2015  
Kingston, Jamaica

# Sagicor Group Jamaica Limited

## Consolidated Statement of Financial Position

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 \$'000	2013 \$'000
<b>ASSETS:</b>			
Cash resources	6	21,073,597	4,082,363
Cash reserve at Central Bank	8	5,492,491	993,331
Financial investments	9	183,095,026	161,788,676
Derivative financial instruments	10	761,732	3,019,597
Loans & leases, after allowance for credit losses	11	38,808,049	10,821,201
Pledged assets	12	8,402,683	3,278,856
Investment properties	13	871,888	782,345
Investment in joint venture	14	738,718	639,235
Intangible assets	18	4,617,001	4,015,509
Property, plant and equipment	19	3,506,736	1,676,573
Reinsurance contracts	20	380,822	262,710
Retirement benefit assets	21	58,912	-
Deferred income taxes	22	3,018,293	298,107
Taxation recoverable	23	3,114,495	2,327,391
Other assets	24	10,275,370	4,324,403
<b>TOTAL ASSETS</b>		<b>284,215,813</b>	<b>198,310,297</b>

The accompanying notes on pages 12 – 171 form an integral part of these financial statements.

# Sagicor Group Jamaica Limited

Consolidated Statement of Financial Position (Continued)

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 \$'000	2013 \$'000
<b>STOCKHOLDERS' EQUITY AND LIABILITIES:</b>			
<b>Stockholders' Equity Attributable</b>			
<b>Stockholders' of the Company</b>			
Share capital	26	9,161,065	7,854,938
Equity reserves	27	6,413,536	5,343,433
Retained earnings		30,490,757	22,727,470
		46,065,358	35,925,841
<b>Non-controlling Interests</b>		-	1,695,002
<b>Total Equity</b>		<b>46,065,358</b>	<b>37,620,843</b>
<b>Liabilities</b>			
Deposit and security liabilities	34	151,584,382	86,069,724
Derivative financial instruments	10	716,186	3,170,941
Taxation payable		714,632	394,373
Deferred income taxes	22	-	1,144
Retirement benefit obligations	21	3,361,094	2,659,268
Other liabilities	35	10,631,301	3,855,556
<b>Policyholders' Funds</b>			
Insurance contracts liabilities	36	55,826,311	48,565,731
Investment contracts liabilities	37	12,348,035	13,260,293
Other policy liabilities	38	2,968,514	2,712,424
		71,142,860	64,538,448
<b>Total Liabilities</b>		<b>238,150,455</b>	<b>160,689,454</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>284,215,813</b>	<b>198,310,297</b>

Approved for issue by the Board of Directors on February 27, 2015 and signed on its behalf by:

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

Chairman

Richard O. Byles

Director

The accompanying notes on pages 12 -171 form an integral part of these financial statements.

# Sagicor Group Jamaica Limited

## Consolidated Income Statement

Year ended 31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 \$'000	2013 \$'000
<b>Revenue:</b>			
Gross premium revenue	40	30,135,173	30,145,619
Insurance premium ceded to reinsurers	40	(966,385)	(921,123)
Net premium revenue	40	29,168,788	29,224,496
Net investment income	41	12,552,316	8,784,969
Fee and other income	42	3,909,119	4,346,700
Total revenue		<b>45,630,223</b>	<b>42,356,165</b>
<b>Benefits:</b>			
Insurance benefits incurred		17,508,793	15,994,659
Insurance benefits reinsured		(262,090)	(240,162)
Net insurance benefits	43	17,246,703	15,754,497
Net movement in actuarial liabilities	36(d)	5,523,213	7,476,839
<b>Expenses:</b>			
Provision for credit losses	11	225,107	59,159
Administration expenses	45	11,461,285	7,322,648
Commissions and sales expenses	46	3,875,268	3,636,250
Depreciation	19	276,989	209,900
Amortisation and impairment of intangible assets	18	737,499	254,220
Premium and other taxes	47(b)	640,023	616,452
		17,216,171	12,098,629
		<b>39,986,087</b>	<b>35,329,965</b>
Share of profit/(loss) from joint venture	14	6,310	(10,021)
Negative goodwill	57	3,211,180	-
Share of (loss) on disposal of associate	16	-	(1,716)
<b>Profit before Taxation</b>		<b>8,861,626</b>	<b>7,014,463</b>
Taxation	47(a)	(298,508)	(561,773)
<b>NET PROFIT</b>		<b>8,563,118</b>	<b>6,452,690</b>
Stockholders of the parent company		8,512,779	6,297,935
Non-controlling interests		50,339	154,755
		<b>8,563,118</b>	<b>6,452,690</b>
<b>Earnings per stock unit for profit attributable to the stockholders of the company during the year:</b>			
Basic and fully diluted	48	2.21	1.67

The accompanying notes on pages 12 -171 form an integral part of these financial statements.

# Sagicor Group Jamaica Limited

## Consolidated Statement of Comprehensive Income

Year ended 31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	2014 \$'000	2013 \$'000
<b>Net profit for the year</b>	<b>8,563,118</b>	<b>6,452,690</b>
<b>Other comprehensive income:</b>		
<b>Items that may be subsequently reclassified to profit or loss</b>		
Available-for-sale investments:		
Unrealised gains/(losses) on available-for-sale investments	729,844	(861,258)
Gains reclassified and reported in profit	(848,705)	(1,173,294)
Impairment losses on available-for-sale investments	738,183	(7,851)
	<u>619,322</u>	<u>(2,042,403)</u>
Re-translation of foreign operations	570,118	1,345,070
<b>Items that will not be subsequently reclassified to profit or loss</b>		
Unrealised gains on owner-occupied properties	80,549	143,299
Re-measurements of retirement benefits obligations	1,004,348	(1,286,821)
Total other income recognised directly in stockholders' equity, net of taxes	<u>2,274,337</u>	<u>(1,840,855)</u>
<b>Total Comprehensive Income</b>	<b><u>10,837,455</u></b>	<b><u>4,611,835</u></b>
<b>Total Comprehensive Income attributable to:</b>		
Stockholders of the parent company	10,721,799	4,546,349
Non-controlling Interests	<u>115,656</u>	<u>65,486</u>
	<b><u>10,837,455</u></b>	<b><u>4,611,835</u></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 47(c).

The accompanying notes on pages 12 – 171 form an integral part of these financial statements.



# Sagicor Group Jamaica Limited

## Consolidated Statement of Changes in Equity

Year ended 31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

Note	Attributable to owners of the parent					Grand Total	
	Share Capital	Equity Reserves (Note 27)	Retained Earnings	Equity Owners' Total	Non-controlling Interests Total		
	\$'000	\$'000	\$'000	\$'000	\$'000		
<b>Balance as at January 1, 2013</b>	7,854,938	5,734,286	19,266,331	32,855,555	1,759,279	34,614,834	
Total comprehensive income for the year	-	(471,965)	5,018,314	4,546,349	65,486	4,611,835	
Transactions with owners -							
Employee share option scheme - value of services provided	-	34,529	-	34,529	2,183	36,712	
Employee stock grants and options exercised/expired	-	(6,196)	-	(6,196)	(10,635)	(16,831)	
Dividends paid to non-controlling interests	-	-	-	-	(121,311)	(121,311)	
Dividends paid to owners of the parent	32	-	(1,504,396)	(1,504,396)	-	(1,504,396)	
Total transactions with owners	-	28,333	(1,504,396)	(1,476,063)	(129,763)	(1,605,826)	
Transfers between reserves -							
To special investment reserve	2(r)	-	65,820	(65,820)	-	-	
To retained earnings	2(s)	-	(17,863)	17,863	-	-	
Adjustment between regulatory loan provisioning and IFRS	31(b)	-	4,822	(4,822)	-	-	
Total transfers between reserves		-	52,779	(52,779)	-	-	
<b>Balance at 31 December 2013</b>		7,854,938	5,343,433	22,727,470	35,925,841	1,695,002	37,620,843

The accompanying notes on pages 12 – 171 form an integral part of these financial statements.

**Sagicor Group Jamaica Limited**  
**Consolidated Statement of Changes in Equity (Continued)**  
**Year ended 31 December 2014**  
(expressed in Jamaican dollars unless otherwise indicated)

Note	Attributable to owners of the parent					
	Share Capital	Equity Reserves (Note 27)	Retained Earnings	Equity Owners' Total	Non-controlling Interests Total	Grand Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance as at January 1, 2014</b>	7,854,938	5,343,433	22,727,470	35,925,841	1,695,002	37,620,843
Total comprehensive income for the year	-	1,204,672	9,517,127	10,721,799	115,656	10,837,455
Transactions with owners -						
Employee share option scheme - value of services provided	-	23,677	-	23,677	-	23,677
Employee stock grants and options exercised/expired	-	(6,693)	-	(6,693)	-	(6,693)
Issue of share capital	1,306,127	-	-	1,306,127	-	1,306,127
Purchase of minority interest	-	-	504,532	504,532	(1,810,658)	(1,306,126)
Dividends paid to owners of the parent	32	-	(2,409,925)	(2,409,925)	-	(2,409,925)
Total transactions with owners	1,306,127	16,984	(1,905,393)	(582,282)	(1,810,658)	(2,392,940)
Transfers between reserves -						
To special investment reserve	2(r)	-	202,736	(202,736)	-	-
To retained earnings	2(s)	-	(92,906)	92,906	-	-
Adjustment between regulatory loan provisioning and IFRS	31(b)	-	(261,383)	261,383	-	-
Total transfers between reserves		-	(151,553)	151,553	-	-
<b>Balance at 31 December 2014</b>	<b>9,161,065</b>	<b>6,413,536</b>	<b>30,490,757</b>	<b>46,065,358</b>	<b>-</b>	<b>46,065,358</b>

The accompanying notes on pages 12 – 171 form an integral part of these financial statements.

# Sagicor Group Jamaica Limited

## Consolidated Statement of Cash Flows

Year ended 31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 \$'000	2013 \$'000
<b>Net profit</b>		<b>8,563,118</b>	<b>6,452,690</b>
Adjustments for:			
<b>Items not affecting cash and changes to policyholders' funds:</b>			
Adjustments for non-cash items, interest and dividends	49(a)	(8,892,465)	838,725
Changes in other operating assets and liabilities	49(b)	23,549,941	3,004,279
Net investment purchases	49(c)	(19,588,803)	(13,355,416)
Interest received		14,579,571	12,443,458
Interest paid		(4,646,360)	(4,009,269)
Income taxes paid		(1,383,797)	(1,882,830)
Net cash generated from operating activities		<b>12,181,205</b>	<b>3,491,637</b>
<b>Cash Flows from Investing Activities</b>			
Investment in joint venture	14	(41,105)	(26,512)
Acquisition of subsidiary, net of cash acquired	57	6,022,237	-
Purchase of property, plant and equipment, net	49(d)	(451,066)	(189,652)
Purchase of intangible assets	18	(164,623)	(33,600)
Net cash used in investing activities		<b>5,365,443</b>	<b>(249,764)</b>
<b>Cash Flows from Financing Activities</b>			
Dividends paid to stockholders		(2,409,925)	(1,504,396)
Dividends paid to non-controlling interests		-	(48,204)
Net cash used in financing activities		<b>(2,409,925)</b>	<b>(1,552,600)</b>
Effect of exchange rate on cash and cash equivalents		1,970,456	688,135
Increase/(decrease) in cash and cash equivalents		17,107,179	2,377,409
Cash and cash equivalents at beginning of year		5,444,399	3,066,991
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>7</b>	<b>22,551,578</b>	<b>5,444,399</b>

The accompanying notes on pages 12 –171 form an integral part of these financial statements

# Sagicor Group Jamaica Limited

Company Statement of Financial Position

Year ended 31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 \$'000	2013 \$'000
<b>ASSETS:</b>			
Cash resources	6	6,685	-
Financial investments	9	5,466,100	-
Investment in subsidiaries	17 (b)	57,444,464	34,858,500
Intangible assets		5,875	-
Property, plant and equipment		298	-
Taxation recoverable	23	60,763	-
Other assets	24	767,953	116,559
<b>TOTAL ASSETS</b>		<b>63,752,138</b>	<b>34,975,059</b>
<b>STOCKHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Stockholders' Equity Attributable</b>			
<b>Stockholders' of the Company</b>			
Share capital		9,161,064	7,854,938
Equity reserves		26,541,998	26,518,975
Retained earnings/(deficit)		15,845,408	(19,488)
		51,548,470	34,354,425
<b>Liabilities</b>			
Promissory notes	34	11,525,678	601,145
Other liabilities	35	677,990	19,489
<b>Total Liabilities</b>		<b>12,203,668</b>	<b>620,634</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>63,752,138</b>	<b>34,975,059</b>

Approved for issue by the Board of Directors on February 27, 2015 and signed on its behalf by:

Hon. R. Danny Williams

Chairman

Richard Byles

Director

The accompanying notes on pages 12 – 171 form an integral part of these financial statements

# Sagicor Group Jamaica Limited

## Company Income Statement

Year ended 31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 \$'000	2013 \$'000
<b>Revenue:</b>			
Net investment income	41	18,501,953	-
Other income		8,419	-
<b>Total revenue</b>		<b>18,510,372</b>	<b>-</b>
<b>Expenses:</b>			
Administration expenses	45	235,142	19,488
Depreciation		27	-
Amortisation of intangible assets		203	-
Asset tax		100	-
		<u>235,472</u>	<u>19,488</u>
<b>Profit/(loss) before Taxation</b>		<b>18,274,900</b>	<b>(19,488)</b>
Taxation	47	(60)	-
<b>NET PROFIT/(LOSS)</b>		<b><u>18,274,840</u></b>	<b><u>(19,488)</u></b>

The accompanying notes on pages 12 – 171 form an integral part of these financial statements

# Sagicor Group Jamaica Limited

## Company Statement of Changes in Equity

Year ended 31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	2014 \$'000	2013 \$'000
<b>Net profit</b>		<b>18,274,840</b>	<b>(19,488)</b>
Adjustments for:			
<b>Items not affecting cash and changes to policyholders' funds:</b>			
Adjustments for non-cash items, interest and dividends	49(a)	(18,470,625)	-
Changes in other operating assets and liabilities	49(b)	(36,691)	19,488
Net investment purchases	49(c)	(5,327,502)	-
Interest received		104,465	-
Income taxes paid		(100)	-
Dividend received		17,373,268	-
Net cash generated from operating activities		<b>11,917,655</b>	-
<b>Cash Flows from Investing Activities</b>			
Investment in joint venture	14	(547,905)	-
Investment in subsidiaries		(101,000)	-
Acquisition of subsidiaries	56	(8,820,238)	-
Purchase of property, plant and equipment, net	49(d)	(325)	-
Purchase of intangible assets	18	(6,078)	-
Net cash used in investing activities		<b>(9,475,546)</b>	-
<b>Cash Flows from Financing Activities</b>			
Dividends paid to stockholders		(2,409,925)	-
Net cash used in financing activities		<b>(2,409,925)</b>	-
Effect of exchange rate on cash and cash equivalents		-	-
Increase/(decrease) in cash and cash equivalents		32,184	-
Cash and cash equivalents at beginning of year		-	-
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>7</b>	<b>32,184</b>	<b>-</b>

The accompanying notes on pages 12 – 171 form an integral part of these financial statements

## Sagicor Group Jamaica Limited

### Company Statement of Changes in Equity

Year ended 31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

	Note	Share Capital	Equity Reserves	Accumulated Deficit	Grand Total
		\$'000	\$'000	\$'000	\$'000
Loss for the period		-	-	(19,488)	(19,488)
Share exchange – group reorganisation	1(b)	7,854,938	-	-	7,854,938
Employee stock options		-	116,559	-	116,559
Group reorganization	1(b)	-	26,402,416	-	26,402,416
<b>Balance at 31 December 2013</b>		<b>7,854,938</b>	<b>26,518,975</b>	<b>(19,488)</b>	<b>34,354,425</b>
Total comprehensive income		-	6,039	18,274,821	18,280,860
Dividends paid to owners of parent	1(b)	-	-	(2,409,925)	(2,409,925)
Employee stock options		-	16,984	-	16,984
Group reorganization	1(b)	1,306,126	-	-	1,306,126
<b>Balance at 31 December 2014</b>		<b>9,161,064</b>	<b>26,541,998</b>	<b>15,845,408</b>	<b>51,548,470</b>

The accompanying notes on pages 12 – 171 form an integral part of these financial statements

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

### 1. Identification and Principal Activities

- (a) Sagicor Group Jamaica Limited (SGJ, the company) is incorporated and domiciled in Jamaica and is listed on the Jamaica Stock Exchange. It is 32.45% (2013 – 33.70%) owned by LOJ Holdings Limited which is also incorporated and domiciled in Jamaica. The ultimate parent company is Sagicor Financial Corporation (SFC), which is incorporated and domiciled in Barbados. SFC has an overall interest of 49.11% (2013 – 51%) in Sagicor Group Jamaica Limited. The other significant shareholder in Sagicor Group Jamaica Limited is Pan-Jamaica Investment Trust Limited with a 31.55% (2013 – 32.76%) holding.

The registered office of the company is located at 28 - 48 Barbados Avenue, Kingston 5, Jamaica.

- (b) Reorganisation of Sagicor Group Jamaica

At an Extraordinary General Meeting held in September 2013, the stockholders of Sagicor Life Jamaica Limited (SLJ) unanimously approved the reorganization of the Sagicor Jamaica Group of Companies under a Scheme of Arrangement approved by the Supreme Court of Jamaica in accordance with the Jamaica Companies Act. In December 2013, the new holding company, Sagicor Group Jamaica Limited (SGJ) was listed on the Jamaica Stock Exchange and at the same time Sagicor Life Jamaica Limited was delisted. The existing shareholders of SLJ exchanged their shares for SGJ shares of equal value. At December 31, 2013, SLJ also transferred ownership of all subsidiaries, except for the Sagicor Investments Jamaica Limited and its subsidiaries, the Banking Group, directly to SGJ. The subsidiaries outside of Jamaica now report to SGJ through their immediate parent company, Sagicor St. Lucia Limited.

Effective May 2014, Sagicor Investments Jamaica Limited (SIJL) became a wholly owned subsidiary of Sagicor Group Jamaica Limited (SGJ), through a court approved scheme of arrangement. Previously, Sagicor Investments Jamaica Limited was owned 85.45% (2013 – 85.45%) by Sagicor Life Jamaica Limited. At an Extraordinary General Meeting held in March 2014, the stockholders of Sagicor Investments Jamaica Limited (SIJL) unanimously approved the reorganization of the Sagicor Jamaica Group of Companies under a Scheme of Arrangement. The existing minority shareholders of Sagicor Investments Jamaica Limited exchanged their SIJL shares for Sagicor Group Jamaica Limited (SGJ) shares in the ratio of 1.8 SGJ share for each SIJL share held. The existing parent company, Sagicor Life Jamaica Limited exchanged its shares in SIJL for unsecured debenture bonds from SGJ. SIJL was subsequently delisted from the Jamaica Stock Exchange. The exchange of SIJL shares to SGJ shares took effect on 5 May 2014, pursuant to the order of approval from the Supreme Court. This allowed for the transfer of all the assets and liabilities (including reserves) of its other subsidiaries to the company and these entities were automatically dissolved in accordance with separate schemes of arrangement. The entities are Manufactures Investments Limited, Pan Caribbean Asset Management Limited and Pan Caribbean Investments Limited.

Consequently SIJL transferred ownership of its banking subsidiary, Sagicor Bank Jamaica Limited to SGJ in May 2014. The consideration for the transfer of the subsidiary from SIJL to SGJ was effected by dividend distribution in specie and debenture bonds.

All Jamaican subsidiaries are now wholly owned by Sagicor Group Jamaica Limited.



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 1. Identification and Principal Activities (Continued)

### (b) Reorganisation of Sagicor Group Jamaica (continued)

As the reorganization is a transaction among entities under common control, the Group has applied predecessor method of accounting. Under the predecessor method:

- The Group does not restate assets and liabilities to their fair values, instead the Group incorporates the assets and liabilities at the amounts recorded in the books of the combined companies, adjusted only to achieve harmonization of accounting policies.
- No goodwill arises.
- The consolidated financial statements incorporate the combined companies' results as if the companies had always been combined. Consequently, under predecessor accounting, the consolidated financial statements reflect both the companies' full year's results, even though the business combination may have occurred part of the way through the year.
- The corresponding amounts in the consolidated financial statements for the previous year reflect the results of the combined companies, even though the business combination did not occur until the current year.

### (c) Acquisition of RBC Royal Bank (Jamaica) Limited

Sagicor Group Jamaica Limited (SGJ) acquired the entire share capital of RBC Royal Bank (Jamaica) Limited (RBC) and its subsidiary, RBTT Securities Limited on June 27<sup>th</sup> 2014 (Note 56).

Sagicor Bank Jamaica Limited applied for and obtained approval for the scheme under the Banking Act and Regulations for the transfer of its entire business (including its assets, liabilities and entire undertaking) to Royal Bank Jamaica Limited (RBC) which changed its name to Sagicor Bank Jamaica Limited and became the surviving entity. The former entity Sagicor Bank Jamaica Limited changed its name to Sagicor SPV Limited to facilitate the progress of the surviving Banking entity. The entity known as RBTT Securities Jamaica Limited has changed its name to Sagicor Securities Jamaica Limited.

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

### 1. Identification and Principal Activities (Continued)

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

Subsidiaries	Principal Activities	Incorporated In	Holding
Sagicor Life Jamaica Limited.	Health insurance, annuities, retirement products, pension administration and investment services	Jamaica	100%
Sagicor Investments Jamaica Limited	Investment banking	Jamaica	100%
Sagicor Bank Jamaica Limited	Retail banking	Jamaica	100%
Sagicor Securities Jamaica Limited	Securities trading	Jamaica	80%
Sagicor SPV Limited	Inactive	Jamaica	100%
Pan Caribbean Asset Management Limited	Dissolved (2014)	Jamaica	100%
Manufactures Investments Limited	Dissolved (2014)	Jamaica	100%
Pan Caribbean Investments Limited	Dissolved (2014)	Jamaica	100%
Pan Caribbean Securities Limited	Inactive	Jamaica	100%
Sagicor St. Lucia Ltd. and its joint venture company	Financial services (holding company)	St. Lucia	100%
<ul style="list-style-type: none"> <li>Sagicor Costa Rica SCR, S.A</li> <li>Sagicor Life of the Cayman Islands Ltd.</li> <li>Sagicor Insurance Managers Ltd.</li> <li>Sagicor Re Insurance Ltd.</li> </ul>	Life insurance Life insurance Captives management Property and casualty insurance (captive)	Costa Rica Grand Cayman Grand Cayman Grand Cayman	50% 100% 100% 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 Insurance Brokers Limited	Insurance brokerage	Jamaica	100%
Sagicor International Administrators Limited.	Group insurance administration	Jamaica	100%

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 2014, the audited assets totaled \$71,225,077,000 (2013 - \$61,835,759,000). At 31 December 2014, the unaudited assets totaled \$73,650,002,000 (2013 - \$63,950,608,000).

The Group also administers a number of self-directed pension funds on behalf of clients. At 31 December 2014, the unaudited assets of these funds totaled \$24,558,618,000 (2013 - \$21,555,122,000).

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(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 2014 that are relevant to the Group's operations***

- Amendments to IAS 32, Financial instruments (effective for annual periods beginning on or after 1 January 2014): This amendment updates the application guidance in IAS32, 'Financial instruments: Presentation', to clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This standard is not expected to have a significant impact on the Group's financial statements.
- Amendments to IAS 36, Impairment of assets (effective for annual periods beginning on or after 1 January 2014). The amendments to IAS 36 require disclosure of the recoverable amount of an individual asset (including goodwill) or a cash-generating unit and additional information about the fair value less costs of disposal for which an impairment loss has been recognised or reversed during the reporting period. The requirement to disclose the recoverable amount of each cash-generating unit for which the carrying amount of goodwill or intangible assets with indefinite life intangible assets allocated to that unit is significant when compared to the total carrying amount of goodwill or indefinite life intangible assets has been removed. The future adoption of these amendments may result in additional disclosure relating to impairments or reversals of impairments.
- Amendment to IAS 19 (effective for annual periods beginning on or after 1 January 2014). This applies to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. This standard is not expected to have a significant impact on the Group's financial statements.
- IFRS 21, Levies (effective for annual periods beginning on or after 1 January 2014). This interpretation is on IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have present obligation as a result of a past event (known as a n obligation event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

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

#### *Interpretations and amendments to published standards effective 1 January 2014 that are relevant to the Group's operations (continued)*

- IFRS 10, Consolidated Financial Statements, IFRS 12 and IAS 27 for investment entities (effective for annual periods beginning on or after 1 January 2014): These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. This amendment give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have been made IFRS 12 to introduce disclosures that an investment entity needs to make. This standard is not expected to have a significant impact on the Group's financial statements.
- Amendment to IAS 39 'Financial instruments, (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one). This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of the over-the-counter derivatives.
- Annual Improvements 2012, (effective for annual periods beginning on or after 1 July 2014). The IASB issued its Annual Improvements to IFRSs 2010 – 2012 Cycle, which amended seven standards. The following amendments may have an impact on the Group: IFRS 2, 'Share-based payment.' The amendment clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'. IFRS 3, 'Business combinations.' The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation.' The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Consequential changes are also made to IFRS 9, IAS 37 and IAS 39. IFRS 8, 'Operating segments.' The standard is amended to require disclosure of the judgments made by management in aggregating operating segments. The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. IFRS 13, 'Fair value measurement.' The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases. IAS 24, 'Related party disclosures' The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'). The Group is assessing the impact of adopting these amendments.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 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***

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:

- IFRS 9, 'Financial instruments' (effective for annual periods beginning on or after 1 January 2018). 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 2018, 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 11, Joint Arrangements Statements (effective for annual periods beginning on or after 1 January 2016 ): This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.
- Amendments to IAS 27, 'Separate financial statements' on equity method, (effective for annual periods beginning on or after 1 January 2016). These amendments allow entities to use equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group is assessing the impact of adopting these amendments.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 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 15, 'Revenue from contracts with customers', (effective for annual periods beginning on or after 1 January 2017). The IASB has published its new revenue standard, IFRS 15 'Revenue from Contracts with Customers'. The U.S. Financial Accounting Standards Board (FASB) has concurrently published its equivalent revenue standard which is the result of a convergence project between the two Boards. IFRS 15 applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. It specifies how and when an entity will recognise revenue. It also requires entities to provide more informative, relevant disclosures. The standard supersedes IAS 18, 'Revenue', IAS 11, 'Construction Contracts' and a number of revenue-related interpretations.

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.

### (b) Basis of consolidation

#### (i) Subsidiaries

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

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

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

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

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

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

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

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

#### (i) Subsidiaries (continued)

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

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

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

#### (ii) Change in ownership interests in subsidiaries without change in control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with owners in their capacity as owners. The difference between fair value of 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.

#### (iii) Joint ventures

Interest in the assets, liabilities and earnings of jointly controlled ventures are included in these consolidated financial statements using the equity method. Interest in Joint Ventures are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the group's share of losses in a joint venture equals or exceeds its interest in the joint ventures, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

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

### (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 Group President and CEO.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

### (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.

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.



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

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

#### (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.

### (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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

### (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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

### (g) Investment properties

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

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

Transfers to or from investment property are recorded when there is a change in use of the property. Transfers to owner-occupied property or to real estate developed for resale are recorded at the fair value at the date of change in use. Transfers from owner-occupied property are recorded at their fair value and any difference with carrying value at the date of change in use is dealt with in accordance with note 2 (m).

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

Rental income is recognised on an accruals basis.

### (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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 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.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

#### (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.

### (i) Acceptances, guarantees, indemnities, letter of credit and undertakings

Acceptances, guarantees, indemnities and letters of credit and undertakings are various forms of contractual commitments to advance funds to or on behalf of customers and include:

- (i) Obligations on the part of the Group to make payments (directly or indirectly) to a designated third party contingent upon a default by the Group's customer in the performance of an obligation under the terms of that customer's contract with the third party; and
- (ii) Obligations to guarantee or stand as surety for the benefit of a third party.

Where the Group's obligations under acceptances, guarantees, indemnities and letters of credit and undertakings are not considered to be contingent, the amounts are reported as a liability in the statement of financial position. There are equal and offsetting claims against customers in the event of a call on these commitments, which are reported as an asset.

Where the Group's obligations are considered to be contingent, the amounts are disclosed in Note 55.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

### (k) Impairment of assets

#### (i) Assets carried at amortised cost – loans and advances and provisions for credit losses

Loans and advances are recognised when cash is advanced to borrowers. They are initially recorded at fair value and subsequently measured at amortised cost using the effective interest rate method.

#### *Provision for credit losses determined under the requirements of IFRS*

The Group continuously monitors loans or groups of loans for indicators of impairment. In the event that indicators are present, the loans or groups of loans are tested for impairment. A provision for credit losses is established if there is objective evidence of impairment. A loan or group of loans 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 loan (a 'loss event') and that loss event has reduced the estimated future cash flows of the loan and the amount of the reduction can be reliably estimated. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the obligor;
- default or delinquency in interest or principal payments;
- having to grant the borrower a concession that would not otherwise be considered due to the borrower's financial difficulty;
- the probability that the borrower will enter bankruptcy or other financial reorganisation; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from the loan portfolio since the initial recognition of the loans, although the decrease cannot yet be identified with the individual loan in the portfolio, including:
  - i. adverse changes in the payment status of borrowers in the portfolio; and
  - ii. national or local economic conditions that correlate with defaults on the loan portfolio.

The Group first assesses whether objective evidence of impairment exists individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Loans 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.

The amount of the loss is measured as the difference between the carrying amount of the loan and the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the loan. For accounting purposes, the carrying amount of the loan is reduced through the use of a provision for credit losses 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.

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

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(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 loans and advances and provisions for credit losses (continued)  
*Provision for credit losses determined under the requirements of IFRS (continued)*

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the group. Losses over the preceding 12 months are used as a baseline to determine historical loss experience for loans with credit risk characteristics similar to those in the group. This historical loss experience is then adjusted, if necessary, to reflect broader economic trends over the most recent 24-month period with a 36-month look back period used on the highest risk portfolios. Finally, applicable adjustments are made 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 loans should reflect and be directionally consistent with changes in related observable data and our assessment of changes in the economy from period to period (for example, changes in unemployment levels, property and motor vehicle prices, 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.

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

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 provision for credit losses. The amount of the reversal is recognised in the income statement.

#### *Provision for credit losses determined under the Bank of Jamaica regulatory requirements*

The effect of the provision for credit losses determined under the Bank of Jamaica regulatory requirements is to reserve capital. No amounts are booked to the income statement in respect of regulatory provisions. Provisions calculated based on regulatory requirements that exceed the amounts required under IFRS are transferred from retained earnings to a non-distributable loan loss reserve in stockholders' equity.

The provision for credit losses determined under the Bank of Jamaica regulatory requirements comprises a "specific provision", a "special provision" and a "general provision". The specific and special provisions are determined based on each specific loan for which problems have been identified. The general provision is considered to be prudential in nature and is established to absorb portfolio losses.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(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 loans and advances and provisions for credit losses (continued)

*Provision for credit losses determined under the Bank of Jamaica regulatory requirements (continued)*

The specific provision is established for the estimated net loss for all non-performing loans and performing loans that meet specified criteria. Loans are considered to be non-performing where a principal or interest payment is contractually 90 days or more in arrears. At the time of classification as non-performing, any interest that is contractually due but in arrears is reversed from the income statement and interest is thereafter recognised in the income statement on the cash basis only. The estimated net loss is defined as the net exposure remaining after deducting the estimated net realisable value of the collateral (as defined by and determined by the regulations) from the outstanding principal balance of the loan. The regulations quantify the specific provision at ranges from 20% to 100% of the estimated net loss of each non-performing loan depending on the length of time the loan has been in arrears. In addition, where a non-performing loan is fully secured but the collateral is unrealised for a period of 12 months, a provision of 50% of the amounts outstanding should be made. Where the collateral is unrealised for a further 6 months (with limited exceptions which allow for up to a further 15 months) a full provision is made. The regulations further require that the specific provision for each loan should not be less than 1% of the amounts outstanding.

In respect of loans that are considered sub-standard for reasons other than being non-performing, a special provision is established for the greater of 1% of the amounts outstanding or 20% of the estimated net loss.

A general provision is established for all loans (other than loans for which specific and special provisions were established) at 1% of the amounts outstanding.

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

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from stockholders' equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

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

#### (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). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

### (l) 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.

### (m) 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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

### (n) Intangible assets

#### (i) Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured at fair value is less than the fair value of the net assets of the subsidiary acquired, negative goodwill, in the case of a bargain purchase, the difference is recognised directly in the income statement.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

#### (ii) Contractual customer relationships

This assets represents the present value of the benefit to the Group from customer lists, contracts, or customers relationships that can be identified separately and measured reliably. Customer relationships include those of insurance and banking customer relationships with an estimated useful life of 10 to 20 years.

#### (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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

### (o) Employee benefits

The group operates various post-employment schemes, including both defined benefit and defined contribution pension plans and post-employment medical plans.

#### (i) Pension obligations

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The asset or liability recognised in the statement of financial position in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets, together with adjustments for past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognised immediately in the income statement.

For the defined contribution plan, the Group pays contributions to privately administered pension insurance plans on a contractual basis. The Group has no further payment obligations once the contributions have been paid. The contributions are charged to the income statement in the period to which they relate.

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

The Group 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 the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

### (o) Employee benefits (continued)

#### (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.

#### (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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

### (p) Pension and investment funds

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

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

### (q) 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.

### (r) 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%.

### (s) 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%.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

### (t) Financial Liabilities

During the ordinary course of business, the Group issues investment contracts or otherwise assumes financial liabilities that expose the Group to financial risk. The recognition and measurement of the Group's principal types of financial liabilities are disclosed in 2 (v) and in the following paragraphs.

#### Securities sold for re-purchase

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

#### Deposit liabilities

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

#### Loans and other debts obligations

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

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

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.

#### 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(dd)). The non-derivative elements are stated at amortised cost using the effective interest method.

### (u) 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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

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

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

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).

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.



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

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

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

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

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.

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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

### (u) 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)

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.

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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

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

#### (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.

#### (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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

### (v) 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.

### (w) 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.

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

#### (w) Revenue recognition (continued)

##### (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.

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 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. The difference between the regulatory and IFRS bases of interest recognition was assessed to be immaterial.

#### (x) Interest and commission expense

##### (i) 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.

##### (ii) Commission expense

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

#### (y) Taxation

##### (i) Current and deferred taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

### (y) Taxation (continued)

(j) Current and deferred taxes (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(ii) Premium taxes

Insures in Jamaica are subject to tax at a rate of 3% on premium revenues generated.

(iii) Asset taxes

A financial institutions are subject to a tax at a rate of 0.14% of total assets less required capital and withholding taxes due from Tax Administration of Jamaica (TAJ).

### (z) Fiduciary activities

The Group acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

### (aa) 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 47.

### (bb) 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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

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

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'.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 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

- (i) Determination of the fair value of subsidiary  
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, as disclosed in Note 2.
- (ii) Adoption of IFRS 10, 'Consolidation of financial statements'  
Management assessments were done for the Sagicor Real Estate X Fund Limited, Sagicor Pooled Investment Fund and Sagicor Sigma Funds to ensure that changes made to IFRS 10 were properly implemented in accordance with the standard. A number of significant judgements were used regarding whether or not these entities had met the requirements to be consolidated within the financial statements of the Group and are highlighted below:
  - Sagicor Real Estate X Fund Limited and Sagicor Pooled Investment Fund  
IFRS 10 does not establish bright lines as to what level of exposure definitely result in control and the assessment should be based on the relevant facts and circumstances. In determining whether a fund manager has control over the fund they manage, therefore, involves significant judgement. Management considers that the Group does not have control of Sagicor Real Estate X Fund Limited and Sagicor Pooled Investment Fund. Although the Group contractual terms provide the Group with power over Sagicor Real Estate X Fund Limited and Sagicor Pooled Investment Fund Funds, management is of the view that the overall exposure of the Group to the variability of returns is not sufficient to conclude that the Group has control. Therefore, the Sagicor Real Estate X Fund Limited and Sagicor Pooled Investment Fund have not consolidated in these financial statements.
  - Sagicor Sigma Funds  
These are Unit Trust manage by the Group, but has independent trustees. Determining whether the Group has control over the Unit Trust requires judgment. This would include a consideration of the trustees' rights to remove the investment manager and an assessment of the exposure to variability arising from the aggregate economic interests of the Group in the Unit Trust.



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

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

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

Under IFRS 10.B65, the single party substantive removal rights may in isolation be sufficient to conclude that the fund manager is an agent. We note that the language in the Trust Deed is not specific on causes for which the manager can be removed. "Good and sufficient reason" envisaged by the Trust Deed may include negligence, poor financial performance and other reasons. However, the Deed also provides for appeal right for the manager. This appeal right and the requirement that the removal of the manager must be withheld by the independent party may limit the Trustee's freedom of removing the manager without good grounds for this. Under these circumstances, drawing a conclusion whether the removal rights of the Trustee are substantive rights requires significant judgement. Management considers that the Group does not have control of Sagicor Sigma Funds. Although the Group contractual terms provide the Group with power over Sagicor Sigma Funds, the overall exposure of the Group to the variability of returns of Sagicor Sigma Funds is not sufficient to conclude that the Group has control. Therefore, the Sagicor Sigma Funds has not consolidated in these financial statements.

### (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.

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 \$3,043,719,000 (2013 - \$2,742,223,000).

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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(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)

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 \$14,429,908,000 (2013 - \$12,396,143,000).

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 \$4,742,506,000 (2013 - \$4,549,411,000).

#### (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 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.

#### (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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(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)

- (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.
- (vi) *Impairment losses on loans and advances*  
The Group reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from loans. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.
- (vii) *Purchase price allocation of a business combination*  
In a business combination, the acquirer must allocate the cost of the business combination at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at fair value at that date. The allocation is based upon certain valuations and other studies performed with the assistance of external valuation specialists. Due to the underlying assumptions made in the valuation process, the determination of those fair values requires estimations of the effects of uncertain future events at the acquisition date and the carrying amounts of some assets, such as intangible assets, acquired through a business combination could therefore differ significantly in the future.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(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)

#### (vii) *Purchase price allocation of a business combination (continued)*

As prescribed by IFRS 3 (revised), if the initial accounting for a business combination can be determined only provisionally by the end of the reporting period in which the combination is effected, the acquirer must account for the business combination using those provisional values and has a twelve month period from the acquisition date to complete the purchase price allocation. Any adjustment of the carrying amount of an identifiable asset or liability made as a result of completing the initial accounting is accounted for as if its fair value at the acquisition date had been recognised from that date. The purchase price allocation for the acquisition of RBC Bank (Jamaica) Limited has been provisionally determined as described in Note 55.

## 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 five primary business segments:

- (a) Individual Lines - Provides life insurance, health and annuity products to individuals.
- (b) Employee Benefits – Provides group life and creditor life, personal accident, group health, group annuities, pension funds investment and administration services and the administration of trust accounts.
- (c) Commercial Banking – Comprises of personal banking, retail mortgages, small business (SME's) banking, treasury management and corporate banking.
- (d) Investment Banking – Comprises of wealth management products and services offered to retail and institutional clients; including unit trusts, mutual funds, brokerage, asset management and corporate trust.
- (e) Other – Comprises property management, captives management, general insurance and stockholders' funds.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

**31 December 2014**

(expressed in Jamaican dollars unless otherwise indicated)

---

## 5. Segmental Financial Information (Continued)

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.

Costs incurred by the support units of the Group are allocated to the business segments based on certain criteria determined by management. These criteria include staff complement, square footage and time spent providing the service to the business segment. The expenses that are allocated are mainly staff costs, depreciation and amortisation and other operating expenses and are treated as direct allocated costs.

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.

Eliminations comprise inter-company and inter-segment transactions.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Group's total revenue in 2014 or 2013.





# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 5. Segmental Financial Information (Continued)

The Group's geographic information:

	Jamaica	Cayman Islands	Other	Total
	<b>2014</b>			
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Revenue	43,183,551	2,899,048	(452,376)	45,630,223
Total assets	257,543,240	25,926,550	746,023	284,215,813
	<b>2013</b>			
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Revenue	38,979,896	3,369,858	6,411	42,356,165
Total assets	168,611,799	29,052,492	646,006	198,310,297

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.



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 6. Cash Resources

	The Group		The Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Balances with banks payable on demand	18,261,238	3,898,330	6,685	-
Cash in hand	2,812,359	184,033	-	-
	21,073,597	4,082,363	6,685	-

## 7. Cash and Cash Equivalent

Cash and cash equivalents include the following for the purposes of the statement of cash flows:

	The Group		The Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Cash resources	21,073,597	4,082,363	6,685	-
Short term deposits	985,221	1,326,925	-	-
Securities purchased under resale agreements	2,674,078	3,816,562	25,499	-
Items in course of payment (Note 34)	(498,236)	(68,364)	-	-
Repurchase agreements with other financial institutions	(1,519,956)	(3,514,101)	-	-
Bank overdrafts (Note 34)	(163,126)	(198,986)	-	-
	22,551,578	5,444,399	32,184	-

The amounts of \$985,221 (2013: \$1,326,922) represent deposits with original maturity of less than 90 days out of the total Group and short-term deposits of \$985,281 (2013: 1,334,809).

## 8. Cash Reserves at Central Bank

A prescribed minimum of 26% (2013 - 26%) of deposit liabilities is required to be maintained by the banking subsidiary in liquid assets, of which 12% (2013 - 12%) must be maintained as cash reserve with the central bank, Bank of Jamaica for Jamaican dollar currency and for the relevant foreign currency at 9% (2013 - 9%). Cash reserves are not available for investment, lending or other use by the Group.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 9. Financial Investments

	The Group		The Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
<b>Short term deposits</b>	985,281	1,334,809	867	-
<b>Financial assets at fair value through profit or loss -</b>				
Government of Jamaica securities	4,694,047	5,870,792	982,498	-
Corporate bonds	3,312,337	2,395,010	-	-
Quoted equity	2,382,693	2,148,361	-	-
Unquoted preference shares	330,201	312,904	-	-
Interest receivable	136,160	122,640	25,360	-
Foreign governments securities	57,045	18,412	-	-
Unit trust	10,415,716	8,160,732	-	-
	21,328,199	19,028,851	1,007,858	-
<b>Available-for-sale -</b>				
Government of Jamaica securities	62,112,631	49,729,099	771,806	-
Foreign governments securities	10,608,315	7,925,715	-	-
Corporate bonds	40,252,050	33,968,672	478,765	-
Credit Linked notes	2,763,247	2,494,253	-	-
Quoted equities	1,452,004	2,887,785	-	-
Unquoted equities	106,459	76,648	-	-
Unit trust shares	646,722	579,007	-	-
Interest receivable	1,701,849	1,414,279	29,982	-
	119,643,277	99,075,458	1,280,553	-
<b>Loans and receivables -</b>				
Government of Jamaica securities	37,835,160	35,165,270	3,101,721	-
Foreign governments securities	88,156	81,696	-	-
Corporate bonds	1,343,177	-	-	-
Securities purchased under resale agreement	3,587,204	4,315,409	25,499	-
Mortgage loans	2,189,363	2,350,710	-	-
Promissory notes	498,000	48,000	-	-
Policy loans	906,489	891,007	-	-
Interest receivable	765,332	635,207	49,602	-
	47,212,881	43,487,299	3,176,822	-
<b>Held to maturity investments -</b>				
Credit Linked notes	2,328,071	2,141,115	-	-
<b>Less Pledged assets (Note 12)</b>	(8,402,683)	(3,278,856)	-	-
<b>Total Financial Investments</b>	<b>183,095,026</b>	<b>161,788,676</b>	<b>5,466,100</b>	<b>-</b>

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

### 9. Financial Investments (Continued)

Included in quoted equities classified as available-for-sale are investments in Exchange Traded Funds (ETFs) by the Group totaling \$2,093,018,000 (2013 - \$3,477,175,000).

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 Government of Jamaica debt securities is a Euro dollar promissory note which has been designated as financial asset at fair value through profit or loss. The Group has also entered into a cross currency swap to mitigate the currency risk associated with this security (Note 11).

The Group holds certain Government of Jamaica debt securities which were issued in February 2014 and mature in February 2024. The terms of these securities contain an investor put option exercisable in February 2018 under which the holder may require the Government of Jamaica to redeem the securities at 100% of the principal value plus any accrued interest. This embedded put option has not been separated but is recognised as part of fair value of the debt security. The initial recognition of the option is included in the determination of the "Loss on debt exchange transactions" and gains and losses on subsequent revaluations of the option are included in Note 40. The value of these options is \$504,213,000 for the Group.

The Group recognised impairment charges totaling \$738,183,000 (2013 - \$7,851,000) on equity securities (Note 40).

Included in financial investments are the following amounts which are pledged as collateral:

- (i) Government of Jamaica Fixed Rate Benchmark Note with a carrying value of \$9,000,000 (2013 - \$9,000,000) which have been pledged by the company as security for uncleared effects with the National Commercial Bank Jamaica Limited by one of the company's subsidiaries, Sagicor Life Jamaica Limited.
- (ii) Government of Jamaica Fixed Rate Benchmark Note with a carrying value of \$90,000,000, (2013 - \$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 by one of the company's subsidiaries, Sagicor Life Jamaica Limited.
- (iii) Kingdom of Bahrain bond with a carrying value of US\$1,068,880, a Republic of Italy bond with a carrying value of US\$1,272,550, a Government of Bermuda bond with a carrying value of US\$1,101,470, a Common Wealth of Bahamas bond with a carrying value of US\$7,750,080, a Government of Cayman Islands bond with a carrying value of US\$7,757,470, Government of Trinidad and Tobago bonds with a carrying value of US\$11,278,428, Government of Jamaica Global bonds with a carrying value of US\$17,031,623, Petroleum Company of Trinidad & Tobago Limited Corporate bonds with a carrying value of US\$3,453,195, a First Citizen Bank of Trinidad & Tobago bond with a carrying value of US\$5,169,450 and Cash totalling US\$466,667 have been pledged by the company as security for a loan facility of US\$40,000,000 with Credit Suisse NY by one of the company's subsidiaries, Sagicor Life Jamaica Limited.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 9. Financial Investments (Continued)

- (iv) The company has International Corporate bonds with a carrying value of US\$46,283,285, a government of Trinidad and Tobago corporate bond with a carrying value of US\$818,448 and a Government of Barbados Corporate bonds with carrying value of US\$1,728,540 pledged as security with Goldman Sachs International to secure a US\$32,631,196 loan facility by one of the company's subsidiaries, Sagicor Life of the Cayman Islands Ltd.
- (v) The company has International Corporate bonds with carrying value of US\$22,948,676, a Petroleum Company Trinidad and Tobago Corporate bond with carrying value of US\$4,431,175, a Government of Barbados Corporate bond with carrying value of US\$261,076, a Preferred Shares with carrying value of US\$109,013, Equities with a carrying value of US\$2,685,885 and an Agency bond with carrying value of US\$532,186 pledged as security for margin loans of US\$30,211,561 with Morgan Stanley Smith Barney by one of the company's subsidiaries, Sagicor Life of the Cayman Islands Ltd.
- (vi) International Corporate bonds with a carrying value of US\$85,822,682, an Equity with a carrying value of US\$1,324,642, International Municipal bonds with a carrying value of US\$2,320,580 and a Federal Republic of Brazil bond with a carrying value of US\$107.875, a Government Republic of Panama bond with a carrying value of US\$63,813 and a Government of Jamaica bond with a carrying value of US\$300,000 have been pledged as security for margin loans of US\$46,129,711 with Morgan Stanley Smith Barney by the company, Sagicor Life Jamaica Limited

### ***Reclassification of Financial Investments***

In the financial year ended 31 December 2008, the Group reclassified certain investments from available-for-sale to loans and receivables due to the market for these securities becoming inactive in October 2008 and as allowed by the amendment to IAS 39. The market was deemed to be active again in December 2010, however the Group opted to retain the classification of these securities as loans and receivables.

Fair value reserve (Note 28) includes fair value losses in relation to the reclassified securities not yet derecognised as at the date of the statement of financial position amounting to \$341,689,000 (2013 – \$359,937,000).

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 9. Financial Investments (Continued)

### *Reclassification of Financial Investments (continued)*

The carrying value (excluding accrued interest) and fair value of these securities as at the date of the statement of financial position were as follows:

	<b>The Group</b>			
	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Government of Jamaica securities	5,545,922	6,373,157	5,360,285	5,183,005
Other securities	88,156	55,946	81,696	47,230
	<u>5,634,079</u>	<u>6,429,103</u>	<u>5,441,981</u>	<u>5,230,235</u>

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Cumulative net fair value losses at beginning of year	(713,105)	(357,229)
Net fair value gains/(losses) for the year	1,015,166	(303,839)
Disposals	25,354	-
Effect of exchange rate changes	(54,106)	(52,037)
Cumulative net fair value losses at end of year	<u>273,309</u>	<u>(713,105)</u>

There was no reclassification of financial assets during the year.

The following are included in the income statement for investments reclassified in 2008:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Interest income	509,614	462,881
Foreign exchange gains	399,658	648,386
	<u>909,272</u>	<u>1,111,267</u>

Fair value gains of \$1,015,166,000 (2013 – (\$303,839,000)) for the Group would have been recognised in other comprehensive income during the year had these securities not been reclassified.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 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:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
<b>Derivatives - Assets</b>	<b>\$'000</b>	<b>\$'000</b>
(i) Currency forwards	-	284,407
(ii) Cross currency swap	574,149	2,646,127
(iii) Equity indexed options	187,583	89,063
	<u>761,732</u>	<u>3,019,597</u>
<b>Derivatives - Liabilities</b>		
(i) Currency forwards	-	292,854
(ii) Cross currency swap	528,783	2,789,049
(iii) Equity indexed options	187,403	89,038
	<u>716,186</u>	<u>3,170,941</u>

- (i) **Currency forwards**  
Currency forwards represented commitments to buy US dollars and sell Euro dollars totalling €Nil (2013 - €2,000,000) 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 expired in November 2014.
- (ii) **Cross currency swap**  
The Sagicor Investments Jamaica Group entered into a currency swap with an initial notional principal amount of €45 million maturing in February 2015. Under the terms of this swap, the company pays Euro at a rate of 5% and receives 4.26% in US dollars on the notional principal amount.
- (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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 11. Loans and Leases, after Allowance for Credit Losses

	The Group	
	2014 \$'000	2013 \$'000
Gross loans and advances	40,798,047	10,847,164
Less: Allowance for credit losses	(2,305,325)	(236,632)
	38,492,722	10,610,532
Loan interest receivable	195,880	99,795
	38,688,602	10,710,327
Lease receivables	119,447	110,874
	<u>38,808,049</u>	<u>10,821,201</u>

The current portion of loans and advances amounted to \$10,832,066,000 (2013 - \$4,064,858,000) for the Group.

The movement in the allowance for credit losses determined under the requirements of IFRS is as follows:

	The Group			
	Loans		Leases	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Total non-performing loans/leases	<u>3,515,775</u>	<u>522,510</u>	<u>13,767</u>	<u>27,387</u>
Balance at beginning of year	236,632	215,902	15,721	24,024
On acquisition of subsidiary	1,791,095	-	-	-
Movement during the year -				
Charged against profit during the year	328,592	64,546	-	(8,303)
Recoveries of bad debts	(55,957)	(5,387)	(13,461)	-
Charged in the income statement	272,635	59,159	(13,461)	(8,303)
Write-offs/(recoveries)	(21,371)	(42,362)	-	-
Currency revaluation adjustment	26,334	3,933	-	-
Balance at end of year	<u>2,305,325</u>	<u>236,632</u>	<u>2,260</u>	<u>15,721</u>

The provision for credit losses determined under Central Bank regulatory requirements was as follows:

	The Group	
	2014 \$'000	2013 \$'000
Specific provision	457,454	394,814
General provision	2,817,008	114,916
	<u>3,274,462</u>	<u>509,730</u>
Excess of regulatory provision over IFRS provision recognised in the Bank reflected in non-distributable loan loss reserve (Note 30 (b))	<u>1,004,327</u>	<u>257,377</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 11. Loans and Leases, after Allowance for Credit Losses (Continued)

Lease receivables:

	The Group	
	2014 \$'000	2013 \$'000
Gross investment in finance leases -		
Not later than one year	86,054	108,982
Later than one year and not later than five years	62,000	53,783
	<u>148,054</u>	<u>162,765</u>
Less: Unearned income	(34,953)	(37,497)
Net investment in finance leases	<u>113,101</u>	<u>125,268</u>
Net investment in finance leases -		
Not later than one year	51,101	64,234
Later than one year and not later than five years	62,000	61,034
	<u>113,101</u>	<u>125,268</u>
Less: Provision for credit losses	(2,260)	(15,721)
Interest receivable	8,606	1,327
	<u>119,447</u>	<u>110,874</u>

## 12. 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 regulators, the Bank of Jamaica and the Financial Services Commission.

	The Group			
	Asset		Related Liability	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Placements with other banks pledged as collateral for letters of credit	-	-	-	-
Balance with regulators	127,066	124,363	-	-
Investment securities and securities sold under repurchase agreements	<u>99,479,746</u>	<u>90,695,442</u>	<u>82,418,361</u>	<u>75,846,825</u>
	<u>99,606,812</u>	<u>90,819,805</u>	<u>82,418,361</u>	<u>75,846,825</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.

	The Group	
	2014 \$'000	2013 \$'000
Investment securities	<u>8,402,683</u>	<u>3,278,856</u>



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 13. Investment Properties

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
At beginning of year	782,345	2,400,826
Acquired during the year	181,054	142,035
Disposed during the year	-	(1,799,595)
Fair value (losses)/gains	(114,454)	2,000
Foreign exchange gains	22,943	37,079
At end of year	<u>871,888</u>	<u>782,345</u>

The investment properties as at 31 December 2014 were valued at current market value by Clinton Cunningham & Associates, qualified property appraisers and valuers.

Rental income and repairs and maintenance expenditure in relation to investment properties are as follows:

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Rental income	18,486	3,093
Direct operating expenses	<u>(40,503)</u>	<u>(38,045)</u>

The valuations of investment property have been classified as Level 3 of the fair value hierarchy under IFRS 13, *Fair Value Measurement*. The valuations have been performed using a sales comparison approach but, as there have been a limited number of similar sales in the local market, incorporate unobservable inputs determined based on the valuers' judgment regarding size, age, condition and state of the local economy.

## 14. Investment in Joint Venture

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
At 1 January	639,235	544,115
Capital injection	41,106	26,512
Share of losses	6,310	(10,021)
Movement in other reserves	52,067	78,629
At 31 December	<u>738,718</u>	<u>639,235</u>

At the end of 2014, the company's share of capital invested was US\$6.62 million (2013-US\$6.25 million).

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 14. Investment in Joint Venture (Continued)

The joint venture has share capital consisting solely of common and nominative shares, which is held directly by the Group.

Sagicor Costa Rica, S.A. is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's interest in the joint venture.

### *Summarised Financial Information of Joint Venture*

Set out below are the summarized financial information for Sagicor Costa Rica, S. A. which is accounting for using the equity method.

### *Summarised Balance Sheet*

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Current assets		
Cash and cash equivalents	127,730	92,685
Other current assets	139,529	77,626
	<u>267,259</u>	<u>170,311</u>
Non-current assets		
Investments	1,190,628	1,105,287
Other non-current asset	17,158	25,769
	<u>1,207,786</u>	<u>1,131,056</u>
Total Assets	<u>1,475,045</u>	<u>1,301,367</u>
Current liabilities		
Provision for unearned premiums	104,072	18,220
Other liabilities	143,980	5,773
	<u>248,051</u>	<u>23,993</u>
Non current liabilities		
Other liabilities	-	3,845
Total Liabilities	<u>248,051</u>	<u>27,838</u>
Net Assets	<u>1,226,994</u>	<u>1,273,529</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 14. Investment in Joint Venture (Continued)

*Summarised Financial Information of Joint Venture (Continued)*

*Summarised statement of comprehensive income*

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Insurance revenue	183,029	93,125
Insurance expenses	<u>(20,116)</u>	<u>(55,465)</u>
Underwriting profit	162,913	37,660
Other income	92,957	54,482
Operating expenses	<u>(243,251)</u>	<u>(122,624)</u>
Net profit/(loss)	12,619	(30,482)
Taxation	-	10,440
	12,619	(20,042)
Other comprehensive income	<u>28,272</u>	<u>218,982</u>
Total comprehensive income	<u><u>40,891</u></u>	<u><u>198,940</u></u>
Reconciliation of summarised financial information		
Opening net assets at 1 January	1,278,470	1,088,230
Capital injection	41,106	54,952
Net profit/(loss) for the period	12,619	(20,042)
Other comprehensive income	<u>28,272</u>	<u>155,330</u>
Closing net assets	<u><u>1,360,467</u></u>	<u><u>1,278,470</u></u>
Interest in joint venture at 50%	<u><u>738,718</u></u>	<u><u>639,235</u></u>
Carrying value	<u><u>738,718</u></u>	<u><u>639,235</u></u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 15. Interest in Structured Entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Group. Such interests include holdings of debt or equity securities and investment management agreements. Structured entities are assessed for consolidation in accordance with the accounting policy set out in Note 3(a) (ii).

### **Consolidated Structured Entity**

The Group has no consolidated structured entity.

### **Unconsolidated Structured Entity**

The Group established the Sagicor Real Estate X Fund Limited, Sagicor Pooled Investment Fund Limited and Sagicor Sigma Unit Trust (ten funds) to provide customers and pension funds with several investment opportunities.

#### (i) Sagicor Real Estate X Fund Limited

Sagicor Real Estate X Fund Limited has independent directors. The company is 67.71% owned by the Sagicor Pooled Investment Fund Limited, which is administered by the Group, through one of its subsidiaries, Sagicor Life Jamaica Limited. The company's only investment is units in one of the ten portfolios managed by Sagicor Sigma Unit Trust, the Sagicor Sigma Real Estate Portfolio. The fund manager for the ten funds operated by Sagicor Sigma Unit Trust is one of the Group subsidiaries, Sagicor Investments Jamaica Limited.

The company's main business activity is to invest in real estate activities.

The table below shows the total assets of the company, the Group's interest in and income arising from involvement with the company as well as the maximum exposure to loss. The maximum exposure to loss from the Group's interests represents the maximum loss that the Group could incur as a result of its involvement with the company regardless of the probability of the loss being incurred. The income from the Group's interest includes recurring and non-recurring fees and any mark-to-market gains/losses on a net basis.

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Total assets of the company	14,614,375	8,418,157
The Group's interest – Carrying value of shares held (included in available-for-sale investment securities – Note 9)	1,309,148	1,059,086
Maximum exposure to loss	1,754,230	1,059,086
Total income from the Group's interests	-	-

The Group has not provided any non-contractual financial support during the period and does not anticipate providing non-contractual support to the company in the future.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 15. Interest in Structured Entities (Continued)

### *Unconsolidated Structured Entity (continued)*

(ii) Sagicor Pooled Investment Fund

Sagicor Pooled Investment Fund Limited administers assets of the Pooled Pension Investment Funds which are held in trust on behalf of pension funds. The trust has independent trustees. The administration of the assets in trust is done by one of the Group's subsidiaries, Sagicor Life Jamaica Limited. The investment manager of these Funds is also one of the Group's subsidiaries, Sagicor Investment Jamaica Limited. Both the administration of the assets and the provision of investment management services entitled the Group to receive management fees based on the assets under management.

The table below shows the total assets of the company, the Group's interest in and income arising from involvement with the company as well as the maximum exposure to loss. The maximum exposure to loss from the Group's interests represents the maximum loss that the Group could incur as a result of its involvement with the company regardless of the probability of the loss being incurred. The income from the Group's interest includes recurring and non-recurring fees and any mark-to-market gains/losses on a net basis.

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Total assets of the company	73,650,002	63,950,608
Maximum exposure to loss	8,150,172	7,125,256
Total income from the Group's interests	823,325	776,704

The Group has not provided any non-contractual financial support during the period and does not anticipate providing non-contractual support to the company in the future.

(iii) Sagicor Sigma Unit Trust

The Group established the Sagicor Sigma Unit Trust to provide customers with investment opportunities. The Unit Trust comprises ten portfolios.

The Unit Trust has an independent trustee. One of the Group's subsidiaries, Sagicor Investment Jamaica Limited is the investment manager of the Unit Trust and is entitled to receive management fees based on the assets under management. The Group also holds units in the Unit Trust.

The table below shows the total assets of the Unit Trust, the Group's interest in and income arising from involvement with the Unit Trust as well as the maximum exposure to loss. The maximum exposure to loss from the Group's interests represents the maximum loss that the Group could incur as a result of its involvement with the Unit Trust regardless of the probability of the loss being incurred. The income from the Group's interest includes recurring and non-recurring fees and any mark-to-market gains/losses on a net basis.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 15. Interest in Structured Entities (Continued)

### *Unconsolidated Structured Entity (continued)*

(iii) Sagicor Sigma Unit Trust (continued)

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Total assets of the Unit Trust	46,364,806	30,954,556
The Group's interest – Carrying value of units held (included in available-for-sale investment securities – Note 10)	11,062,439	8,739,739
Maximum exposure to loss	11,062,439	8,739,739
Liability to the Unit Trust in relation to investment in repurchase obligations (included in repurchase obligations on the consolidated statement of financial position)	12,776,172	2,980,592
Total income from the Group's interests	<u>552,944</u>	<u>361,282</u>

The Group has not provided any non-contractual financial support during the period and does not anticipate providing non-contractual support to the Unit Trust in the future.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 16. Investment in Associated Company

St. Andrew Developers Limited was liquidated in 2013 and there was a loss on disposal, the Group's share being \$1,716,000.

	<b>2013</b>
	<b>\$'000</b>
Investment in Associates	2,725
Amount received on liquidation	(1,009)
Net loss on disposal of Associate	<u>1,716</u>

## 17. Investment in Subsidiaries

### (a) Investment in subsidiaries

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Shares in:</i>		
Sagicor Life Jamaica Limited (i)	34,257,354	34,257,354
Sagicor St. Lucia Limited (ii)	604,286	563,181
Sagicor Insurance Brokers Limited (ii)	33,181	32,181
Sagicor International Administrators Limited (ii)	5,783	5,783
Sagicor Property Services Limited (ii)	100,000	-
Sagicor Pooled Investments Limited (ii)	1	1
Sagicor Investments Jamaica Limited (iii)	10,742,300	-
Sagicor Bank Jamaica Limited (iii)	11,680,814	-
Sagicor Securities Jamaica Limited	1	-
	<u>57,423,720</u>	<u>34,858,500</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 17. Investment in Subsidiaries (Continued)

- (i) Acquisition of Sagicor Life Jamaica Limited (SLJ) shares via share swap  
As part of the Group's re-organisation (Note 1(b)) in December 2013, the shareholders of SLJ exchanged their shareholdings for shares in Sagicor Group Jamaica Limited (SGJ) of same quantity and value. These SLJ shares were cancelled and new shares issued in the name of SGJ. SLJ therefore became a wholly owned subsidiary of SGJ.
- (ii) Subsidiary shares acquired  
As part of the Group's re-organisation on December 31, 2013, SGJ acquired all the outstanding shares of the subsidiaries formally under SLJ excluding Sagicor Investments Jamaica Limited and its subsidiaries.
- (iii) Acquisition of Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited  
As part of the second phase of the Group's re-organization (Note 1(b)) in May 2014, shares held in Sagicor Investments Jamaica Limited were transferred to Sagicor Group Jamaica Limited and \$144,643,138 of Sagicor Group Jamaica Limited shares were issued to acquire the 14.55% minority shareholdings. Full ownership of Sagicor Investment Jamaica Limited and Sagicor Bank Jamaica Limited were therefore transferred to Sagicor Group Jamaica Limited.



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(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 2013	2,060,634	3,414,499	473,433	811,797	6,760,363
Additions	-	-	-	33,600	33,600
Translation adjustment	71,356	-	-	48	71,404
At 31 December 2013	2,131,990	3,414,499	473,433	845,445	6,865,367
Additions				164,623	164,623
On acquisition of subsidiary		1,139,000			1,139,000
Disposal – re subs transferred					
Translation adjustment	44,008			304	44,312
At 31 December 2014	2,175,998	4,553,499	473,433	1,010,372	8,213,302
<b>Amortisation -</b>					
At 1 January 2013	-	1,488,887	473,433	633,308	2,595,628
Amortisation charge	-	206,468	-	47,752	254,220
Translation adjustment	-	-	-	10	10
At 31 December 2013	-	1,695,355	473,433	681,070	2,849,858
Amortisation charge	-	234,947		74,869	309,816
Impairment Charge	-	427,683			427,683
Translation adjustment	-	8,646		298	8,944
At 31 December 2014	-	2,366,631	473,433	756,237	3,596,301
<b>Net Book Value -</b>					
31 December 2013	2,131,990	1,719,144	-	164,375	4,015,509
31 December 2014	2,175,998	2,186,868	-	254,135	4,617,001

Amortisation charges of \$309,816,000 (2013 - \$254,220,000) have been included in expense for the Group.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 18. Intangible Assets (Continued)

The allocation of goodwill to the Group's and the company's Cash Generating Units (CGUs) is as follows:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$000</b>	<b>\$000</b>
Sagicor Life Jamaica Individual Lines Division	855,191	855,191
Sagicor Life Jamaica Employee Benefits Division	530,126	530,126
Sagicor Life of the Cayman Islands Individual Lines Division	570,688	529,066
Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited)	186,066	186,066
Sagicor Insurance Managers Ltd.	33,927	31,541
	<u>2,175,998</u>	<u>2,131,990</u>

For the year ended 31 December 2014, management tested goodwill allocated to Sagicor Group 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 for impairment.

The recoverable amounts of Sagicor Group Jamaica Individual Lines Division, Sagicor Group 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 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:

	<b>Earnings Multiple</b>	<b>Earnings Growth Rate</b>	<b>Capital Expenditure to EBT</b>	<b>Discount Rate</b>
Sagicor Life Jamaica Individual Life Division	7.00	-	-	-
Sagicor Life Jamaica Employee Benefits Division	7.60	-	-	-
Sagicor Life of the Cayman Islands Individual Life Division	8.10	-	-	-
Sagicor Investments Jamaica Limited	-	6.00%	9.00%	21.61%
Sagicor Insurance Managers Ltd.	-	2.00%	-	13.51%

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 19. 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 2013	572,032	879,590	1,408,274	131,291	2,991,187
Additions	37,330	15,539	131,049	7,478	191,396
Revaluation adjustments	-	97,617	-	-	97,617
Disposals	-	(96,000)	(10,114)	(34,460)	(140,574)
Reclassification	-	-	287	(287)	-
Translation adjustment	1,417	-	2,169	318	3,904
At 31 December 2013	610,779	896,746	1,531,665	104,340	3,143,530
Additions	109,263	8,855	326,142	39,601	483,860
On acquisition of subsidiary	107,837	1,492,687	1,519,560	23,545	3,143,629
Revaluation adjustments	-	76,439	-	-	76,439
Disposals	-	-	(1,143,464)	(4,550)	(1,148,014)
Translation adjustment	3,213	-	3,993	2,134	9,340
At 31 December 2014	831,092	2,474,727	2,237,896	165,070	5,708,784
<b>Accumulated Depreciation -</b>					
At 1 January 2013	216,030	747	1,020,241	70,090	1,307,108
Charges for the year	56,584	9,608	125,320	18,388	209,900
Relieved on revalued assets	-	(9,608)	-	-	(9,608)
Relieved on disposals	-	-	(9,769)	(34,460)	(44,229)
Reclassification	-	-	91	(91)	-
Translation adjustment	1,918	-	1,675	193	3,786
At 31 December 2013	274,532	747	1,137,558	54,120	1,466,957
Charges for the year	67,872	21,649	165,555	21,842	276,918
On acquisition of subsidiary	62,918	214,027	1,295,538	19,125	1,591,608
Relieved on revalued assets	-	(9,251)	-	-	(9,251)
Relieved on disposals	-	-	(1,127,737)	(3,355)	(1,131,092)
Translation adjustment	1,530	-	3,362	2,016	6,908
At 31 December 2014	406,852	227,172	1,474,276	93,749	2,202,248
<b>Net Book Value -</b>					
31 December 2013	336,247	895,999	394,107	50,220	1,676,573
31 December 2014	424,240	2,247,555	763,620	71,321	3,506,736

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 19. 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 \$931,378,372 (2013 - \$107,225,000), has been 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:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Cost	837,215	493,480
Accumulated depreciation	(174,029)	(30,000)
Net book value	<u>663,186</u>	<u>463,480</u>
Carrying value of revalued assets	<u>2,037,080</u>	<u>895,999</u>

## 20. Reinsurance Contracts

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Claims recoverable from reinsurers	211,973	131,801
Unearned premiums ceded to reinsurers	118,081	116,987
Reinsurers share of insurance liabilities	<u>50,768</u>	<u>13,922</u>
	<u>380,822</u>	<u>262,710</u>

The reinsurers' share of actuarial liabilities represents balances which are short-term and expected to be settled within one year.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 21. Retirement Benefits

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Retirement benefit assets -</b>		
Pension scheme	58,913	-
<b>Retirement benefit obligations -</b>		
Pension scheme	702,611	1,151,189
Other post-retirement benefits	2,658,486	1,508,079
	<u>3,361,097</u>	<u>2,659,268</u>

Pension schemes comprised the following –

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Retirement benefit assets	(58,913)	-
Retirement benefit obligations	702,611	1,151,189
	<u>643,698</u>	<u>1,151,189</u>

The Group operates the following pension plans:

- (i) Sagicor Life Jamaica Limited operates a defined contribution plan for eligible sales agents and admin staff joining on or after August 1, 2009 and defined benefit plan for eligible administrative staff before August 1, 2009. The assets are held in a trust fund and are separate and apart from the assets of the company. The benefits for the DB plan 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 (2012) was 106%.
- (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 and former Sagicor Bank Jamaica Limited operate 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%.
- (iv) Sagicor Bank Jamaica Limited, formerly RBC Bank Jamaica Limited, has a defined contribution plan covering all permanent employees.

The law requires each plan sponsor to be an ordinary annual contributor but does not stipulate a minimum funding rate or solvency level. In absence of guidance from the regulator, the actuaries have agreed on a minimum employer contribution rate of 0.25% of payroll per annum where plan rules do not specify a minimum.

The Trustees of the pension schemes ensure benefits are funded, benefits are paid, assets invested to maximise returns subject to acceptable investment risks while considering the liability profile.

Any plan surplus or funding deficiency for the defined benefits plans as determined by independent actuaries annually using the Projected Unit Credit Method are absorbed by the Group.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 21. Retirement Benefits (Continued)

### (a) Pension schemes

The amounts recognised in the statement of financial position are determined as follows:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Present value of funded obligations	13,006,849	9,453,057
Fair value of plan assets	<u>(12,363,151)</u>	<u>(8,301,868)</u>
Deficit of funded plan	<u>643,698</u>	<u>1,151,189</u>
Liability in the balance sheet	<u><u>643,698</u></u>	<u><u>1,151,189</u></u>

Movement in the present value of the defined benefit obligations recognised in the statement of financial position:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Liability, as previously reported	<u>9,453,057</u>	<u>7,376,028</u>
Liability assumed on acquisition of subsidiary	<u>2,605,100</u>	<u>-</u>
Current service cost	487,966	302,442
Interest cost	<u>1,079,306</u>	<u>691,373</u>
Net expense recognised in income	1,567,272	993,815
Re-measurements:		
Losses from changes in demographic assumptions	-	557,899
Losses/(gains) from changes in financial assumptions	-	686,505
(Gains)/losses from changes in experience	<u>(817,508)</u>	<u>(249,760)</u>
Net losses recognised in other comprehensive income	(817,508)	994,644
Contributions by the members	444,289	289,956
Value of purchased annuities	257,483	70,225
Benefits paid	(980,247)	(271,612)
Past service cost	<u>477,403</u>	<u>-</u>
Net Liability, end of year	<u><u>13,006,849</u></u>	<u><u>9,453,056</u></u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 21. Retirement Benefits (Continued)

### (a) Pension schemes (continued)

Movement in the fair value of plan assets recognised in the statement of financial position:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance, as previously reported	8,301,868	7,251,378
Assets assumed on acquisition of subsidiary	2,545,713	-
Contributions made by the employer	362,631	235,350
Contributions by the members	444,289	289,956
Value of purchased annuities	257,483	70,226
Benefits paid	(980,247)	(271,612)
Interest income on plan assets	1,025,778	702,913
Re-measurement:		
Losses from changes in demographic assumptions	-	123,744
Losses/(gains) from changes in financial assumptions	-	56,254
Gains from changes in experience	405,636	(156,341)
Net losses/(gains) recognised in other comprehensive income	<u>405,636</u>	<u>23,657</u>
Balance, end of year	<u><u>12,363,151</u></u>	<u><u>8,301,868</u></u>

The amounts recognised in the income statements as follows:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Current service cost	487,966	302,442
Past service cost	477,403	-
Interest cost on plan obligation	1,079,306	691,373
Interest income on plan assets	<u>(1,025,778)</u>	<u>(702,913)</u>
Total, included in staff cost (Note 44)	<u><u>1,018,897</u></u>	<u><u>290,902</u></u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 21. Retirement Benefits (Continued)

### (a) Pension schemes (continued)

The amounts recognised in other comprehensive income is as follows:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Change in demographic assumptions	-	434,155
Change in financial assumptions	-	630,251
Experience adjustments	<u>(1,223,144)</u>	<u>(93,419)</u>
	(1,223,144)	970,987
Deferred tax	<u>196,549</u>	<u>(100,824)</u>
	<u>(1,026,595)</u>	<u>870,163</u>

The principal actuarial assumptions used were as follows:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
Discount rate - J\$ benefits	9.50%	9.50%
Discount rate - US\$ Indexed benefits	6.50%	6.50%
Net discount rate	9.50%	8.50%
Inflation	5.50%	5.00%
Administrative fees	0.50%	1.00%
Expected return on plan assets	9.50%	9.50%
Future salary increases	6.00%	6.00%
Future pension increases	2.00%	2.00%
Investment fees	1.00%	1.00%
Administrative expenses	1.00%	1.00%
Minimum Funding Rate (MFR) as a % of payroll	0.25%	0.25%
Average expected remaining working lives (years)	<u>17</u>	<u>17</u>



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 21. Retirement Benefits (Continued)

### (a) Pension schemes (continued)

Pension plan assets are comprised as follows:

	<b>The Group</b>			
	<b>2014</b>		<b>2013</b>	
	<b>\$'000</b>	<b>%</b>	<b>\$'000</b>	<b>%</b>
Equities	2,266,663	20	1,671,276	20
Mortgages and real estate	1,517,094	16	1,349,281	16
Money market fund	596,882	12	999,809	12
Fixed income fund	2,479,573	17	1,366,719	17
Foreign currency fund	2,072,696	15	1,276,438	15
Inflation-linked	697,146	5	426,883	5
	9,630,054	85	7,090,406	85
Value of purchased annuities	1,647,612	15	1,211,462	15
	<u>11,277,666</u>	<u>100</u>	<u>8,301,868</u>	<u>100</u>

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 65.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 21. Retirement Benefits (Continued)

### (b) Other post-retirement 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.

The amounts recognised in the statement of financial position are determined as follows:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Present value of unfunded obligations	2,796,881	1,634,467
Fair value of plan assets	<u>(138,395)</u>	<u>(126,388)</u>
Liability in the statement of financial position	<u><u>2,658,486</u></u>	<u><u>1,508,079</u></u>

Movement in the amounts recognised in the statement of financial position:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Liability at beginning of year, as previously reported	1,634,467	964,197
Liability assumed on acquisition of subsidiary	1,035,659	-
Current service cost	154,192	144,624
Interest cost	<u>281,412</u>	<u>99,741</u>
Net expense recognised in income	435,604	244,365
Re-measurement:		
Losses from changes in demographic assumptions	-	163,409
Losses/(gains) from changes in financial assumptions	-	163,288
Losses from changes in experience	<u>35,763</u>	<u>128,514</u>
Net losses/(gains) recognised in other comprehensive income	35,763	455,211
Benefits paid	(45,983)	(29,306)
Curtailed loss/(gain)	(157,335)	-
Post service cost	<u>(141,294)</u>	<u>-</u>
Net Liability, end of year	<u><u>2,796,881</u></u>	<u><u>1,634,467</u></u>

The principal actuarial assumption used was as follows:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
Rate of medical inflation	<u>8%</u>	<u>8%</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 21. Retirement Benefits (Continued)

### (b) Other post-retirement benefits (continued)

The amounts recognised in the income statements as follows:

	<u>The Group</u>	
	2014	2013
	\$'000	\$'000
Current service cost	154,192	144,624
Curtailment (gain)	(157,335)	-
Past service cost	(141,294)	-
Interest cost	281,412	99,741
Benefits paid	<u>(12,007)</u>	<u>(29,306)</u>
Total, included in staff cost (Note 44)	<u>124,968</u>	<u>215,059</u>

The amounts recognised in other comprehensive income is as follows:

	<u>The Group</u>	
	2014	2013
	\$'000	\$'000
Change in demographic assumptions	-	163,409
Change in financial assumptions	-	163,288
Experience adjustments	<u>35,763</u>	<u>128,513</u>
	35,763	455,210
Deferred tax	<u>(13,516)</u>	<u>(38,552)</u>
	<u>22,247</u>	<u>416,658</u>

Movement in the fair value of plan assets recognised in the statement of financial position:

	<u>The Group</u>	
	2014	2013
	\$'000	\$'000
Balance, as previously reported	126,388	114,378
Interest income on plan assets	12,007	12,010
Re-measurement:		
Gains from changes in experience	-	-
Balance, end of year	<u>138,395</u>	<u>126,388</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 21. Retirement Benefits (Continued)

### (c) Plan risks

Through its defined benefit pension plans and post-employment medical plans, the Group is exposed to a number of risks. The Group does not use derivatives to manage its plan risks. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. Pensions are secured through the purchase of annuities. The remaining assets are invested in segregated pooled funds. The Group has not changed the processes used to manage its risks from previous periods.

The most significant of these plan risks are detailed below:

#### (i) Investment risk

The plan liabilities are calculated using a discount rate set with reference to Government of Jamaica bond yields. If plan assets underperform this yield, this will create a deficit.

The Group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension scheme. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term assets with maturities that match the benefit payments as they fall due. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations.

#### (ii) Changes in bond yields

A decrease in Government of Jamaica bond yields will increase plan liability, although this will be partially offset by an increase in the return on plan's assets which are linked to debt investment.

#### (iii) Salary risk

The present value of the plan liabilities is calculated in reference to the future salaries of members. Therefore an increase in the salary of members will increase the plan's liability.

#### (iv) Life expectancy

The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 21. Retirement Benefits (Continued)

### (d) Sensitivity tests

(i) The effect of a 1% increase/decrease in the medical inflation rate assumption:

	<b>Decrease by 1% Increase/ (Decrease) in Health &amp; Life benefits \$'000</b>	<b>Increase by 1% Increase/ (Decrease) in Health &amp; Life benefits \$'000</b>
Sagicor Life Jamaica Limited	(231,825)	298,678
Sagicor Property Services Limited	(6,857)	8,942
Sagicor Investments Jamaica Limited	(21,950)	30,003
Sagicor Bank Jamaica Limited	(27,822)	37,541
RBC Portfolio	(174,682)	235,229
Total Group	<u>(463,136)</u>	<u>610,393</u>

(ii) Impact of a 1% increase/decrease in the discount rate assumption:

	<b>Decrease by 1% Increase/ (Decrease) in Pension benefits \$'000</b>	<b>Decrease by 1% Increase/ (Decrease) in Health &amp; Life benefits \$'000</b>	<b>Total \$'000</b>
Sagicor Life Jamaica Limited	639,300	318,236	957,536
Sagicor Property Services Limited	27,717	9,293	37,010
Sagicor Investments Jamaica Limited	59,379	31,015	90,394
Sagicor Bank Jamaica Limited	66,908	39,018	105,926
RBC Portfolio	54,265	241,456	295,721
Total Group	<u>847,569</u>	<u>639,018</u>	<u>1,486,587</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 21. Retirement Benefits (Continued)

### (d) Sensitivity tests (continued)

(iii) Impact of a 1% increase/decrease in the discount rate assumption (Continued):

	<b>Increase by 1% Increase/ (Decrease) in Pension benefits \$'000</b>	<b>Increase by 1% Increase/ (Decrease) in Health &amp; Life benefits \$'000</b>	<b>Total \$'000</b>
Sagicor Life Jamaica Limited	(499,933)	(244,460)	(744,393)
Sagicor Property Services Limited	(21,636)	(7,043)	(28,679)
Sagicor Investments Jamaica Limited	(45,111)	(22,441)	(26,952)
Sagicor Bank Jamaica Limited	(52,911)	(28,630)	(81,541)
RBC Portfolio	(47,686)	(177,214)	(224,900)
Total Group	<u>(667,277)</u>	<u>(479,788)</u>	<u>(1,106,465)</u>

(iv) Impact of a 1% increase/decrease in salary assumption:

	<b>Decrease by 1% Increase/ (Decrease) in Pension benefits \$'000</b>	<b>Decrease by 1% Increase/ (Decrease) in Health &amp; Life benefits \$'000</b>	<b>Total \$'000</b>
Sagicor Life Jamaica Limited	(220,227)	(9,565)	(229,792)
Sagicor Property Services Limited	(10,143)	(200)	(10,343)
Sagicor Investments Jamaica Limited	(23,177)	(669)	(23,846)
Sagicor Bank Jamaica Limited	(19,122)	(782)	(19,904)
Total Group	<u>(272,669)</u>	<u>(11,216)</u>	<u>(283,885)</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 21. Retirement Benefits (Continued)

(d) Sensitivity tests (continued)

(iv) Impact of a 1% increase/decrease in salary assumption (Continued):

	<b>Increase by 1% Increase/ (Decrease) in Pension benefits \$'000</b>	<b>Increase by 1% Increase/ (Decrease) in Health &amp; Life benefits \$'000</b>	<b>Total \$'000</b>
Sagicor Life Jamaica Limited	678,804	11,014	689,818
Sagicor Property Services Limited	11,647	228	11,875
Sagicor Investments Jamaica Limited	26,742	789	27,531
Sagicor Bank Jamaica Limited	21,766	906	22,672
Total Group	<u>738,959</u>	<u>12,937</u>	<u>751,896</u>

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The Group ensures that the investment positions are managed within an asset-liability matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the pension scheme. Within this framework, the Group's ALM objective is to match assets to the pension obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the pension obligations. The Bank has not changed the processes used to manage its risks from previous periods. The Group does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in 2014 consists of bonds and equities.

The weighted average duration of the defined benefit obligation range from 32 years to 35 years (2013 – 34 years to 42 years).

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 22. Deferred Income Taxes

Deferred income taxes are calculated in full on all temporary differences under the liability method using a principal rate of:

- (a) 25% for the company;
- (b) 15% for Sagicor Life Jamaica Limited
- (c) 33 $\frac{1}{3}$ % for Sagicor Investments Jamaica Limited
- (d) 33 $\frac{1}{3}$ % for Sagicor Bank Jamaica Limited and
- (e) 25% for Sagicor 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:

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Deferred income tax assets, net	(3,018,293)	(298,107)
Deferred income tax liabilities, net	-	1,144
	<u>(3,018,293)</u>	<u>(296,963)</u>

The movement on the deferred income tax account is as follows:

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance as at 1 January	(296,963)	338,593
On acquisition of subsidiary	(2,707,682)	
Charged/(credited) to the income statement (Note 46(a))	(366,225)	(188,072)
Tax charged/(credited) to components in other comprehensive income (Note 46(c))	352,577	(421,514)
Prior year adjustment		(25,970)
Balance as at 31 December	<u>(3,018,293)</u>	<u>(296,963)</u>



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 22. Deferred Income Taxes (Continued)

The amounts shown in the statement of financial position included the following:

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Deferred tax assets to be recovered after more than 12 months	(3,592,350)	(300,819)
Deferred tax liabilities to be settled after more than 12 months	<u>1,603,445</u>	<u>191,487</u>

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

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Deferred income tax assets -		
Property, plant and equipment	(4,940)	(3,167)
Investment securities - available-for-sale	(159,456)	(247,342)
Trading Securities	(63,891)	-
Pensions and other post-retirement benefits	(787,138)	(268,118)
Interest payable	(17,725)	(329)
Tax losses unused	(2,772,092)	(16,921)
Derivatives	-	(49,853)
Other	<u>(242,749)</u>	<u>(22,559)</u>
	<u>(4,047,991)</u>	<u>(608,289)</u>
Deferred income tax liabilities -		
Property, plant and equipment	118,552	37,657
Trading securities	16,543	12,419
Investment securities - available-for-sale	34,486	-
Impairment losses on loans	586,236	47,487
Pensions and other post-retirement benefits	14,684	-
Interest receivable	117,978	52,196
Unrealised foreign exchange gains	130,793	161,567
Other	<u>10,426</u>	<u>-</u>
	<u>1,029,698</u>	<u>311,326</u>
Net deferred tax (asset) / liability	<u>(3,018,293)</u>	<u>(296,963)</u>

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

### 22. Deferred Income Taxes (Continued)

The movement in deferred tax assets and liabilities is as follows:

	Property, plant and equipment	Fair value gains	Unused tax losses	Unrealised foreign exchange gains	Loan loss provision	Post- employment benefits	Other	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2013	73,458	86,927	-	145,907	50,682	(74,277)	55,896	338,593
Prior year adjustment (Credited)/charged to income statement	-	-	-	-	-	6,033	(32,003)	(25,970)
	(42,121)	(86,288)	-	8,887	-	(60,497)	(8,053)	(188,072)
Credited to other comprehensive income	3,153	(388,911)	-	-	-	(35,756)	-	(421,514)
At 31 December 2013	34,490	(388,272)	-	154,794	50,682	(164,497)	15,840	(296,963)
Acquisition (Credited)/charged to income statement	(271,278)	(1,372)	(2,247,667)	-	(385,360)	403,683	(205,688)	(2,707,682)
	345,258	100,272	(524,425)	(24,001)	920,914	(1,194,673)	10,430	(366,225)
Credited to other comprehensive income	5,142	164,402	-	-	-	183,033	-	352,577
At 31 December 2014	113,612	(124,970)	(2,772,092)	130,793	586,236	(772,454)	(179,418)	(3,018,293)

### 23. Taxation Recoverable

Taxes are withheld at 25% from interest payments on Government of Jamaica securities and other local bonds. The Group makes monthly filings to Tax Administration of Jamaica (TAJ) for recovery. Amounts approved by TAJ are refunded as cash flows allow. The amounts are expected to be recovered within one year of the financial statements date.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 24. Other Assets

	The Group		The Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Due from sales representatives	526,322	340,712	-	-
Real estate developed for resale -				
Opening balance	887,328	1,014,286	-	-
Cost of sales	(212,728)	(147,219)	-	-
Additions during the year	15,251	20,261	-	-
	689,851	887,328	-	-
Premiums due and unpaid	1,803,437	1,700,066	-	-
Due from related parties (Note 24)	603,388	212,772	3,181	-
Due from Government Employees Administrative Scheme Only Fund and Government Pensioners Administrative Scheme Only Fund	351,542	282,448	-	-
Prepayments	1,164,556	536,120	501,432	-
Customer settlements accounts/unsettled trades	450,076	36,835	-	-
Legal Claim	3,906,830			
Other receivables	1,010,328	559,285	263,340	116,559
	10,506,330	4,555,566	767,953	116,559
Provision against doubtful receivables	(230,960)	(231,163)	-	-
	<u>10,275,370</u>	<u>4,324,403</u>	<u>767,953</u>	<u>116,559</u>

Real estate developed for sale relates to the construction of residential and commercial complexes.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 25. 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 49.11% (2013 – 51.00%) of the ordinary stock units. Pan-Jamaican Investment Trust Limited owns 31.55% (2013 – 32.76%) of the ordinary stock units. The remaining 17.45% (2013 - 16.24%) of the stock units is widely held.

Related companies include ultimate parent company, parent company, fellow subsidiaries and associated company. Related parties include directors, key management and companies for which the Group and its parent company provide management services. Pan-Jamaican Investment Trust Limited is a related party by virtue of being a shareholder with significant influence over the parent company. Related parties also include the Pooled Investment Funds and the Sagicor Sigma Funds managed by the Group.

(a) The statement of financial position includes the following balances with related parties and companies:

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Financial investments -		
Ultimate parent company	<u>-</u>	<u>-</u>
Due from related companies -		
Ultimate parent company	51,817	61,614
Parent company	44,796	43,851
Subsidiary companies	-	-
Pooled Pension Investment Funds	8,819	8,904
Other related companies	196,389	98,271
Other managed funds	<u>301,567</u>	<u>132</u>
	<u>603,388</u>	<u>212,772</u>
	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Due to related companies -		
Parent company	15,639	34,930
Other related companies	860	1,016
Pooled	47,586	-
Other managed funds	<u>17,468</u>	<u>160,182</u>
	<u>81,553</u>	<u>196,128</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 25. Related Party Balances and Transactions (Continued)

(b) The above balances include the following transactions with related parties and companies

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Ultimate parent company -		
Investment income	-	141,257
Parent company -		
Shared services fees	147,684	97,662
Party with significant influence over the group -		
Securities sold under agreements to repurchase	(301,565)	(196,197)
Customer deposits	(62,730)	(67,595)
Loans	49,478	7,244

(c) The income statement includes the following transactions with related parties and companies:

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Sagicor Pooled Investment Funds -		
Lease rental expense	355,530	325,347
Management fee income	726,546	552,007
Administration fee income	287,534	191,038
Directors and key management personnel -		
Interest expense	3,329	3,962
Other related parties -		
Interest and other income earned	331,077	241,868
Key management compensation -		
Salaries and other short term benefits	522,504	490,387
Share based payments	87,008	211,814
Contributions to pensions and insurance schemes	30,906	28,354
	<u>640,418</u>	<u>730,555</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 25. Related Party Balances and Transactions (Continued)

(c) The income statement includes the following transactions with related parties and companies (continued):

	<u>The Group</u>	
	<b>2014</b> <b>\$'000</b>	<b>2013</b> <b>\$'000</b>
Directors' emoluments -		
Fees	52,169	87,354
Other expenses	28,363	3,796
Management remuneration (included above)	<u>113,483</u>	<u>127,881</u>
	<u>194,015</u>	<u>219,031</u>
Party with significant influence over the group -		
Fee income earned	-	1,875
Rent and net lease	(226,452)	(118,220)
Interest expense paid	(11,322)	(3,670)
Interest income earned	<u>1,451</u>	<u>1,516</u>

## 26. Share Capital

	<u>The Group</u>	
	<b>2014</b> <b>\$'000</b>	<b>2013</b> <b>\$'000</b>
Authorised:		
13,598,340,000 (2013 – 13,598,340,000)		
Ordinary shares		
Issued and fully paid:		
3,905,634,920 (2013 – 3,760,992,000)		
Ordinary shares at no par	<u>9,161,065</u>	<u>7,854,938</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 27. Equity Reserves

Note	-----Attributable to owners of the parent-----								Grand Total
	Investment and Fair Value Reserves				Other Reserves				
	Stock Options Reserve	Available-for-sale fair value reserve	Owner occupied properties fair value reserve	Currency Translation Reserve	Capital redemption reserve	Special investment reserve	Loan Loss Reserve	Retained earnings reserve	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2013</b>	88,230	452,784	431,151	1,897,731	1,086,018	166,673	82,388	1,529,311	5,734,286
Net gains recycled to revenue on disposal and maturity of available-for-sale securities	-	(1,062,870)	-	-	-	-	-	-	(1,062,870)
Net unrealised gains on available-for-sale securities	-	(983,298)	-	-	-	-	-	-	(983,298)
Net unrealised losses on revaluation of owner occupied properties	-	-	111,427	-	-	-	-	-	111,427
Deferred tax on unrealised capital gains	-	30,520	(3,153)	-	-	-	-	-	27,367
Impairment of equities	-	7,851	-	-	-	-	-	-	7,851
Currency translation	-	47,463	35,025	1,345,070	-	-	-	-	1,427,568
<b>Total comprehensive income for the year</b>	-	<b>(1,960,334)</b>	<b>143,299</b>	<b>1,345,070</b>	-	-	-	-	<b>(471,965)</b>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 27. Equity Reserves (Continued)

-----Attributable to owners of the parent-----									
Note	Investment and Fair Value Reserves			Other Reserves					Grand Total
	Stock Options Reserve	Available-for-sale fair value reserve	Owner occupied properties fair value reserve	Currency Translation Reserve	Capital redemption reserve	Special investment reserve	Loan Loss Reserve	Retained earnings reserve	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Total comprehensive income for the year</b>	-	(1,960,334)	143,299	1,345,070	-	-	-	-	(471,965)
Transactions with owners -									
Employee share option scheme - value of services provided	34,529	-	-	-	-	-	-	-	34,529
Employee stock grants and options exercised/expired	(6,196)	-	-	-	-	-	-	-	(6,196)
Total transactions with owners	28,333	-	-	-	-	-	-	-	28,333
Transfers between reserves -									
To special investment reserve	2(r)	-	-	-	-	-	-	65,820	65,820
To retained earnings	2(s)	-	(17,863)	-	-	-	4,822	-	(13,041)
Adjustment between regulatory loan provisioning and IFRS	30(b)	-	-	-	-	-	-	-	-
Total transfers between reserves	-	(17,863)	-	-	-	-	4,822	65,820	52,779
<b>Balance at 31 December 2013</b>	<b>116,563</b>	<b>(1,525,413)</b>	<b>574,450</b>	<b>3,242,801</b>	<b>1,086,018</b>	<b>166,673</b>	<b>87,210</b>	<b>1,595,131</b>	<b>5,343,433</b>



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 27. Equity Reserves (Continued)

Note	-----Attributable to owners of the parent-----								Grand Total
	Investment and Fair Value Reserves				Other Reserves				
	Stock Options Reserve	Available-for-sale fair value reserve	Owner occupied properties fair value reserve	Currency Translation Reserve	Capital redemption reserve	Special investment reserve	Loan Loss Reserve	Retained earnings reserve	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Balance at 1 January 2014</b>	116,563	(1,525,413)	574,450	3,242,801	1,086,018	166,673	87,210	1,595,131	5,343,433
Net gains recycled to revenue on disposal and maturity of available-for-sale securities	-	(844,394)	-	-	-	-	-	-	(844,394)
Net unrealised gains on available-for-sale securities	-	824,618	-	-	-	-	-	-	824,618
Net unrealised losses on revaluation of owner occupied properties	-	-	85,690	-	-	-	-	-	85,690
Deferred tax on unrealised capital gains	-	(164,402)	(5,141)	-	-	-	-	-	(169,543)
Impairment of equities	-	738,183	-	-	-	-	-	-	738,183
Currency translation	-	-	-	570,118	-	-	-	-	570,118
<b>Total comprehensive income for the year</b>	-	<b>554,005</b>	<b>80,549</b>	<b>570,118</b>	-	-	-	-	<b>1,204,672</b>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 27. Equity Reserves (Continued)

Note	Attributable to owners of the parent								Grand Total	
	Investment and Fair Value Reserves			Other Reserves						
	Stock Options Reserve	Available-for-sale fair value reserve	Owner occupied properties fair value reserve	Currency Translation Reserve	Capital redemption reserve	Special investment reserve	Loan Loss Reserve	Retained earnings reserve		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>Total comprehensive income for the year</b>	-	554,005	80,549	570,118	-	-	-	-	1,204,672	
Transactions with owners -										
Employee share option scheme - value of services provided	23,677	-	-	-	-	-	-	-	23,677	
Employee stock grants and options exercised/expired	(6,693)	-	-	-	-	-	-	-	(6,693)	
Total transactions with owners	16,984	-	-	-	-	-	-	-	16,984	
Transfers between reserves -										
To special investment reserve	2(r)	-	-	-	-	202,736	-	-	202,736	
To retained earnings	2(s)	-	(92,906)	-	-	-	-	-	(92,906)	
Adjustment between regulatory loan provisioning and IFRS	30(b)	-	-	-	-	-	(261,383)	-	(261,383)	
Total transfers between reserves		-	(92,906)	-	-	202,736	(261,383)	-		
<b>Balance at 31 December 2014</b>		<b>133,547</b>	<b>(1,064,314)</b>	<b>654,999</b>	<b>3,812,919</b>	<b>1,086,018</b>	<b>369,409</b>	<b>(174,173)</b>	<b>1,595,131</b>	<b>6,413,536</b>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 28. Stock Options Reserve

### Long-term Incentive plan

The Group offers stock grants and stock options to senior executives as part of its long-term incentive plan. The Group 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 Group 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 Group stock at a pre-specified price at some future date. 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 Group 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.

Details of the combined share options outstanding are as follows:

	Sagicor Group Jamaica Limited			
	2014		2013	
	Options (thousands)	Weighted Average exercise price in \$ per share	Options (thousands)	Weighted Average exercise price in \$ per share
At beginning of year	72,148	8.22	44,590	6.39
Granted - 2012			9,611	10.75
2013	19,077	7.11		
Converted options			21,307	10.51
Expired	(7,374)	10.56	(1,836)	6.50
Exercised	(13,826)	5.68	(1,524)	4.82
At end of year	<u>70,025</u>	<u>8.19</u>	<u>72,148</u>	<u>8.22</u>
Exercisable at the end of the period	<u>49,959</u>	<u>9.69</u>	<u>55,885</u>	<u>7.92</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 28. Stock Options Reserve (Continued)

Stock options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry Date	Converted Options		Exercise Price	2013 \$'000
	Exercise Price	2014 \$'000		
March 2014			11.14	3,650
March 2015	11.84	2,860	11.84	3,322
March 2015	7.92	5,016	7.92	5,496
March 2016	7.66	4,331	7.66	5,070
March 2016	7.92	3,744	7.92	4,016
March 2017	10.45	3,324	10.45	4,039
March 2017	4.20	3,270	4.20	10,217
March 2018	10.96	2,965	10.96	3,413
March 2018	6.51	9,448	6.51	13,737
March 2019	14.10	1,621	14.10	1,813
March 2019	7.52	6,510	7.52	7,852
March 2020	10.75	8,674	10.75	9,523
March 2021	7.11	18,265	-	-
	8.19	70,025	8.22	72,148

For options outstanding at the end of the year, exercise prices range from \$4.20 to \$14.10 (2013 - \$4.20 to \$14.10). The remaining contractual terms range from 3 months to 7 years (2013 – 3 months to 7 years).

The weighted average share price for options exercised during the year was \$9.93 (2013 - \$4.82) and the Group's share of the cost of these options was \$38,827,455 (2013 - \$6,790,000).

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 \$135,638,000. The significant inputs into the model were share price of \$7.11, dividend yield of 5.89%, standard deviation of the expected share price returns of 27%, and annual risk free interest rate of 9.19%. The expected volatility is based on statistical analysis of month end share prices over the preceding seven years.

The Group recognized cumulative expenses of \$115,984,000 in the Stock Option Reserves (2013 – 116,559,000) and share options expense of \$86,971,000 (2013 - \$102,939,000) in the income statement.

The Group also has in place a share purchase plan which enables its administrative and sales staff to purchase a pool of Sagicor Group Jamaica Limited shares at a predetermined discount rate of the closing bid price on December 31 each year. During 2014, the Staff Share Purchase Plan Trust purchased 1,829,486 shares over the Stock Exchange for a total value of \$18,245,000. There is no cost to the Group as the discounted shares will be transferred in 2015. At the point at which the shares are transferred to staff, the Subsidiary Companies recognize their share of the cost of those shares in the income statement.

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

### 29. Investment and Fair Value Reserve

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	
	2014 \$000	2013 \$000	2014 \$000	2013 \$000
Owner-occupied properties	664,243	574,450	-	-
Unrealised gains on available-for-sale securities	(980,652)	(1,525,413)	6,039	-
	(316,409)	(950,963)	6,039	-

### 30. 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.

### 31. 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.
- (c) Retained earnings reserve - Section 2 of the Banking Act of 1992 permits the transfer of any portion of the Bank's net profit to a retained earnings reserve. This reserve constitutes a part of the capital base for the purpose of determining the maximum level of deposit liabilities and lending to customers. Transfers to the retained earnings reserve are made at the discretion of the subsidiary's Board of Directors; such transfers must be notified to the Bank of Jamaica.
- (d) Reserve fund (included as a part of retained earnings reserve) - This fund is maintained in accordance with the Banking Act 1992 which requires that a minimum of xx% of the net profit of the banking subsidiary as defined by the Act be transferred annually to the reserve fund until the amount of the fund is xx% of the paid-up share capital of the subsidiary, and thereafter 10% of the net profit until the amount of the fund is equal to the paid-up capital of the subsidiary.

The deposit liabilities and other indebtedness for borrowed money together with all interest accrued should not exceed twenty times its capital base for the banking subsidiary

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 32. Dividends Declared

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
First interim dividend – 35 cents per share (2013 – 19 cents per share)	1,316,347	714,588
Second interim dividend – 28 cents per share (2013 – 21 cents per share)	<u>1,093,578</u>	<u>789,808</u>
	<u>2,409,925</u>	<u>1,504,396</u>

The dividends paid for 2014 and 2013 represented a dividend per stock unit of \$0.63 and \$0.40 respectively.

## 33. Net Profit and Retained Earnings

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
(i) Net profit / (losses) dealt with in the financial statements of:		
The company	3,180,900	(19,488)
The subsidiaries	<u>5,382,218</u>	<u>6,562,178</u>
	<u>8,563,118</u>	<u>6,452,690</u>
(ii) Retained earnings / (Accumulated deficit) reflected in the financial		
The company	3,161,412	(19,488)
The subsidiaries	<u>27,163,627</u>	<u>22,746,958</u>
	<u>30,325,039</u>	<u>22,727,470</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 34. Deposit and Security Liabilities

	The Group		The Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Securities sold under repurchase agreements	76,002,302	55,630,546	-	-
Due to banks and other financial institutions (i)	19,698,839	16,716,280	-	-
Customer deposits and other accounts	53,589,012	11,881,676	-	-
Structured products (ii)	2,294,229	1,841,222	-	-
Promissory notes (iii)	-	-	11,525,678	601,145
	<u>151,584,382</u>	<u>86,069,724</u>	<u>11,525,678</u>	<u>601,145</u>
	<b>Interest Rate (%)</b>	<b>Maturity Period</b>	<b>2014 \$'000</b>	<b>2013 \$'000</b>
<b>(I) Due to banks and other financial institutions:</b>				
Long term loans:				
Development Bank of Jamaica Limited	various	2018	1,056,951	820,799
European Investment Bank	various	2015		90,808
The National Export-Import Bank of Jamaica Limited	8-13	various	8,098	23,914
National Housing Trust NHT	various	various	818,979	751,713
Credit Suisse NY	7.25	2014	-	853,646
Short term loans:				
National Commercial Bank Jamaica Limited	6.5	2014	-	600,107
Citibank N.A.	1.75	2014	-	530,261
UBS AG London	3.452 - 3.714	2014	-	3,923,743
Goldman Sachs International	1.95	2015	3,732,683	-
Credit Suisse NY	Various	2015	4,595,598	-
Oppenheimer & Co. Inc.	1.85	2015	590,726	1,336,064
Morgan Stanley Smith Barney	1.06- 1.12	2015	8,732,678	7,586,239
Bank overdraft:				
National Commercial Bank Jamaica Limited			163,126	197,893
Sagicor Bank Jamaica Limited			-	1,093
			<u>19,698,839</u>	<u>16,716,280</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 34. Deposit and Security Liabilities (Continued)

### (I) Due to banks and other financial institutions

- a) **Development Bank of Jamaica Limited (DBJ)**  
The agreement allows DBJ, at its absolute discretion, to approve J\$ financing to Sagicor Investments Jamaica Limited (SIJL) for on-lending to customers for developmental 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 carried by DBJ and extended to the client at a maximum spread as stipulated by DBJ.

- b) **European Investment Bank (EIB)**  
A facility was established in the amount €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 SIJL in tranches. The drawdowns may be done in US\$ or J\$. The loan is repayable in the Euro equivalent of the outstanding loan balance by 7 equal installments commencing 5 December 2008.

- c) **The National Export-Import Bank of Jamaica Limited (EXIM)**  
SIJL and its subsidiary Sagicor Bank Jamaica Ltd. (SBJL) are approved financial institutions of the National Export-Import Bank of Jamaica (EXIM). 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 not varying terms and at a maximum spread as stipulated by EXIM.

- d) **National Housing Trust (NHT)**  
This is a third party financing agreement between the company and the National Housing Trust, and attracts interest at rates ranging from 0.759 to 7%.

- e) **Bank Overdrafts**  
The bank overdraft balance represents book overdraft at year end. The actual balances at bank were positive at year end.

- f) **Credit Suisse NY**  
This represents loan facilities received from Credit Suisse NY in the amounts of US\$40,000,000 by Sagicor Life Jamaica Limited. The loan attached interest of 2.25% plus 6 months USD Libor-BBA. In addition, the loan facility matures on April 29, 2015 and is secured by a Kingdom of Bahrain bond totalling US\$1,068,880, a Republic of Italy bond totalling US\$1,272,550 a Government of Bermuda bond totalling US\$1,101,470, a Commonwealth of Bahamas bond totalling US\$7,750,080, a Government of Cayman Islands bond totalling US\$7,757,470, Government of Trinidad and Tobago bonds totalling US\$11,278,428, Government of Jamaica Global bonds totalling US\$17,031,623, Petroleum Company of Trinidad & Tobago Limited Corporate bonds totalling US\$3,453,195, a First Citizen Bank of Trinidad and Tobago bond totalling US\$5,169,450 and Cash totalling \$466,667. This loan is repayable in one installment on 29 April 2015.



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 34. Deposit and Security Liabilities (Continued)

### (i) Due to banks and other financial institutions (continued)

#### g) Goldman Sachs International

This represents a fixed rate loan at interest rate of 1.95% per annum and is secured by International Corporate bonds totalling US\$46,283,285, a Government of Trinidad and Tobago Corporate bond totalling US\$818,448 and a Government of Barbados Corporate bond totalling US\$1,728,540. This loan is repayable in one instalment on July 14, 2015.

#### h) Morgan Stanley Smith Barney

This represents amounts due to the broker for securities purchased by Sagicor Life Jamaica Limited (SLJ) and Sagicor Life of the Cayman Islands Limited (SLC) under margin loan facilities. The facilities with SLJ attract interest rates of 1.06% to 1.12%. These loans are repayable on demand and secured by International Corporate bonds totalling US\$85,822,682, an Equity totalling US\$1,324,642, International Municipal bonds totalling US\$2,320,580, a Federal Republic of Brazil bond totalling US\$107,875, a Government Republic of Panama bond totalling US\$63,813 and a Government of Jamaica bond totalling US\$300,000.

The facilities with SLC attract interest rates ranging from 1.07% to 1.12%; these loans are repayable on demand and secured by International Corporate bonds totalling US\$22,948,676, a Petroleum Company Trinidad and Tobago Corporate bond totalling US\$4,431,175, a Government of Barbados Corporate bond totalling US\$261,076, a Preferred Shares totalling US\$109,013, Equities totaling US\$2,685,885 and an Agency bond totalling US\$532,186.

The Group has not had any defaults of principal, interest or other breaches with respect to its liabilities during the year.

### (ii) Structured products

	2014	2013
	\$'000	\$'000
Principal protected notes -		
With no interest guaranteed	307,062	267,424
With interest guaranteed	1,966,130	1,478,898
7.15% US dollar amortising notes	21,037	94,900
	<u>2,294,229</u>	<u>1,841,222</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 34. Deposit and Security Liabilities (Continued)

### 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 9. 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.

### (iii) Promissory notes

	<b>The Company</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Sagicor Life Jamaica Limited	10,383,543	-
Sagicor Insurance Brokers Limited	-	32,181
Sagicor International Administrators Limited	-	5,783
Sagicor Investment Jamaica Limited	1,142,135	-
Sagicor St. Lucia Limited	-	563,181
	<u>11,525,678</u>	<u>601,145</u>

The above represent promissory notes that have been issued with respect to the reorganization of the Group, see Note 1 (b) for further details. The promissory notes have been issued to one of the Group's subsidiaries, Sagicor Life Jamaica Limited, for consideration for the value of the above subsidiaries whose ownership has been transferred from the previous parent company, Sagicor Life Jamaica Limited to the new holding company, Sagicor Group Jamaica Limited. Also, a promissory note was issued to Sagicor Investment Jamaica Limited for the consideration for the value of Sagicor Bank Jamaica Limited whose ownership has been transferred from Sagicor Investment Jamaica Limited to Sagicor Group Jamaica Limited; see Note 1 (b) for further details. The promissory notes are unsecured and attract interest at 5% per annum and mature June 2016.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 35. Other Liabilities

	The Group		The Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Accounts payable and accruals	708,128	570,008	-	-
Accrued vacation	105,478	87,973	-	-
Annuities payable	1,973	722	-	-
Dividends payable	107,757	81,811	28,154	-
Due to related parties (Note 24)	81,553	196,128	645,192	-
Due to brokers and agents	350,054	151,257	-	-
Bonus payable	349,079	323,466	-	-
Premiums not applied	1,217,088	1,147,418	-	-
Reinsurance payable	209,186	131,556	-	-
Mortgage principal and real estate payables	300,983	272,076	-	-
Customer settlement accounts	325,276	207,407	-	-
Regulatory fees and Statutory payables	500,759	123,765	-	-
Items in course of payment	1,109,433	68,364	-	-
Cheques issued but uncashed	330,499	175,320	-	-
Legal claim payable	3,906,830	-	-	-
Fees received in advance	-	12,864	-	-
Unearned reinsurance commissions	7,926	8,177	-	-
Miscellaneous	1,019,299	297,244	4,644	19,489
	<u>10,631,301</u>	<u>3,855,556</u>	<u>677,990</u>	<u>19,489</u>

## 36. Insurance Contract Liabilities

(a) Composition by line of business is as follows:

	The Group	
	2014 \$'000	2013 \$'000
Group annuities	31,490,107	27,975,080
Group insurance	4,918,357	4,105,167
Individual insurance	19,417,847	16,485,484
Total	<u>55,826,311</u>	<u>48,565,731</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 36. Insurance Contract Liabilities (Continued)

(b) Movements in insurance liabilities:

	The Group			
	2014			
	Group Annuities \$'000	Individual Insurance \$'000	Group Insurance \$'000	Total \$'000
Balance at the beginning of the year	27,975,080	16,485,484	4,105,167	48,565,731
Normal changes in policyholders' liabilities (Note 35(d))	2,345,403	2,548,759	629,051	5,523,213
Changes as a result of revaluation	1,169,624	383,604	184,139	1,737,367
Balance at end of year	<u>31,490,107</u>	<u>19,417,847</u>	<u>4,918,357</u>	<u>55,826,311</u>

	The Group			
	2013			
	Group Annuities \$'000	Individual Insurance \$'000	Group Insurance \$'000	Total \$'000
Balance at the beginning of the year	20,742,390	14,711,650	3,869,405	39,323,445
Normal changes in policyholders' liabilities (Note 35(d))	5,577,931	1,669,820	229,088	7,476,839
Changes as a result of revaluation	1,654,759	104,014	6,674	1,765,447
Balance at end of year	<u>27,975,080</u>	<u>16,485,484</u>	<u>4,105,167</u>	<u>48,565,731</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 36. Insurance Contract Liabilities (Continued)

(c) Investment and other assets supporting policyholders' and other liabilities:

	<b>The Group</b>				
	<b>2014</b>				
	<b>Insurance</b>	<b>Pensions and Annuities</b>	<b>Other Liabilities</b>	<b>Capital and Surplus</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Quoted equities	18,365,657	-	-	5,929,454	24,295,111
Investment properties	-	-	-	871,888	871,888
Fixed income securities	28,809,362	40,088,784	135,339,853	621,267	204,859,266
Mortgages	-	66,118	-	1,846,995	1,913,113
Other assets	1,255,295	-	14,225,393	36,795,747	52,276,435
	<u>48,430,314</u>	<u>40,154,902</u>	<u>149,565,246</u>	<u>46,065,351</u>	<u>284,215,813</u>

	<b>The Group</b>				
	<b>2013</b>				
	<b>Insurance</b>	<b>Pensions and Annuities</b>	<b>Other Liabilities</b>	<b>Capital and Surplus</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Quoted equities	15,754,421	-	-	3,145,914	18,900,335
Investment properties	-	-	-	782,345	782,345
Fixed income securities	26,314,177	34,097,781	81,325,345	1,748,589	143,485,888
Mortgages	365,216	1,037,732	-	947,762	2,350,710
Other assets	1,021,093	-	773,375	30,996,553	32,791,020
	<u>43,455,226</u>	<u>35,135,513</u>	<u>82,098,716</u>	<u>37,620,843</u>	<u>198,310,297</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 36. Insurance Contract Liabilities (Continued)

- (d) Changes in policy liabilities were caused by the following business activities and changes in actuarial assumptions:

	<b>The Group 2014</b>			
	<b>Group Annuities \$'000</b>	<b>Individual Insurance \$'000</b>	<b>Group Insurance \$'000</b>	<b>Total \$'000</b>
Change in assumed investment yields and inflation rate	(555,563)	(288,324)	3,642	(840,245)
Change due to the issuance of new policies and the decrements on in-force policies	3,039,772	3,573,507	562,546	7,175,825
Change due to other actuarial assumptions	<u>(138,806)</u>	<u>(736,424)</u>	<u>62,863</u>	<u>(812,367)</u>
	<u>2,345,403</u>	<u>2,548,759</u>	<u>629,051</u>	<u>5,523,213</u>
	<b>The Group 2013</b>			
Change in assumed investment yields and inflation rate	60,247	245,338	36,772	342,357
Change due to the issuance of new policies and the decrements on in-force policies	7,073,916	3,354,263	46,724	10,474,903
Change due to other actuarial assumptions	<u>(1,556,232)</u>	<u>(1,929,783)</u>	<u>145,594</u>	<u>(3,340,421)</u>
	<u>5,577,931</u>	<u>1,669,818</u>	<u>229,090</u>	<u>7,476,839</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 36. Insurance Contract Liabilities (Continued)

### (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.

#### 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 2013 Individual Annuitant male and female Period mortality tables with projection scale G2 beyond 2013 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 0% and 9.5% of insurance amounts in force. Partial withdrawal rates average about 16% of fund values available from policies in force.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 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 3 years and declines over the life of the policies such that real returns after 30 years are between 0.7% 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.



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 37. Investment Contract Liabilities

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Amortised cost -		
Amounts on deposit	8,743,157	9,583,001
Deposit administration fund	3,126,468	3,150,075
Other investment contracts	<u>478,410</u>	<u>527,217</u>
	<u>12,348,035</u>	<u>13,260,293</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.

Amounts on deposit comprise of Guaranteed Investor liabilities amounting to \$6,633,453 (2013 - \$5,958,667) and other policyholders' savings plans of \$2,109,704 (2013 - \$3,624,334).

Movement of the Deposit Administration Funds:

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at the beginning of the year	3,150,075	3,271,323
Deposits received	274,784	384,246
Interest earned	185,341	200,345
Service charges	(31,023)	(29,493)
Withdrawals	(453,621)	(677,741)
Revaluation adjustment	<u>912</u>	<u>1,395</u>
Balance at the end of the year	<u>3,126,468</u>	<u>3,150,075</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 168 (2013 - 187) clients in the company. The average interest rate paid by the company during the year was 5.85% (2013 - 5.97%).

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 38. Other Policy Liabilities

	<u>The Group</u>	
	2014	2013
	\$'000	\$'000
Insurance benefits payable	2,056,864	1,821,228
Provision for unearned premiums	125,719	124,216
Policy dividends and other funds on deposit	785,931	766,980
	<u>2,968,514</u>	<u>2,712,424</u>

## 39. Investment Contracts Benefits

Benefits from unit linked investment contracts without fixed terms for the Group amounting to \$3,785,200,000 (2013 - \$3,178,180,000) 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:

	<u>The Group</u>	
	2014	2013
	\$'000	\$'000
Group insurance -		
Group creditor life	606,851	530,395
Group health	8,456,439	7,371,105
Group life	1,635,121	1,660,004
	10,698,411	9,561,504
Individual insurance -		
Individual life -		
Insurance premium	10,246,016	9,475,163
Segregated funds contributions	4,905,570	4,216,834
Individual health	384,232	358,043
Individual annuities	83,308	117,229
	15,619,126	14,167,269
Bulk annuities	2,211,642	4,819,193
Annuities	1,284,382	1,291,602
Property and casualty	321,612	306,051
	<u>30,135,173</u>	<u>30,145,619</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 40. Premium Income (Continued)

(b) Reinsurance premiums by line of business:

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Group insurance -		
Group health	240,693	179,438
Group life	<u>63,927</u>	<u>90,213</u>
	304,620	269,651
Individual life	312,990	331,314
Property and casualty	<u>348,775</u>	<u>320,158</u>
	966,385	921,123
Net premiums	<u><u>29,168,788</u></u>	<u><u>29,224,496</u></u>

(c) Net premiums by geography:

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Jamaica	27,287,169	27,664,892
Cayman Islands	<u>1,881,619</u>	<u>1,559,604</u>
	<u><u>29,168,788</u></u>	<u><u>29,224,496</u></u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 41. Net Investment Income

	<u>The Group</u>	
	2014 \$'000	2013 \$'000
<b>Interest income -</b>		
Short term deposits	22,545	10,831
Financial assets at fair value through profit or loss	687,161	857,725
Available-for-sale	6,981,119	5,696,269
Loans and receivables	3,743,196	3,789,512
Held to maturity	-	229,038
Loans	2,929,674	1,117,757
Policy loans	131,018	79,609
Government securities purchased under resale agreements	216,294	109,146
Other	38,717	24,015
Dividends	45,883	47,200
Loss on debt exchange transactions	-	(1,038,817)
Net foreign exchange gains	1,063,552	443,371
Net realised gains on investment securities	2,397,738	1,408,114
Other investment (losses)/income	(92,019)	(23,060)
	<u>18,164,878</u>	<u>12,750,710</u>
Impairment losses on equity investments	(738,183)	(7,851)
<b>Interest expense -</b>		
Customer deposits and repurchase liabilities	(3,798,155)	(3,046,889)
Due to banks and other financial institutions	(238,063)	(57,872)
Investment contracts	(558,628)	(591,463)
Other	(279,533)	(261,666)
	<u>(4,874,379)</u>	<u>(3,957,890)</u>
<b>Net investment income</b>	<u>12,552,316</u>	<u>8,784,969</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 41. Net Investment Income (Continued)

	<u>The Company</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Interest income -</b>		
Financial assets at fair value through profit or loss	34,350	-
Available-for-sale	44,032	-
Loans and receivables	159,675	-
Government securities purchased under resale agreements	6,266	-
Dividends from subsidiaries	13,373,598	-
Dividend in specie from subsidiaries	5,263,994	-
Net realised gains on investment securities	(1,799)	-
<b>Interest expense -</b>		
Promissory notes	(378,163)	-
<b>Net investment income</b>	<u>18,501,953</u>	<u>-</u>

### *Loss on debt exchange transactions*

In February 2013, the Group participated in the National Debt Exchange (NDX) and a Private Debt Exchange (PDX) conducted by the Government of Jamaica. These involved the non-cash exchange of existing notes with a face value of \$60,651,448,000 for the Group for new, longer-dated debt instruments with lower coupon rates (new notes) of equivalent face value. Certain new notes issued under the PDX included instruments with embedded put options (Note 10).

The loss arising on the exchanges represents the difference between the carrying value of the existing notes and the fair value of the new notes (including the value of the embedded put option) at the date of exchange.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 42. Fee and Other Income

	The Group	
	2014 \$'000	2013 \$'000
Administration fees	1,443,886	1,285,968
Other		
Surrender charges	171,672	157,433
Banking fees	591,201	74,760
Credit related fees, net	119,298	86,942
Stockbrokerage fees	20,304	20,167
Treasury fees	6,513	11,298
Trust fees	54,728	43,967
Corporate finance fees	37,772	21,977
Foreign exchange gains	488,616	1,035,037
Other operating income	901,195	1,571,733
Miscellaneous fees	73,934	37,418
	<u>3,909,119</u>	<u>4,346,700</u>

## 43. Insurance Benefits and Claims

	The Group			2013 Net Claims \$'000
	2014			
	Gross incurred \$'000	Reinsured \$'000	Net \$'000	
Death and disability	2,382,311	(43,367)	2,338,944	2,238,505
Maturities	29,740	-	29,740	35,075
Surrenders and withdrawals	1,193,543	-	1,193,543	1,101,281
Segregated funds withdrawals	3,785,200	-	3,785,200	3,178,100
Annuities payments	2,930,207	-	2,930,207	2,523,396
Policy dividends and bonuses	53,983	-	53,983	55,987
Health insurance	6,598,362	(205,139)	6,393,223	6,143,182
Other benefits	535,447	(13,584)	521,863	478,971
	<u>17,508,793</u>	<u>(262,090)</u>	<u>17,246,703</u>	<u>15,754,497</u>

## 44. Finance Costs

Finance costs represent interest costs incurred on loans used for business development.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 45. Administration Expenses

	The Group		The Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Auditors' remuneration -				
Current year	72,430	65,716	7,000	3,500
Prior year	3,296	350	1,361	-
Office accommodation	1,179,884	701,276	-	-
Communication and technology	961,076	567,614	-	-
Advertising and branding	480,578	241,123	3,750	-
Sales convention and incentives	136,313	135,229	-	-
Postage, printing and office supplies	216,896	118,792	40	-
Policy stamp duties and reimbursements	84,259	48,122	-	-
Regulators fees	166,982	183,511	3,425	-
Directors costs	44,131	32,292	12,852	-
Legal and professional fees	289,183	127,134	42,357	12,500
Legal claims	30,310	216,676	-	-
Services outsourced	318,621	343,084	-	-
Automated Service Fees	92,735	15,466	-	-
Commission and Fees	135,353	115,341	-	-
Insurance	112,144	67,559	-	-
Other expenses	590,991	329,241	-	3,488
Staff cost (a)	6,546,104	4,014,122	164,357	-
	<u>11,461,285</u>	<u>7,322,648</u>	<u>235,142</u>	<u>19,488</u>

### (a) Staff costs

	The Group	
	2014 \$'000	2013 \$'000
Salaries	3,748,255	2,899,444
Payroll taxes	444,056	299,086
Pension costs (Note 21)	1,018,898	290,902
Other post-retirement benefits (Note 21)	118,146	215,059
Share based compensation	124,179	111,449
Restructuring costs	525,555	-
Other	567,015	198,182
	<u>6,546,104</u>	<u>4,014,122</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 46. Commission and Sales Expense

Amount represents agents' commission and bonuses.

## 47. Taxation

(a) Tax is computed as follows:

	The Group		The Company	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Current year taxation -				
Investment income tax @ 15%	428,603	306,542	-	-
Income tax at 33 ⅓%	236,010	443,303	-	-
Income tax at 25%	120	-	60	-
	664,733	749,845	60	-
Deferred income tax (Note 22) -				
Deferred tax charge/(credit) relating to the origination and reversal of temporary differences	(366,225)	(188,072)	-	-
Taxation	<u>298,508</u>	<u>561,773</u>	<u>60</u>	<u>-</u>
(b) Premium and other taxes:				
Premium tax @ 3%	461,232	426,007	-	-
Asset tax @ 0.14%	177,114	189,292	100	-
Withholding tax	1,677	1,153	-	-
Premium and other taxes	<u>640,023</u>	<u>616,452</u>	<u>100</u>	<u>-</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 33⅓% is payable on taxable profits of Sagicor Investments Jamaica Limited, Sagicor Bank Jamaica Limited, Sagicor Group Jamaica Limited, Sagicor Property 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 the company and certain subsidiary companies, available for set off against future taxable profits amount to approximately 738,313,000 (2013 – 19,488,000) and \$533,591,065 (2013 - \$19,488,000) respectively. No deferred tax asset has been calculated on the losses for the company, as these losses are not expected to be recovered in the foreseeable future.



# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

### 47. Taxation (Continued)

- (v) Premium tax charges for the company include tax on deposits relating to the segregated funds totalling \$4,374,543,000 (2013 - \$3,904,598,000). 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.

In the prior 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).

In the current year, a minimum business tax of \$60,000 per annum was introduced for all companies.

- (c) Reconciliation of applicable tax charges to effective tax charge:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Investment income tax -		
Gross investment income	<u>18,164,878</u>	<u>12,750,710</u>
Tax at 15%	2,724,732	1,912,606
Adjusted for:		
Deductible expenses	(261,258)	(241,303)
Income not subject to tax	(619,457)	(432,812)
Net investment income not subject to investment tax	(1,646,559)	(1,010,553)
Expenses not deductible for tax purposes	119,484	44,176
Net effect of other charges and allowances	<u>(14,441)</u>	<u>(14,978)</u>
	<u>302,501</u>	<u>257,136</u>
Income tax -		
Profit before taxation	<u>8,840,360</u>	<u>7,014,463</u>
Tax at 33 $\frac{1}{3}$ %	2,946,787	2,337,920
Adjusted for:		
Investment income not subject to income tax	(3,113,053)	(2,009,460)
Asset tax not deductible for tax purposes	1,256	52,002
Prior year under provision	24,718	(1,744)
Net effect of other charges and allowances	<u>136,299</u>	<u>(74,081)</u>
	<u>(3,993)</u>	<u>304,637</u>
Taxation expense	<u>298,508</u>	<u>561,773</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 47. Taxation (Continued)

(d) The tax (charge)/credit relating to components of other comprehensive income is as follows:

	<b>The Group</b>					
	<b>2014</b>			<b>2013</b>		
	<b>Before tax \$'000</b>	<b>Tax (charge)/ credit \$'000</b>	<b>After tax \$'000</b>	<b>Before tax \$'000</b>	<b>Tax (charge)/ credit \$'000</b>	<b>After tax \$'000</b>
Fair value (losses)/gains on available-for-sale investments	783,724	(164,402)	619,322	(2,327,694)	285,291	(2,042,403)
Cash flow hedge					-	-
Re-measurement of post-employment benefits	1,330,557	(183,033)	1,147,524	(1,426,197)	139,376	(1,286,821)
Unrealised (losses)/gains on owner-occupied properties	85,691	(5,142)	80,549	146,452	(3,153)	143,299
Retranslation of foreign operations	537,832		537,832	1,345,070	-	1,345,070
Other comprehensive income	<u>2,737,804</u>	<u>(352,577)</u>	<u>2,385,227</u>	<u>(2,262,369)</u>	<u>421,514</u>	<u>(1,840,855)</u>
Deferred income taxes (Note 22)		<u>(352,577)</u>			<u>421,514</u>	

## 48. Earnings per Stock Unit

(i) Basic earnings per stock unit are calculated by dividing the net profit attributable to stockholders by the weighted average number of ordinary shares in issue during the year.

	<b>The Group</b>	
	<b>2014 \$'000</b>	<b>2013 \$'000</b>
Net profit attributable to stockholders	<u>8,512,779</u>	<u>6,297,935</u>
Weighted average number of ordinary stock units in issue ('000)	<u>3,855,703</u>	<u>3,760,992</u>
Basic earnings per stock unit	<u>2.21</u>	<u>1.67</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 48. Earnings per Stock Unit (Continued)

(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.

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Net profit attributable to stockholders	<u>8,512,779</u>	<u>6,297,935</u>
Weighted average number of ordinary stock units in issue ('000)	<u>3,855,703</u>	<u>3,765,860</u>
Fully diluted earnings per stock unit	<u>2.21</u>	<u>1.67</u>

(iii) The weighted average number of ordinary stock units used in the basic and diluted earnings per stock unit computations may be reconciled as follows:

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary stock units for the purposes of the computation of basic earnings per stock unit	3,855,703	3,760,992
Effect of dilutive potential ordinary stock units – stock options	<u>3,420</u>	<u>4,868</u>
Weighted average number of ordinary stock units for the purposes of the computation of diluted earnings per stock unit	<u>3,859,123</u>	<u>3,765,860</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 49. Cash Flows

### (a) Operating activities

	Note	The Group	
		2014	2013
		\$'000	\$'000
Adjustments for non-cash items, interest and dividends:			
Depreciation and amortisation		586,734	464,120
Impairment charge for customer relationship		427,683	-
Interest income		(14,906,113)	(11,913,903)
Interest expense and finance costs	40	4,874,395	3,957,890
Income tax expense	46	298,508	561,773
Premium and other tax expense	46	640,023	616,452
Gain /(losses) on disposal of investment securities/investment properties		(2,847,252)	115,468
Premium/discount amortised		226,039	203,432
Fair value (gains)/losses on trading securities		(877,737)	(517,212)
Impairment charge on investments, loans and other assets		777,128	56,233
Share based compensation		31,941	28,992
Gains/(losses) on revaluation of investment properties	13	114,154	(2,000)
Gains on disposal of property, plant and equipment		(15,873)	(1,399)
(Decrease)/Increase in policyholders' funds		(657,651)	2,130,421
Net movement in actuarial liabilities		5,523,213	7,476,839
Retirement benefit obligations		618,448	378,354
Effect of exchange gains on foreign currency balances		(488,616)	(2,728,472)
Gain on purchase of RBC Jamaica		(3,211,180)	-
Share of (income)/loss from joint venture/gain on disposal of associate		(6,309)	11,737
		<u>(8,892,465)</u>	<u>838,725</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 49. Cash Flows (Continued)

(b) Changes in other operating assets and liabilities:

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Changes in other operating assets and liabilities:		
Statutory reserves at Bank of Jamaica	(216,391)	(231,992)
Structured products and derivatives	2,001,748	1,050,597
Stock grants	105,314	73,736
Reinsurance contracts	(118,112)	(17,714)
Due from/(to) related parties	(10,595)	548,630
Deposit and security liabilities	23,531,240	(628,940)
Other assets, net	(7,062,076)	1,754,358
Other liabilities, net	5,318,813	455,604
	<u>23,549,941</u>	<u>3,004,279</u>

(c) Net investment purchases:

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Proceeds on sale of investment securities	44,033,979	44,759,599
Proceeds on sale of investment properties	-	1,799,595
Purchase of investment securities	(59,993,253)	(59,753,331)
Purchase of investment property	(181,054)	(142,035)
Loans	(3,439,902)	22,355
Lease receivables	(8,573)	(41,599)
	<u>(19,588,803)</u>	<u>(13,355,416)</u>

(d) Investing Activities

		<u>The Group</u>	
	<b>Note</b>	<b>2014</b>	<b>2013</b>
		<b>\$'000</b>	<b>\$'000</b>
Property, plant and equipment, net			
Purchase of property, plant and equipment	19	(483,861)	(191,396)
Proceeds from sale of property, plant and equipment		32,795	1,744
		<u>(451,066)</u>	<u>(189,652)</u>

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

### 50. 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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 50. 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's statement of financial position at their fair value:

	<b>The Group</b>			
	<b>Carrying</b>	<b>Fair</b>	<b>Carrying</b>	<b>Fair</b>
	<b>Value</b>	<b>Value</b>	<b>Value</b>	<b>Value</b>
	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Financial Assets</b>				
Financial investments - held to maturity	2,328,071	2,412,449	2,141,145	2,169,269
Financial investments – loans and receivables	47,212,880	49,091,761	43,487,299	42,932,371
Loans & leases, after allowance for credit losses	<u>38,808,048</u>	<u>39,595,778</u>	<u>10,821,201</u>	<u>10,458,853</u>
<b>Financial Liabilities</b>				
Securities sold under agreements to repurchase	76,002,302	75,168,115	55,630,546	55,740,253
Customer deposits and other accounts	53,589,012	55,755,710	11,881,676	13,598,851
Due to banks and other financial institutions	<u>19,698,839</u>	<u>19,650,749</u>	<u>16,716,280</u>	<u>16,710,851</u>
	<b>The Company</b>			
	<b>Carrying</b>	<b>Fair</b>	<b>Carrying</b>	<b>Fair</b>
	<b>Value</b>	<b>Value</b>	<b>Value</b>	<b>Value</b>
	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Financial Assets</b>				
Financial investments – loans and receivables	<u>3,176,822</u>	<u>3,144,775</u>	<u>-</u>	<u>-</u>

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

### 50. 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 2014, 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 2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>				
Financial investments	39,963,751	90,703,116	1,901,926	132,568,793
Pledged assets	-	8,402,683	-	8,402,683
Derivative financial instruments	-	761,732	-	761,732
	<u>39,963,751</u>	<u>99,867,531</u>	<u>1,901,926</u>	<u>141,733,208</u>
<b>Financial Liabilities</b>				
Liabilities under annuity, investment and insurance contracts				
Derivative financial instruments	-	716,186	-	716,186
Structured products	-	-	-	-
	<u>-</u>	<u>716,186</u>	<u>-</u>	<u>716,186</u>

	<b>The Group 2013</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial Assets</b>				
Financial investments	36,912,188	76,253,943	1,659,427	114,825,452
Pledged assets	-	3,278,856	-	3,278,856
Derivative financial instruments	-	3,019,597	-	3,019,597
	<u>36,912,188</u>	<u>82,552,396</u>	<u>1,659,427</u>	<u>121,123,905</u>
<b>Financial Liabilities</b>				
Liabilities under annuity, investment and insurance contracts				
Derivative financial instruments	-	3,170,941	-	3,170,941
Structured products	-	-	-	-
	<u>-</u>	<u>3,170,941</u>	<u>-</u>	<u>3,170,941</u>



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 50. Fair Values of Financial Instruments (Continued)

Reconciliation of level 3 items -

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Balance at beginning of year	1,659,427	3,635,521
Total gains – income statement	153,230	77,887
Purchases	89,269	53,099
Transfer to level 2	-	(2,107,080)
Settlements	-	-
Balance at end of year	<u>1,901,926</u>	<u>1,659,427</u>

The gains or losses recorded in the income statement are included in Note 40. The transfer from level 3 to 2 is attributable to changes in observability of market data.

The carrying value (excluding accrued interest) (Note 23) and fair value of investment securities classified as loans and receivables were as follows:

	<b>The Group</b>	
	<b>Carrying Value</b>	<b>Fair Value</b>
	<b>\$'000</b>	<b>\$'000</b>
At December 31, 2014	46,447,548	48,326,429
At December 31, 2013	<u>42,852,092</u>	<u>42,297,164</u>

Similar to debt securities classified as available-for-sale, the above fair value measurements fall within Level 2 of the fair value hierarchy as indicative prices or yields of these instruments are obtained from regular, publicly available quotes by reputable pricing services, dealers and brokers, such as Bloomberg and Oppenheimer.

The fair values for all other financial instruments approximate their carrying values and also fall within Level 2 based on the following:

- The fair value of liquid assets and other assets maturing within one year (such as cash and balances at Central Banks and amounts due from other banks) is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities;
- The fair value of demand deposits and savings accounts with no specific maturity is assumed to be the amount payable on demand at the date of the statement of financial position;
- The fair value of variable rate loans is assumed to approximate their carrying amounts and management does not believe that, after deduction of provision for credit losses, there is any significant difference between the fair value of fixed rate loans and their carrying values as interest rates approximate current market rates offered on similar loans.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 51. 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 Group participated in the National Debt Exchange (NDX) which resulted in significant changes in the Group's investment portfolio in February 2013.

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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 51. 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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 51. 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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. 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 50(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	%
2014				
0 – 200	111,403,881	11	101,126,241	11
200 - 400	439,341,621	44	422,458,276	45
400 - 800	66,218,105	7	56,174,633	6
800 - 1000	29,131,101	3	24,261,084	3
More than 1,000	350,672,979	35	328,668,889	35
Total	996,767,687	100	932,689,123	100

Individual Life Benefits Assured per Life ('000)	The Group			
	Total Benefits Insured			
	Before Reinsurance \$'000	%	After Reinsurance \$'000	%
2013				
0 – 200	104,756,306	11	94,156,740	11
200 - 400	87,884,761	10	76,714,883	9
400 - 800	87,745,942	10	78,290,241	9
800 - 1000	83,395,507	9	78,324,147	9
More than 1,000	544,341,338	60	514,628,350	62
Total	908,123,854	100	842,114,361	100

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. 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	%
2014				
0 - 200	27,128,290	4	17,630,147	3
200 - 400	3,824,031	1	1,736,194	-
400 - 800	577,851	-	400,501	-
800 - 1,000	41,077	-	41,077	-
More than 1,000	559,822,986	95	557,292,605	97
	<u>591,394,235</u>	<u>100</u>	<u>577,100,524</u>	<u>100</u>

Group Life Benefits Assured per Life ('000)	The Group			
	Total Benefits Insured			
	Before Reinsurance \$'000	%	After Reinsurance \$'000	%
2013				
0 - 200	26,168,381	5	17,139,537	4
200 - 400	3,178,065	1	1,496,248	-
400 - 800	792,211	-	357,374	-
800 - 1,000	31,102	-	31,102	-
More than 1,000	462,380,854	94	460,991,190	96
	<u>492,550,613</u>	<u>100</u>	<u>480,015,451</u>	<u>100</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. 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	
2014	\$'000	%
0 – 20	40,374	2
20 - 40	60,701	2
40 - 80	76,431	3
80 - 100	34,420	1
More than 100	2,474,184	92
Total	2,686,109	100

Annuity Payable per annum per annuitant ('000)	The Group	
	Total Benefits Insured	
2013	\$'000	%
0 - 20	38,391	2
20 - 40	57,608	2
40 - 80	71,506	46
80 - 100	44,437	-
More than 100	2,281,276	50
Total	2,493,218	100

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 51. Insurance and Financial Risk Management (Continued)

### (a) Insurance risk (continued)

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.

#### (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.



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 51. Insurance and Financial Risk Management (Continued)

### (a) Insurance risk (continued)

Long term insurance contracts (continued)

(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 35(e) for detail policy assumptions.

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 50(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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 51. Insurance and Financial Risk Management (Continued)

### (a) Insurance risk (continued)

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 50(b) for retention limits.

#### (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 35(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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 51. 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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. 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 35(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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 51. 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 \$198,166,166 (2013 - \$185,910,000) 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 2014 and 2013.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. Insurance and Financial Risk Management (Continued)

### (c) Cash flow and fair value interest rate risk (continued)

	The Group						Total
	2014						
	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	18,261,239	-	-	-	-	2,812,358	21,073,597
Cash reserve at Bank of Jamaica	5,492,491	-	-	-	-	-	5,492,491
Financial investments and pledged assets	-	36,862,522	4,561,062	36,680,705	95,086,643	18,306,777	191,497,709
Derivative financial instruments	-	571,444	-	-	-	190,288	761,732
Loans & leases, after allowance for credit losses	-	29,838,875	1,820,060	4,650,087	2,294,542	204,485	38,808,049
Reinsurance contracts	-	-	-	-	-	380,822	380,822
Other assets	-	-	-	-	-	9,024,788	9,024,788
<b>Non-financial assets:</b>							
Investment properties	-	-	-	-	-	871,888	871,888
Investment in joint venture	-	-	-	-	-	738,718	738,718
Intangible assets	-	-	-	-	-	4,617,001	4,617,001
Property, plant and equipment	-	-	-	-	-	3,506,736	3,506,736
Deferred income taxes	-	-	-	-	-	3,018,293	3,018,293
Taxation recoverable	-	-	-	-	-	3,114,495	3,114,495
Retirement benefit Assets	-	-	-	-	-	58,912	58,912
Other assets	-	-	-	-	-	1,250,582	1,250,582
<b>Total assets</b>	<b>23,753,730</b>	<b>67,272,841</b>	<b>6,381,122</b>	<b>41,330,792</b>	<b>97,381,185</b>	<b>48,096,143</b>	<b>284,215,813</b>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. Insurance and Financial Risk Management (Continued)

### (c) Cash flow and fair value interest rate risk (continued)

	The Group						
	2014						
	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>							
Deposit and security liabilities	-	113,421,654	32,728,772	3,448,755	763,722	1,221,479	151,584,382
Derivative financial instruments	-	525,854	-	-	-	190,332	716,186
Other liabilities	-	-	-	-	-	10,631,301	10,631,301
Insurance contracts liabilities	-	744,783	2,339,451	11,203,061	39,018,448	2,520,568	55,826,311
Investment contracts liabilities	-	7,638,002	2,271,288	2,438,745	-	-	12,348,035
Other policy liabilities	-	785,931	-	-	-	2,182,583	2,968,514
<b>Non-financial liabilities:</b>							
Taxation payable	-	-	-	-	-	714,632	714,632
Retirement benefit obligations	-	-	-	-	-	3,361,094	3,361,094
<b>Total liabilities</b>	-	123,116,224	37,339,511	17,090,561	39,782,170	20,821,989	238,150,455
<b>On statement of financial position interest sensitivity gap</b>	23,753,730	(55,843,383)	(30,958,389)	24,240,231	57,599,015	27,274,154	46,065,358
<b>Cumulative interest sensitivity gap</b>	23,753,730	(32,089,653)	(63,048,042)	(38,807,811)	18,791,204	46,065,358	

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. Insurance and Financial Risk Management (Continued)

### (c) Cash flow and fair value interest rate risk (continued)

	The Group						
	2013						
	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	3,497,442	-	-	-	-	584,921	4,082,363
Cash reserve at Bank of Jamaica	993,331	-	-	-	-	-	993,331
Financial investments and pledged assets	-	28,961,031	2,544,125	32,614,674	84,231,439	16,716,263	165,067,532
Derivative financial instruments	-	-	-	2,633,587	-	386,010	3,019,597
Loans & leases, after allowance for credit losses	-	2,951,244	1,017,503	5,056,208	1,695,124	101,122	10,821,201
Reinsurance contracts	-	-	-	-	-	262,710	262,710
Other assets	-	-	-	-	-	2,705,409	2,705,409
<b>Non-financial assets:</b>							
Investment properties	-	-	-	-	-	782,345	782,345
Investment in joint venture	-	-	-	-	-	639,235	639,235
Investment in associated companies	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	4,015,509	4,015,509
Property, plant and equipment	-	-	-	-	-	1,676,573	1,676,573
Deferred income taxes	-	-	-	-	-	298,107	298,107
Taxation recoverable	-	-	-	-	-	2,327,391	2,327,391
Other assets	-	-	-	-	-	1,618,994	1,618,994
<b>Total assets</b>	<b>4,490,773</b>	<b>31,912,275</b>	<b>3,561,628</b>	<b>40,304,469</b>	<b>85,926,563</b>	<b>32,114,589</b>	<b>198,310,297</b>



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. Insurance and Financial Risk Management (Continued)

### (c) Cash flow and fair value interest rate risk (continued)

	The Group						
	2013						
	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>							
Deposit and security liabilities	-	67,030,553	12,856,198	4,581,343	816,072	785,558	86,069,724
Derivative financial instruments	-	-	-	2,773,629	-	397,312	3,170,941
Other liabilities	-	-	-	-	-	3,855,556	3,855,556
Segregated funds	-	-	-	-	-	-	-
Insurance contracts liabilities	-	671,801	2,044,642	12,087,868	31,825,080	1,936,340	48,565,731
Investment contracts liabilities	-	7,301,060	2,069,471	3,889,762	-	-	13,260,293
Other policy liabilities	-	766,979	-	-	-	1,945,445	2,712,424
<b>Non-financial liabilities:</b>							
Taxation payable	-	-	-	-	-	394,373	394,373
Deferred income taxes	-	-	-	-	-	1,144	1,144
Retirement benefit obligations	-	-	-	-	-	2,659,268	2,659,268
<b>Total liabilities</b>	-	<b>75,770,393</b>	<b>16,970,311</b>	<b>23,332,602</b>	<b>32,641,152</b>	<b>11,974,996</b>	<b>160,689,454</b>
<b>On statement of financial position interest sensitivity gap</b>	<b>4,490,773</b>	<b>(43,858,118)</b>	<b>(13,408,683)</b>	<b>16,971,867</b>	<b>53,285,411</b>	<b>20,139,593</b>	<b>37,620,843</b>
<b>Cumulative interest sensitivity gap</b>	<b>4,490,773</b>	<b>(39,367,345)</b>	<b>(52,776,028)</b>	<b>(35,804,161)</b>	<b>17,481,250</b>	<b>37,620,843</b>	

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. 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:

	<b>The Group</b>					
	<b>2014</b>					
	<b>Immediately rate sensitive</b>	<b>Within 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Weighted Average</b>
	%	%	%	%	%	%
Cash resources	0.07	-	-	-	-	0.07
Investments <sup>(1)</sup>	-	7.98	4.25	6.99	7.81	6.74
Loans	16.96	10.77	8.49	11.68	9.86	11.63
Mortgages <sup>(2)</sup>	-	9.45	9.45	9.45	9.45	9.45
Policy loans	-	-	-	-	14.58	14.58
Investment contracts	-	4.39	4.39	4.39	4.39	4.39
Bank overdraft	19.00	-	-	-	-	19.00
Deposits	-	3.0	2.79	5.80	-	3.04
Amounts due to banks and other financial institutions	-	4.67	6.95	6.74	4.76	5.80

  

	<b>The Group</b>					
	<b>2013</b>					
	<b>Immediately rate sensitive</b>	<b>Within 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 Years</b>	<b>Over 5 Years</b>	<b>Weighted Average</b>
	%	%	%	%	%	%
Cash resources	0.17	-	-	-	-	0.17
Investments <sup>(1)</sup>	-	7.15	6.93	11.28	9.01	9.90
Loans	16.26	10.63	28.61	24.70	8.93	18.94
Mortgages <sup>(2)</sup>	-	10.21	10.21	10.21	10.21	10.21
Policy loans	-	-	-	-	8.71	8.71
Investment contracts	-	3.97	3.97	3.97	3.97	3.97
Bank overdraft	22.87	-	-	-	-	22.87
Deposits	-	8.15	7.46	8.54	2.51	8.42
Amounts due to banks and other financial institutions	-	7.96	6.71	7.77	4.76	7.42

(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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 51. 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 51.

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 50(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:

<b>Group's rating</b>	<b>Description of the grade</b>
1	Standard
2	Potential Problem Credit
3	Sub-Standard
4	Doubtful
5	Loss

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 51. 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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 51. Insurance and Financial Risk Management (Continued)

### (d) Credit risk (continued)

#### ***Impairment loss provision methodology***

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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. 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			
	2014		2013	
	Loans and leases \$'000	Impairment Provision \$'000	Loans and leases \$'000	Impairment provision \$'000
Standard	31,030,120	-	10,238,316	-
Potential Problem Credit	5,431,387	-	322,604	-
Sub-Standard	757,296	41,457	127,152	38,063
Doubtful	615,952	176,554	113,305	35,328
Loss	3,280,878	2,089,574	272,177	178,962
	<u>41,115,633</u>	<u>2,307,585</u>	<u>11,073,554</u>	<u>252,353</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. 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 at 31 December 2014 and 2013, 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.

	<u>The Group</u>	
	<u>Maximum exposure</u>	
	<u>2014</u>	<u>2013</u>
	<u>\$'000</u>	<u>\$'000</u>
<b><i>Credit risk exposures relating to on-statement of financial position are as follows:</i></b>		
Cash and balances due from other financial institutions (excluding cash on hand)	19,727,083	5,233,139
Investment securities	175,508,833	149,880,190
Loans & leases, net of allowance for credit losses	38,808,049	10,821,201
Reinsurance contracts	380,822	262,710
Other assets	9,024,788	2,705,409
	<u>243,449,575</u>	<u>168,902,649</u>
<b><i>Credit risk exposures relating to items not on the statement of financial position are as follows:</i></b>		
Loan commitments	7,372,301	2,136,244
Guarantees and letters of credit	2,026,832	1,311,358
	<u>9,399,133</u>	<u>3,447,602</u>

#### Loans and leases

(i) Credit quality of loans and leases are summarized as follows:

	<u>The Group</u>	
	<u>2014</u>	<u>2013</u>
	<u>\$'000</u>	<u>\$'000</u>
Neither past due nor impaired -		
Standard	30,490,103	9,289,608
Past due but not impaired	7,080,188	1,231,799
Impaired	3,545,343	552,147
<b>Gross</b>	41,115,634	11,073,554
Less: provision for credit losses	(2,307,585)	(252,353)
<b>Net</b>	<u>38,808,049</u>	<u>10,821,201</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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. Insurance and Financial Risk Management (Continued)

### (d) Credit risk (continued)

#### Loans and leases (continued)

(i) Credit quality of loans and leases are summarized as follows (continued) :

The majority of loans are made to customers in Jamaica. The following table summaries the credit exposure for loans at their carrying amounts, as categorised by the industry sectors:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Agriculture	1,300,903	1,304,747
Construction and land development	5,545,212	2,004,948
Distribution	8,400,052	2,853,241
Entertainment	74,900	-
Manufacturing	1,654,919	255,881
Personal	14,697,089	1,378,326
Professional and other services	5,695,885	2,177,594
Tourism	2,103,842	936,317
Transportation storage and communication	864,549	61,378
Overseas residents	573,799	-
Total	40,911,150	10,972,432
Total provision	(2,307,585)	(252,353)
Interest receivable	204,484	101,122
Net	<u>38,808,049</u>	<u>10,821,201</u>

(ii) Aging analysis of past due but not impaired loans and leases:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Less than 30 days	5,320,462	226,637
31 to 60 days	871,452	950,290
61 to 90 days	886,507	53,105
More than 90 days	1,767	1,767
	<u>7,080,188</u>	<u>1,231,799</u>

Financial assets other than loans and leases that are past due but not impaired are mortgage loans up to three months of \$\$16,256,000 (2013 - \$12,824,000).

The Group holds adequate collateral for past due not impaired loans and leases.



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. 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:

	<u>The Group</u>	
	<u>2014</u>	<u>2013</u>
	<u>\$'000</u>	<u>\$'000</u>
Loans and leases	3,545,343	552,147
Mortgage loans	<u>244,354</u>	<u>238,490</u>

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.

The determination of whether a loan would qualify for renegotiation is made only if all factors indicate that the borrower is able to repay in full (including interest). In making this assessment, the Group takes its historic experience with the borrowers, their expected future cash flows, collateral valuations and any guarantees into consideration. Therefore, at the time of modification, all renegotiated loans are interest bearing with interest being calculated using the terms of the modified loan.

All renegotiated loans are individually assessed for impairment as the active renegotiation of a loan as a result of borrower difficulty, as defined in paragraph 59(c) of IAS 39, is considered a trigger for determining whether the loan should be tested for impairment. In carrying out its assessment, the Group uses the same methodology as with any other loan in the portfolio that exhibits other objective evidence of impairment. These loans are, however, actively monitored for at least 12 months from the time of renegotiation to determine whether circumstances have changed that would result in the loan being impaired or whether there should be an increase in the current level of impairment.

#### (v) Repossessed collateral

The Group can obtain assets by taking possession of collateral held as security.

Repossessed properties are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness. In general, the Group do not occupy repossessed properties for business use.

The Group is in the process of repossessing collateral totaling \$56,270,000 (2013 - \$132,120,000).

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. 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 to businesses and government by sectors in respect of investments and cash:

	<b>The Group</b>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Government of Jamaica securities	104,641,838	90,765,161
Foreign government securities	10,753,516	8,025,824
Corporate bonds	50,329,083	41,311,954
Financial institutions	23,314,287	9,548,548
Mortgage loans	2,189,363	2,350,710
Policy loans	906,489	891,007
Promissory notes	498,000	48,000
	<u>192,632,576</u>	<u>152,941,204</u>
Interest receivable	2,603,340	2,172,128
	<u>195,235,916</u>	<u>155,113,329</u>

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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. 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:

	<u>The Group</u>	
	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Debt securities:</b>		
Government of Jamaica debt securities	<u>106,246,560</u>	<u>92,174,393</u>
<b>Deposits and cash:</b>		
Bank of America	3,431,176	1,358,908
Citibank N.A.	12,088,816	497,327
Bank of Jamaica	5,514,264	993,331
National Commercial Bank Jamaica Limited	90,362	238,182
The Bank of Nova Scotia Jamaica Limited	<u>67,478</u>	<u>89,249</u>
<b>Reinsurance contracts:</b>		
Swiss Re - rated A+ (superior) by A.M Best	178,578	98,188
Munich Re - rated A+ (superior) by A.M Best	<u>33,395</u>	<u>22,613</u>

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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 51. 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 2014 and 2013.

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

### 51. 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'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.

	<b>The Group</b>					<b>Total</b>
	<b>Within 3</b>	<b>3-12</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>No specific</b>	
	<b>months</b>	<b>months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>maturity</b>	
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Undiscounted Financial Liabilities - 31 December 2014</b>						
Deposit and security liability	117,181,127	30,727,202	4,601,466	1,317,801	-	153,827,596
Derivative financial instruments	662,445	24,565	162,838	-	-	849,848
Other liabilities	5,670,479	1,052,954	-	669	3,907,199	10,631,301
Insurance contracts liabilities	744,783	2,339,451	11,203,061	41,539,016	-	55,826,311
Investment contracts liabilities	7,638,002	2,271,288	2,500,106	-	-	12,409,396
Other policy liabilities	785,931	2,182,583	-	-	-	2,968,514
<b>Total undiscounted liabilities</b>	<b>132,682,767</b>	<b>38,598,043</b>	<b>18,467,471</b>	<b>42,857,486</b>	<b>3,907,199</b>	<b>236,512,966</b>
<hr/>						
	<b>Within 3</b>	<b>3-12</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>No specific</b>	<b>Total</b>
	<b>months</b>	<b>months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>maturity</b>	<b>\$000</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Undiscounted Financial Liabilities - 31 December 2013</b>						
Deposit and security liabilities	67,846,057	13,270,435	5,467,780	955,008	-	87,539,280
Derivative financial instruments	595,434	2,449,734	622,858	-	-	3,668,026
Other liabilities	3,581,715	272,399	-	-	1,442	3,855,556
Segregated funds' liabilities	-	-	-	-	-	-
Insurance contracts liabilities	663,487	2,013,146	11,721,381	34,167,717	-	48,565,731
Investment contracts liabilities	7,301,060	2,069,471	3,945,890	-	-	13,316,421
Other policy liabilities	766,979	1,945,444	-	-	-	2,712,423
<b>Total undiscounted liabilities</b>	<b>80,754,732</b>	<b>22,020,629</b>	<b>21,757,909</b>	<b>35,122,725</b>	<b>1,442</b>	<b>159,657,437</b>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. Insurance and Financial Risk Management (Continued)

### (e) Liquidity risk (continued)

#### *Off-balance sheet items*

The tables below show the contractual expiry by maturity of commitments.

	The Group			Total \$'000
	No later than 1 year \$'000	1 to 5 years \$'000	Over 5 years \$'000	
<b>At December 31, 2014</b>				
Credit commitments	4,905,835	875,182	1,591,284	7,372,301
Guarantees, acceptances and other financial facilities	1,401,687	176,267	284,158	1,862,112
Operating lease commitments	344,125	209,041	99,131	652,297
Capital commitments	1,196,866			1,196,866
	<u>7,848,513</u>	<u>1,260,490</u>	<u>1,974,573</u>	<u>11,083,576</u>
<b>At December 31, 2013</b>				
Credit commitments	1,135,650	867,759	132,835	2,136,244
Guarantees, acceptances and other financial facilities	1,093,963	203,180	14,215	1,311,358
Operating lease commitments	589,915	1,155,262	131,246	1,876,423
Capital commitments				
	<u>2,819,528</u>	<u>2,226,201</u>	<u>278,296</u>	<u>5,324,025</u>

Capital commitments are in relation to approved expenditures for property, plant, equipment and computer software that were unused as at the end of the respective financial years either because they relate to work in progress or are awaiting the start of the project. Of the total capital commitments, planned expenditure valuing \$236,926,000 (2013 – \$259,041,000) for the Group has already been contracted for.

Lease payments, including maintenance, for Group during the year were \$666,519,000 (2013 - 129,226,000).

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 51. Insurance and Financial Risk Management (Continued)

### (e) Liquidity risk (continued)

The tables below reflect the expected maturities of the Group's discounted financial and non-financial assets and liabilities at the year-end date.

	The Group					Total
	2014					
	Within 3 months	3-12 months	1-5 years	Over 5 years	No specific maturity	
<b>Assets</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
Cash resources	21,073,597	-	-	-	-	21,073,597
Cash reserve at Bank of Jamaica	5,492,491	-	-	-	-	5,492,491
Financial investments & pledged assets	8,221,655	9,042,725	43,963,616	114,895,303	15,374,410	191,497,709
Derivative financial instruments	585,158	3,959	162,615	-	-	761,732
Loans and leases, after allowance for credit losses	7,181,823	3,650,244	13,599,791	14,376,191	-	38,808,049
Reinsurance contracts	-	380,822	-	-	-	380,822
Other assets	2,900,107	1,140,582	714,454	-	4,269,645	9,024,788
<b>Non-financial assets:</b>						
Investment properties	-	-	-	-	871,888	871,888
Investment in joint venture	-	-	-	-	738,718	738,718
Intangible assets	-	-	-	4,617,001	-	4,617,001
Property, plant and equipment	-	-	-	-	3,506,736	3,506,736
Deferred income taxes	-	3,018,293	-	-	-	3,018,293
Taxation recoverable	3,114,495	-	-	-	-	3,114,495
Retirement benefit assets	-	-	-	58,912	-	58,912
Other assets	223,412	774,153	53,592	184,482	14,944	1,250,582
<b>Total assets</b>	<b>48,802,737</b>	<b>18,010,778</b>	<b>58,494,068</b>	<b>134,131,889</b>	<b>24,776,341</b>	<b>284,215,813</b>

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

### 51. Insurance and Financial Risk Management (Continued)

#### (e) Liquidity risk (continued)

	<b>The Group</b>					
	<b>2014</b>					
	<b>Within 3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>No specific maturity</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Liabilities</b>						
Deposit and security liabilities	116,533,135	30,186,616	4,100,844	763,787	-	151,584,382
Derivative financial instruments	549,389	3,959	162,838	-	-	716,186
Other liabilities	5,670,479	1,052,954	-	669	3,907,199	10,631,301
Insurance contracts liabilities	744,783	2,339,451	11,203,061	41,539,016	-	55,826,311
Investment contracts liabilities	7,638,002	2,271,288	2,438,745	-	-	12,348,035
Other policy liabilities	785,931	2,182,583	-	-	-	2,968,514
<b>Non-financial liabilities:</b>						
Taxation payable	714,632	-	-	-	-	714,632
Deferred income taxes	-	-	-	-	-	-
Retirement benefit obligations	-	-	-	3,361,094	-	3,361,094
Total liabilities	132,636,351	38,036,851	17,905,488	45,664,566	3,907,199	238,150,455
<b>On statement of financial position interest sensitivity gap</b>	<b>(83,833,614)</b>	<b>(20,026,074)</b>	<b>40,588,580</b>	<b>88,467,323</b>	<b>20,869,142</b>	<b>46,065,358</b>
<b>Cumulative interest sensitivity gap</b>	<b>(83,833,614)</b>	<b>(103,859,687)</b>	<b>(63,271,107)</b>	<b>25,196,2162</b>	<b>46,065,358</b>	
<b>2013</b>						
Total assets	27,308,753	8,083,587	33,945,342	111,624,729	17,347,886	198,310,297
Total liabilities	80,747,002	21,298,088	21,406,161	37,236,761	1,442	160,689,454
<b>On statement of financial position interest sensitivity gap</b>	<b>(53,438,249)</b>	<b>(13,214,501)</b>	<b>12,539,181</b>	<b>74,387,968</b>	<b>17,346,444</b>	<b>37,620,843</b>
<b>Cumulative interest sensitivity gap</b>	<b>(53,438,249)</b>	<b>(66,652,750)</b>	<b>(54,113,569)</b>	<b>20,274,399</b>	<b>37,620,843</b>	





# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 51. Insurance and Financial Risk Management (Continued)

### (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.

### (i) 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 50(iii).

### (ii) 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.

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

### 51. Insurance and Financial Risk Management (Continued)

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.

#### (f) Market risk (continued)

##### (ii) Currency risk (continued)

Concentrations of currency risk (continued)

	<b>The Group</b>			
	<b>2014</b>			
	<b>Jamaican \$</b>	<b>US\$</b>	<b>Other</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>				
Cash resources	1,782,985	16,938,229	2,352,383	21,073,597
Cash reserve at Bank of Jamaica	3,669,453	1,649,832	173,206	5,492,491
Financial investments and pledged assets	65,266,530	124,403,381	1,827,798	191,497,709
Derivative financial instruments	-	761,732	-	761,732
Loans & leases, after allowance for credit losses	28,316,958	10,491,091	-	38,808,049
Reinsurance contracts	104,231	276,591	-	380,822
Other assets	8,145,785	709,585	169,418	9,024,788
<b>Non-financial assets:</b>				
Investment properties	445,000	426,888	-	871,888
Investment in joint venture	-	738,718	-	738,718
Intangible assets	4,616,396	605	-	4,617,001
Property, plant and equipment	3,479,315	27,421	-	3,506,736
Retirement benefit assets	58,912	-	-	58,912
Deferred income taxes	3,018,293	-	-	3,018,293
Taxation recoverable	3,114,495	-	-	3,114,495
Other assets	1,191,472	59,110	-	1,250,582
<b>Total assets</b>	<b>123,209,824</b>	<b>156,483,184</b>	<b>4,522,805</b>	<b>284,215,813</b>
<b>Financial liabilities</b>				
Deposit and security liabilities	59,673,089	88,815,756	3,095,537	151,584,382
Derivative financial instruments	-	276,179	440,007	716,186
Other liabilities	9,052,472	1,538,397	40,432	10,631,301
Insurance contracts liabilities	30,882,533	23,012,289	1,931,489	55,826,311
Investment contracts liabilities	7,568,782	4,687,596	91,657	12,348,035
Other policy liabilities	2,154,839	298,328	515,347	2,968,514
<b>Non-financial liabilities:</b>				
Taxation payable	714,632	-	-	714,632
Retirement benefit obligations	3,361,094	-	-	3,361,094
<b>Total liabilities</b>	<b>113,407,441</b>	<b>118,628,545</b>	<b>6,114,469</b>	<b>238,150,455</b>
<b>Net on statement of financial position</b>	<b>9,802,383</b>	<b>37,854,639</b>	<b>(1,591,664)</b>	<b>46,065,358</b>

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

### 51. Insurance and Financial Risk Management (Continued)

#### (f) Market risk (continued)

##### (ii) Currency risk (continued)

Concentrations of currency risk (continued)

	<b>The Group</b>			
	<b>2013</b>			
	<b>Jamaican \$</b>	<b>US\$</b>	<b>Other</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>				
Cash resources	858,745	2,619,325	604,293	4,082,363
Cash reserve at Bank of Jamaica	453,709	498,855	40,767	993,331
Financial investments and pledged assets	65,814,091	94,809,098	4,444,343	165,067,532
Derivative financial instruments	-	3,019,597	-	3,019,597
Loans & leases, after allowance for credit losses	4,670,357	6,150,844	-	10,821,201
Reinsurance contracts	70,446	192,264	-	262,710
Other assets	2,429,950	193,418	82,041	2,705,409
<b>Non-financial assets:</b>				
Investment properties	490,718	291,627	-	782,345
Investment in joint venture	-	639,235	-	639,235
Investment in associated companies	-	-	-	-
Intangible assets	3,454,843	560,666	-	4,015,509
Property, plant and equipment	1,641,596	34,977	-	1,676,573
Deferred income taxes	298,107	-	-	298,107
Taxation recoverable	2,327,391	-	-	2,327,391
Other assets	1,602,234	16,760	-	1,618,994
<b>Total assets</b>	<b>84,112,187</b>	<b>109,026,666</b>	<b>5,171,444</b>	<b>198,310,297</b>
<b>Financial liabilities</b>				
Deposit and security liabilities	27,626,289	57,185,281	1,258,154	86,069,724
Derivative financial instruments	-	229,079	2,941,862	3,170,941
Other liabilities	3,236,271	586,061	33,224	3,855,556
Insurance contracts liabilities	30,572,219	16,047,023	1,946,489	48,565,731
Investment contracts liabilities	7,406,960	5,762,324	91,009	13,260,293
Other policy liabilities	1,963,700	239,322	509,402	2,712,424
<b>Non-financial liabilities:</b>				
Taxation payable	394,373	-	-	394,373
Deferred income taxes	1,144	-	-	1,144
Retirement benefit obligations	2,659,268	-	-	2,659,268
<b>Total liabilities</b>	<b>73,860,224</b>	<b>80,049,090</b>	<b>6,780,140</b>	<b>160,689,454</b>
<b>Net on statement of financial position</b>	<b>10,251,963</b>	<b>28,977,576</b>	<b>(1,608,696)</b>	<b>37,620,843</b>

At December 2014, the Company had bank and financial investments in United States dollar currency totaling \$6,685,000 and \$490,809,000 (2013 - \$Nil and \$Nil).

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 52. Sensitivity Analysis

Actuarial liabilities for the Group comprise 71.18% (2013 – 75.25%) 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 34(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.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

---

## 52. 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 2014 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 2014 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 2014 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 2014 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 2014 and for the next five years.
- (vi) Level new business. New business planned for 2014 was maintained for the 5 year period. Overall, this scenario has no effect on the liabilities in 2014 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 2014 liabilities, but will produce net lower liabilities over the next five years.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 52. 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 \$55,826,311 for the Group at the year-end date.

Variable	Change in Variable	The Group	
		2014 Change in Liability \$'000	2013 Change in Liability \$'000
Worsening of mortality/morbidity	+3% for 5 yrs.	3,043,719	2,742,223
Improvement in annuitant mortality	-3% for 5 yrs.	742,384	650,767
Lowering of investment return	-0.5% for 10 yrs.	14,429,908	12,396,143
Worsening of base renewal expense and inflation rate	+5% for 5 yrs.	1,927,442	1,845,638
Worsening of lapse rate	x2 or x0.5	4,742,506	4,549,411
High Interest	+0.5% for 10 yrs.	(11,266,347)	(9,545,827)

### (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 2014 \$'000
<b>Financial assets at fair value through profit or loss and available for sale equity securities:</b>		
Listed on Jamaica Stock Exchange	1,687,200	168,720
Listed on US stock exchanges	2,099,717	209,972
Other	11,546,879	1,154,688
	<u>15,333,796</u>	<u>1,533,380</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 52. Sensitivity Analysis (Continued)

### (iv) Sensitivity arising from currency risk

The Group is most sensitive to currency risk in its operating currencies which float against the United States dollar.

The effect of a further 15% (2013 – 15%) depreciation and a 1% (2013 – 1%) appreciation in the Jamaican dollar (JMD) relative to the United States dollar (USD) at the year-end date is considered in the following tables.

	<b>The Group</b>					
	<b>2014</b>			<b>2013</b>		
	<b>Balances</b>	<b>Effect of a 15% depreciation at 31 December 2014 JMD \$'000</b>	<b>Effect of a 1% appreciation at 31 December 2014 JMD \$'000</b>	<b>Balances</b>	<b>Effect of a 15% depreciation at 31 December 2013 JMD \$'000</b>	<b>Effect of a 1% appreciation at 31 December 2013 JMD \$'000</b>
Statement of financial position:						
Assets	161,005,989	185,156,887	159,395,929	114,198,110	131,327,827	113,056,129
Liabilities	124,743,014	143,454,466	123,495,583	86,829,230	99,853,615	85,960,938
Net position	<u>36,262,975</u>	<u>41,702,422</u>	<u>35,900,345</u>	<u>27,368,880</u>	<u>31,474,212</u>	<u>27,095,191</u>
Income statement:						
Net income	-	5,803,175	(386,878)	-	998,312	(66,554)
Equity	<u>-</u>	<u>(363,729)</u>	<u>24,249</u>	<u>-</u>	<u>3,107,020</u>	<u>(207,135)</u>



# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 52. 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.

	<b>The Group</b>			
	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Total</b>
<b>Gross</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b><i>Estimate of ultimate claims incurred:</i></b>				
At the end of the reporting year	3,505	5,835	48,325	57,665
One year later	5,316	2,100		7,416
Two years later	3,594			3,594
Current estimate of cumulative claims	3,594	2,100	48,325	54,019
Cumulative payments to date	(3,124)	(3,124)	(80)	- 6,328
Liability recognised in the statement of financial position	470	(1,024)	48,245	47,691
Liability in respect of prior years and ULAE				3,077
Total liability				50,768

The reinsurers' share of the amounts in the following table is set out below.

<b>Reinsurers' share</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b><i>Estimate of ultimate claims incurred:</i></b>				
At the end of the reporting year	3,505	5,835	48,325	57,665
One year later	5,316	2,100	-	7,416
Two years later	3,594	-	-	3,594
Current estimate of cumulative claims	3,594	2,100	48,325	54,019
Cumulative payments to date	(3,124)	(3,124)	(80)	- 6,328
Recoverable recognised in the statement of financial position	470	(1,024)	48,245	47,691
Recoverable in respect of prior years				3,077
Total recoverable from reinsurers				50,768

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 52. Sensitivity Analysis (Continued)

### (vi) Interest rate sensitivity

For Sagicor Investments Jamaica Limited and Sagicor Bank Jamaica Limited, the following tables indicate the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, on the income statements 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.

<b>Sagicor Investments Jamaica Limited</b>				
	<b>Effect on</b>	<b>Effect on</b>	<b>Effect on</b>	<b>Effect on</b>
	<b>Net Profit</b>	<b>Equity</b>	<b>Net Profit</b>	<b>Equity</b>
	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Change in percentage				
J\$: -1%, US\$: -0.5%				
(2013 – J\$: -1%, US\$: -0.5%)	58,441	1,020,797	73,338	670,016
J\$: +2.5%, US\$: +2%				
(2013 – J\$: +4%, US\$: +2.5%)	<u>(211,305)</u>	<u>(3,242,071)</u>	<u>(164,809)</u>	<u>(2,139,719)</u>

  

<b>Sagicor Bank Jamaica Limited</b>				
	<b>Effect on</b>	<b>Effect on</b>	<b>Effect on</b>	<b>Effect on</b>
	<b>Net Profit</b>	<b>Equity</b>	<b>Net Profit</b>	<b>Equity</b>
	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Change in percentage				
J\$: -1%, US\$: -0.5%				
(2013 – J\$: -1%, US\$: -0.5%)	(172,284)	311,384	49,652	224,554
J\$: +2.5%, US\$: +2%				
(2013 – J\$: +4%, US\$: +2.5%)	<u>416,950</u>	<u>(1,030,849)</u>	<u>(104,216)</u>	<u>(762,980)</u>

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 53. 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.

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:

	<b>2014</b>	<b>2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Stockholders' equity	46,065,358	35,925,841
Non-controlling interests	-	1,695,002
Total statement of financial position capital resources	<u>46,065,358</u>	<u>37,620,843</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.

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

### 53. Capital Management (Continued)

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 2014 and 2013 is set out below.

	<b>2014</b>	<b>2013</b>
Sagicor Life Jamaica Limited	<u>182.2%</u>	<u>179.6%</u>

(b) Sagicor Life of the Cayman Islands Ltd.

During 2013, 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\$18,262,000 (2013 - \$25,335,000) and available capital when expressed as a percentage of prescribed capital, was 294.1% (2013 – 359.70%).

The MCCSR for Sagicor Life of the Cayman Ltd., based on the Canadian Regulatory Standards, is set out below.

	<b>2014</b>	<b>2013</b>
Sagicor Life of the Cayman Islands Ltd.	<u>258.26%</u>	<u>384.48%</u>

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

The 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 Banks within the Group operate;
- (ii) To safeguard the Banks' ability to continue as a going concern so that they 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 the business.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

## 53. Capital Management (Continued)

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

The BOJ and the FSC require each regulated entity to:

- (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 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.

The capital risk ratios for Sagicor Bank Jamaica Limited and Sagicor Investments Jamaica Limited at the year-end were as follows:

	Sagicor Investments Jamaica Limited		Sagicor Bank Jamaica Limited	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Total regulatory capital	8,329,959	8,765,515	9,858,057	3,226,281
Total required capital	6,178,035	5,839,915	6,607,627	1,951,544
Actual capital base to risk	13%	15%	15%	17%
Required capital base to risk	10%	10%	10%	10%

- (i) During 2014 and 2013, both banking entities complied with all of the externally imposed capital requirements to which they are subject.
- (ii) Derivative products  
The Banks' 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 credit risk management procedures to assess and approve potential credit exposures are the same that are used for traditional lending.

# Sagicor Group Jamaica Limited

Notes to the Financial Statements

**31 December 2014**

(expressed in Jamaican dollars unless otherwise indicated)

---

## 54. 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 2014, these subsidiaries had financial assets under administration of approximately \$164,591,072,000 (2013 - \$131,198,034,000).

## 55. Contingent Liabilities

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.

## 56. Litigations

On March 17, 2014 the Supreme Court of Jamaica granted judgement in favour of a claimant in a case brought against Sagicor Bank Jamaica Limited (formerly RBC Royal Bank Jamaica Limited).

This claim pre-dated the acquisition of control of the Bank by Sagicor Group Jamaica Limited, and also pre-dated the acquisition of control of the Bank by RBTT from Finsac Limited ("Finsac") in 2001. By virtue of the Share Sale Agreement entered into between Finsac, RBTT Financial Holdings Limited and RBTT International Limited, Finsac agreed to fully indemnify RBTT International Limited (now SGJ Holdings (St. Lucia) Limited). Though the judgement is being appealed, the amount computed as settlement has been recorded as payable to the claimant and correspondingly receivable from Finsac.

# Sagicor Group Jamaica Limited

## Notes to the Financial Statements

31 December 2014

(expressed in Jamaican dollars unless otherwise indicated)

### 57. Acquisition of Subsidiary

Effective 27 June 2014, the group acquired 100% of the share capital of RBC Royal Bank (Jamaica) Limited and its subsidiary, RBC Securities (Jamaica) Limited.

The acquired business contributed post acquisition revenues of \$2,058,819,000 and losses of \$534,513,000 for the year ended 31 December 2014.

Details of the net assets acquired, purchase consideration and negative goodwill, determined on a provisional basis, were as follows:

	<b>Fair Values</b>
	<b>\$'000</b>
Net assets arising on the acquisition:	
Cash	14,054,108
Balances with Central Bank	4,282,769
Investment securities	3,703,815
Loans, net of provision for credit losses	24,487,533
Securities purchased under resale agreements	1,424,960
Intangibles assets	1,139,000
Property, plant and equipment	1,552,056
Other assets	93,208
Deferred tax assets	3,382,745
Taxation recoverable	1,208,010
Due to banks and other financial institutions	(2,104,666)
Customer deposits	(37,251,948)
Deferred tax liabilities	(675,064)
Taxation payable	(467,347)
Other liabilities	(1,079,866)
Post-retirement benefit obligations	(1,211,096)
	<u>12,538,217</u>
	<b>\$'000</b>
Purchase consideration - Cash	<u>9,327,037</u>
Net assets acquired	<u>12,538,217</u>
Negative goodwill	<u>3,211,180</u>
Cash paid	9,327,037
Cash and cash equivalents included in net assets acquired	<u>19,761,837</u>
Net cash inflow on acquisition	<u>10,434,800</u>